



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 5

MEETING	Shadow Dorset and Wiltshire Fire & Rescue Authority
DATE OF MEETING	12 February 2016
SUBJECT OF THE REPORT	Precept Implications 2016/17
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	This report sets out the precept implications for the 2016/17 budget requirement.
EXECUTIVE SUMMARY	<p>The Chief Fire Officer proposes a budget requirement of £54.815m and a capital budget of £8.750m, following the budget seminar held in Salisbury on 14 January 2016 and the significant amount of work undertaken in the combination workstream meetings to date.</p> <p>The budget requirement for 2016/17 is set out on section 3 of the CFO's report. It includes provisional sums for business rates income as at the time of writing, final confirmation from the billing authorities has yet to be received.</p> <p>The report considers three options for council all of which assume equalising the fire precept Band D for the new Authority at £67.86 from day one, 2016/17. This is the Alternative Notional Amount (ANA) level approved by the Secretary of State.</p> <p>Option 1 - a fire precept Band D of £69.21 providing a net budget requirement of £54.815m, using £0.255m of reserves to balance the budget;</p> <p>Option 2 - a fire precept Band D of £68.54 providing a net budget requirement of £54.464m, using £0.606m of reserves to balance the budget; or</p> <p>Option 3 - a fire precept Band D of £67.86 providing a net budget requirement of £54.107m, using £0.963m of reserves to balance the budget.</p> <p>All three options indicate the use of balances to balance the budget, however options 2 and 3, ie 1.00% increase each year, and no increase each year in the fire precept Band D, are unsustainable and therefore provides significant further reductions beyond</p>

	2016/17 than already planned.
RISK ASSESSMENT	The Authority has undertaken a significant amount of work in combining to achieve a sustainable budget position, against the backdrop of continuing government funding reductions. The level of business rates remains a concern, and the uncertainty of how the funding mechanism may develop as the responsibility for Fire moves away from the Department of Local Communities (DCLG) and across to the Home Office (HO).
COMMUNITY IMPACT ASSESSMENT	The impact assessment was considered as part of the final business case for combination.
BUDGET IMPLICATIONS	These are contained within the report.
RECOMMENDATIONS	It is recommended that the Shadow Fire Authority:- <ol style="list-style-type: none"> 1. Set the basic amount of Fire Precept Band D for the Dorset and Wiltshire Fire and Rescue Authority as set out in the appendix to this report. 2. Authorise the Treasurer to issue precept notices on the Dorset and Wiltshire collecting authorities accordingly.
BACKGROUND PAPERS	2016/17 Provisional Local Government Finance Settlement, DCLG, 17 December 2015
APPENDICES	A: Precepts Requirement 2016/17
REPORT ORIGINATOR AND CONTACT	Phil Chow, Treasurer Tel: (01380) 731150, Mob: 07809 548055

1. Introduction

- 1.1 The Chief Fire Officer's report on the 2016/17 budget contains a number of funding issues and financial implications presented to the Fire Authority which are based on best estimates and information available. Members have had briefings and have been heavily involved in workstreams throughout the combination, culminating in the presentation of the budget and the issues for establishing the fire precept band D 2016/17.

2. Funding Issues

2.1 Government Austerity

- 2.1.1 Members will recall the introduction of the Government's austerity measures initially outlined in the Comprehensive Spending Review 2010 (CSR10). This was followed up by the 2013 Spending Round (SR13) and the recent continuation of the austerity measures with the current Spending Review 2015 (SR15). Cuts have been made to Government funding to date in excess of 25% with a further 30% expected over the next four years.

2.2 Government Funding

- 2.2.1 The Provision Finance Settlement details for 2016/17 were published on 17 December 2015. The final details were expected early February but at the time of writing, they had yet to be issued. The provisional figures for the new Authority's Settlement Funding Assessment (SFA) for 2016/17, is £17.636m.
- 2.2.2 The SFA of £17.636m, is a reduction of £1.8m or 9.3% compared to the combined total for 2015/16 (£19.436m) in respect of Dorset Fire Authority and Wiltshire & Swindon Fire Authority. The SFA includes Revenue Support Grant (RSG) funding of £8.069m and a Baseline Funding Level (BFL), under the Business Rates Retention Scheme of £9.567m.

	TOTAL 2015/16 £000's	D&WFRA 2016/17 £000's	Difference £000's
Settlement Funding Assessment (SFA)	19,436	17,636	-1,800
<i>made up of:</i>			
Revenue Support Grant (RSG)	9,947	8,069	-1,878
Baseline Funding Level (BFL)	9,489	9,567	78

- 2.2.3 It must be reiterated here that the Government, in making its assessment of the reductions, has built into its estimates of income for the new Authority fire precept increases of 1.75% (in line with the Office of Budget Responsibility's (OBR) forecast for CPI (Consumer Price Index)) and future taxbase growth based on the average annual growth in taxbase between 2013/14 and 2015/16.

2.3 Business Rates Retention (BRR)

- 2.3.1 Localisation of business rate scheme was introduced in 2013/14, a complex scheme under which local business growth would financially benefit both central government and local authorities, but conversely could pose a financial risk should local business recession occur.
- 2.3.2 Business rates income is expected to rise in Dorset and Wiltshire, which is included in the Baseline Funding Level (forming part of the SFA). Business rates income is volatile and the fire service has little or no influence in determining the level. There is also a large amount of uncertainty around whether the amount assessed within the SFA equates to what is actually reported and received by the billing authorities. Early indications are that there could be significant deficits arising due to changes in rate reliefs particularly in relation to hospitals, which will affect the BRR to the Fire Authority, however, as yet the impact of this is not yet known.
- 2.3.3 In addition to this, the Government continues to cap the small business rates multiplier, and additional funding through Section 31 grant will be made available to local authorities to compensate for their loss. Section 31 grant has not been built into the budget as at this stage this is not known, but will be available to offset, if not in full, part of the expected deficit on BRR.
- 2.3.4 The Business Rates Retention scheme is subject to review by central Government, so there are changes likely to the scheme possibly as early as 2017/18, therefore, the future of BRR in respect of the Fire Service is uncertain. This is further exacerbated with the recent announcement that consultation is due shortly regarding the transfer of Fire Service responsibility from DCLG to the Home Office (HO).

2.4 Fire Precept

- 2.4.1 The finance settlement for 2016/17 does not include any option of Council Tax Freeze Grant, as it has done in the previous five years. All previous council tax freeze grants have all been subsumed into the RSG calculations, and this is where the funding cuts have been made.
- 2.4.2 The finance settlement for the new Authority has provided the opportunity to harmonise fire precept from day one, i.e. 2016/17 a fundamental cornerstone of the business case for combination. The Secretary of State has approved an 'Alternative Notional Amount (ANA)' at the 2015/16 Dorset fire precept band D of £67.86. This amount becomes the new Authority's 'relevant basic amount' for council tax purposes and any assessment against local referendum principles. Any increase above £67.86 in excess of 2% will be deemed to trigger the referendum threshold and require the new Authority to hold a referendum. The referendum cap remains at 2% in the 2016/17 settlement, and beyond this there is a residual risk that the cap could be reduced, which needs to be considered. Members have previously been alerted to the cost of organising a referendum to be in excess of £2m across the whole of the Dorset and Wiltshire areas.

3. Fire precept Band D Options

- 3.1 Increases in the taxbase (i.e. equivalent band D households) across the Dorset and Wiltshire areas will provide additional funding of £0.370m. On average across the whole of the Dorset and Wiltshire areas our taxbase has risen by just under 2.1%, compared to the 1.1% estimated previously. For medium term financial planning purposes it is prudent to plan for increases, therefore increases of 1.5% are assumed beyond 2016/17.
- 3.2 In equalising and establishing the relevant basic amount at the ANA level of £67.86, will mean approximately £0.730m in additional funding will be received.
- 3.3 One-off collection fund surpluses and deficits held at each of the billing authorities will offset or add to the amount collected in year in respect council tax collections. Collection fund surpluses amount to £0.863m for 2016/17, a larger than usual surplus not seen before, but it must be stressed that these one-off 'windfall' amounts are not guaranteed to be sustainable in future years.
- 3.4 Despite the additional income from equalisation, taxbase and collection fund surpluses in 2016/17, consideration must be given to the medium term position, ie over the next four years.
- 3.5 Three options have been shown, as outlined in the Chief Fire Officer's budget report, all of which assume equalisation.
- 3.6 Option 1 is for a fire precept band D increase up to the cap for referendum purposes, i.e. 1.99% for 2016/17 to £69.21. Even with this increase, use of set aside reserves are still required to balance the budget (£0.255m) in 2016/17 and will be for the following three years. That said, the set aside reserves were established for transformation purposes, and at the end of 2019/20 there is expected to be a balance of set aside reserves which would be available to continue with service transformation. This is the recommended option in the Chief Fire Officers report.
- 3.7 Option 2 shows the impact of a 1.00% increase in fire precept band D each year. This option will require a greater use of balances than Option 1, and set aside reserves will be fully depleted within three years with further ongoing pressures being unable to be funded. Significant additional cuts, over and above the £6m already identified, would be required as service provision will not be sustainable beyond 2018/19.
- 3.8 Option 3 shows the impact of a scenario where there is no increase in fire precept Band D each year. Option 3 requires even greater use of balances in order to set a balanced budget, and set aside reserves will be fully depleted within two years with further ongoing pressures being unable to be funded. Again further significant cuts would be required as service provision will not be sustainable beyond 2017/18.
- 3.9 It is my recommendation that Option 1 is taken, ie accept the Alternative Notional Amount, establishing the relevant basic amount at £67.86, and approving an increase to £69.21 band D for the fire precept 2016/17.

3.10 Funding Summary

3.10.1 The table below shows the overall funding position taking account of precept increases available for 2016/17 under the three options for increases, assuming equalisation at fire precept band D, £67.86, reported taxbase increases, anticipated grant funding and business rates retained:

	Option 1 2016/17 1.99% inc	Option 2 2016/17 1.00% inc	Option 3 2016/17 0% inc
Taxbase	524,726	524,726	524,726
Fire Precept band D (£)	£69.21	£68.54	£67.86
Fire Precept (£m)	36.316	35.965	35.608
Collection Fund Surplus/Deficit(-)(£m)	0.863	0.863	0.863
Revenue Support Grant (RSG)(£m)	8.069	8.069	8.069
BRR and Top Up grant (£m)	9.567	9.567	9.567
Total Funding (£m)	54.815	54.464	54.107

4. Budget Requirement 2016/17

4.1 The Precept Requirement at Appendix A of £36.316m is based upon increasing fire precept band D to £69.21, ie within the referendum limit of 2% being applied for 2016/17.

4.2 On this basis the budget requirement is £54.815m, as detailed in the Chief Fire Officer's budget paper.

4.3 Government funding for 2016/17 known as the Settlement Funding Assessment (SFA) is shown as £17.636m. This is made up of:

Revenue Support Grant (RSG)	£8.069m
Business Rates Retention & Top Up Grant	£9.567m

4.4 This leaves a balance of £37.179m to be collected through the fire precept, which is reduced to £36.316m after the collection fund surplus of £0.863m is taken into account.

4.5 This equates to a fire precept band D for the new Authority of £69.21. The effect on other bandings is shown in Appendix A.

5. Statutory Declarations

5.1 Robustness of the Estimates

5.1.1 Under Section 25 of the Local Government Act 2003, the Treasurer, as designated under Section 151 of the Local Government Act 1972 and Section 112 of the Local Government Finance Act 1988, is required to report to the Authority when setting its Fire Precept Band D on two issues:

- ◆ the robustness of the estimates included in the budget; and
- ◆ the adequacy of the financial reserves in the budget.

5.1.2 There is also a range of other safeguards aimed at ensuring local authorities do not over commit themselves financially. These include:

- ◆ The Chief Financial Officer's powers under Section 14 of the Local Government Act 1988, which requires a report to the Authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
- ◆ The Local Government Finance Act 1992 which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the 'balanced budget requirement'; and,
- ◆ The prudential code, introduced under the Local Government Act 2003, which applies to capital financing and treasury management decisions.

5.1.3 Whilst budgets are based on realistic assumptions, some budgets are subject to a degree of estimating error as actual expenditure can be affected by factors outside of the Authority's control, for example major incidents. The estimates have been prepared using zero based principles in the majority of cases and in the remaining cases on an incremental basis, based on existing commitments, adjusted for inflation, increments and other unavoidable cost-drivers, and taking into account variations in service provision. A substantial amount of work was carried out assessing priorities which have been set by senior management and resources aligned through the budget process working through the workstreams.

5.1.4 The budget can be regarded as robust and, although there are risks in the 2016/17 budget, as with any budget, those risks are manageable given the budgetary control arrangements the Authority has, and have been taken into account in advising on the level of general reserves at this time.

5.1.5 With regard to capital finance, there are separate reports on this agenda dealing with prudential indicators, including a section on risk management associated with treasury management decisions.

PHIL CHOW

Treasurer

February 2016