



Dorset Fire Authority

MEETING	Dorset Fire Authority
DATE OF MEETING	10 February 2015
OFFICER	Chief Fire Officer
SUBJECT OF THE REPORT	Budget 2015/16 and Medium Term Finance Plan
EXECUTIVE SUMMARY	<p>This report provides the final position on the revenue and capital budget requirements for 2015/16. Many of the issues discussed in the report were considered by the Fire Authority on 5 December 2014 and in more detail with the Budget Working Group on 21 November 2014.</p> <p>The budget requirement for 2015/16 is set out in section 3 of the report. It includes provisional sums for business rates income and likely increases in employer pension costs. At the time of writing this report, we had not received confirmation from the Dorset billing authorities of expected business rates income for 2015/16 and DCLG had not published the new employer pension contribution rates.</p> <p>The report then considers two options for the fire precept for 2015/16:</p> <p>Option 1 - a precept increase up to the local referendum limit giving a Budget Requirement of £29.290m, or</p> <p>Option 2 - a precept freeze giving a Budget Requirement of £28.943m.</p> <p>Both options indicate the use of cost centre balances to help balance the budget, although in the case of option 1 this only amounts to £6k.</p> <p>The capital programme requirement for 2015/16 is £2.965m, with further approved expenditure of £607k being carried forward from 2014/15.</p>

RISK ASSESSMENT	<p>The Authority has undertaken a significant amount of work in recent years to help achieve a sustainable budget position, against a backdrop of continuing government funding reductions and limits on local discretion over levels of council tax. The level of business rates income available to the Authority remains a concern. The failure of DCLG to advise the FRS of employer pension contribution rates in a timely manner adds further financial uncertainty.</p> <p>Moving forward agreeing a favourable approach to council tax harmonisation with Wiltshire and delivering the required savings identified in the Combination business case are a priority.</p>
COMMUNITY IMPACT ASSESSMENT <i>Note: If the matrix indicates negative impacts on the community or staff, an equality impact assessment (EIA) will need to be completed.</i>	<p>The main impact at the current time is the proposed combination with Wiltshire and Swindon Fire Authority. The Final Business Case document considers Impact Assets for all three of the business case options.</p>
BUDGET IMPLICATIONS	These are contained within the report
RECOMMENDATIONS	<p>It is recommended that the Fire Authority:</p> <ol style="list-style-type: none"> 1. Considers the budget and precept options for 2015/16 outlined in this paper before considering the recommendations in the Treasurer's paper. 2. Agrees the capital programme of £2.965m for 2015/16 as shown in Section 6.
BACKGROUND PAPERS	2015/16 Provisional Local Government Finance Settlement; DCLG, 18 December 2014
APPENDICES	None
REPORT ORIGINATOR AND CONTACT	<p>Ian Cotter, Head of Financial Services Tel: (01305) 252697</p>

1. Introduction

- 1.1 This report provides the final position on the revenue and capital budget requirements for 2015/16. Many of the issues discussed in the report were considered by the Fire Authority on 5 December 2014 and in more detail with the Budget Working Group on 21 November 2014, although these were both prior to the announcement of the Provisional Local Government Finance Settlement.
- 1.2 For a number of the issues presented to the Fire Authority and Budget Working Group, we could only estimate the financial implications based on the best information available at the time. At the time of writing this report, we are still awaiting confirmation of our actual level of business rates income for 2015/16 and publication of new employer contributions rates for the Firefighters Pension Scheme.

2. Funding Issues

2.1 Local Government Finance Settlement

- 2.1.1 The Provisional Settlement details for 2015/16 were published on 18 December 2014. The Final Settlement details are expected to be announced in early February. The Provisional figures show the Authority's Settlement Funding Assessment (SFA) for 2015/16 to be £10.5m. This is a reduction of just over £1m or 8.97% compared to 2014/15. The SFA includes Revenue Support Grant funding of £5.3m and a Baseline Funding Level, under the Business Rates Retention Scheme, of £5.2m. Included within the overall total is £442k of council tax freeze funding relating to the council tax freeze accepted in 2011/12.

	2014/15 £'000s	2015/16 £'000s	Difference £'000s
Settlement Funding Assessment	11,582	10,543	(1,039)
<i>made up of:</i>			
Revenue Support Grant	6,486	5,350	(1,136)
Baseline Funding Level	5,096	5,193	97

- 2.1.2 This level of funding is slightly less than the £10.6m we had been forecasting. There are two main reasons for this - one is the Government's decision to cap the small business rates multiplier increase at 2% for a second consecutive year and the other relates to funding adjustments for the Firefighters Pension Scheme. Additional Section 31 grant funding is being made available to local authorities to compensate for small business rates cap and Dorset is expecting to receive £76k. More details on the implications of the pensions adjustment are included in section 3.1 later in the report.
- 2.1.3 The Baseline Funding Level is further split down between an assumed level of business rates income and a tariff or top-up adjustment, as shown below. All fire authorities currently receive top-up adjustments in the form of grant payments from DCLG and they increase each year in line with inflation.

	2014/15 £'000s	2015/16 £'000s
Baseline Funding Level	5,096	5,193
<i>made up of:</i>		
Top Up Funding	2,665	2,716
Assumed NNDR	2,431	2,477
Actual NNDR	2,261	2,261
NNDR deficit	170	216
Additional S.31 grants	143	143
Net impact on revenue budget	-27	-73

- 2.1.4 The December report highlighted that the share of business rates income that we actually receive is based on actual receipts and declarations made locally by the eight billing authorities in Dorset. This is not necessarily the same as the assumed level of income in our Settlement Funding Assessment that we have used for budget and medium term finance plan purposes. Unfortunately, in Dorset's case actual income is currently less than the DCLG assumption, partly due to varying local factors, but also the additional business rates reliefs announced by the Chancellor in the last two Autumn Statements. For 2014/15 the overall impact was a net reduction in funding of £27k. At the time of writing this report, we are still awaiting confirmation of business rates income for 2015/16. For planning purposes we have assumed that actual NNDR and S.31 grants will be the same as 2014/15, resulting in a net reduction in funding of £73k. The actual position should be known in time for the meeting.
- 2.1.5 As expected the Provisional Settlement did not include any details of funding for future years but further cuts will undoubtedly be required over the four years from 2016/17 to 2019/20 as the Government continues with its financial austerity programme. For planning purposes the MTFP assumes that these further cuts will be at a similar rate to those of CSR10, ie approximately a 22% reduction in fire funding nationally, equating to a 5.5% average annual reduction, or an additional £0.5m to our budget gap each year. This should probably be viewed as a minimum position. Proposals for the 2016/17 settlement will not be known until after next year's Budget and a new Spending Review, taking place following the 2015 General Election.
- 2.1.6 The Provisional Settlement also included details of specific revenue grants for FRAs, paid as Fire Revenue Grant. For 2015/16 Dorset has been allocated £272k towards the Firelink communications system and to support the use of new dimensions assets.
- 2.2 **Council tax**
- Council tax freeze option
- 2.2.1 In Spending Round 2013 the Government announced plans for additional funding to support council tax freezes in 2014/15 and 2015/16, with local authorities receiving a grant equivalent to a 1% increase in council tax. The Provisional Local Government Finance

Settlement for 2015/16 shows an indicative allocation for Dorset of £204k* if council tax for 2015/16 is frozen at the current level of £66.60. (**This grant is calculated using council taxbase figures before adjustment for local council tax support schemes and is therefore not equivalent to 1% of actual council tax receipts*)

- 2.2.2 The additional £204k of grant funding would partially offset the reduction in council tax income of £347k that would arise from taking the council tax freeze option.
- 2.2.3 In the Provisional Settlement DCLG confirmed that any council tax freeze funding allocated for 2015/16 will be built into the funding baseline for future years, however, it will may well be subject to potential further grant reductions.

Council tax referendum limits

- 2.2.4 The Provisional Settlement also announced a council tax referendum threshold of 2% for 2015/16. There was some speculation that the limit might have been reduced and this was further heightened when the Settlement was delayed by one day.
- 2.2.5 For medium term planning purposes, we have assumed that the 2% limit is still valid for future years.

Council tax harmonisation with Wiltshire and Swindon Fire Authority

- 2.2.6 As the Final Business Case for Combination identified, there are council tax harmonisation issues with Wiltshire. The increases in taxbase in both Dorset and Wiltshire mean that the overall business case savings can still be delivered, even if the new authority does not receive DCLG support for a favourable harmonisation option and has to resolve the issue over a five year period.
- 2.2.7 The current difference in council tax between the two authorities is £2.98. If both authorities approve council tax increases for 2015/16, up to the 2% referendum limit, the differential is likely to remain at the same or a very similar level.

Taxbase and collection fund

- 2.2.8 The December report highlighted that changes in taxbase growth are having a beneficial financial impact. Actual council tax income is based on the Band D Council Tax and taxbase in each of the billing authority areas. The taxbase varies each year as residential property numbers and the various council tax reliefs change. The medium term finance plan had assumed that the council tax base in Dorset would increase by 0.2% year on year. This had been a long standing financial assumption. In 2014/15 the council tax base across the county showed an average increase of just over 1%, and for 2015/16 the increase is 1.5%, taking the council taxbase to 275,599. This provides additional council tax income of £241k compared to previous plans. There is also a one-off council tax collection fund surplus of £118k.

- 2.2.9 For planning purposes the December budget and MTFP projections included the impact of a 0.5% taxbase growth assumption. Based on the 2014/15 and 2015/16 growth figures the MTFP assumption has now been altered to 0.75%.

2.3 Funding summary

- 2.3.1 The table below shows overall total funding available for 2015/16 under the two options for council tax. The level of total funding is higher than the previous MTFP assumption, reflecting the changes highlighted above. For Option 2 the £204k of council tax freeze funding is included in the *Net Budget Requirement*, rather than being shown as part of total funding.

Total Funding	Option 1 2015/16 £'000	Option 2 2015/16 £'000
Original funding assumption	29,074	29,074
<i>Reduction in Settlement Funding Assessment</i>	(70)	(70)
<i>Actual business rates v DCLG estimate</i>	(73)	(73)
<i>Increase in council taxbase</i>	241	241
<i>Collection fund surplus</i>	118	118
<i>Reduction in council tax income</i>	0	(347)
Revised funding assumption	29,290	28,943

3. Budget Requirement 2015/16

- 3.1 The December report outlined a number of factors influencing next year's budget and the medium term finance plan, outside of issues around council tax and grant funding. These are considered further below.
- ♦ Pay awards - the pay awards agreed in 2014/15 show a significant saving over the provisions made in the current medium term finance plan. The level of savings is estimated at £254k per year from 2015/16. For future pay awards we will continue to assume 2% increases across all years and for all staff groups. A 1% variation in pay award is worth around £220k;
 - ♦ Local Government Pension Scheme (LGPS) - there has been an increase in the number of support staff electing to join the LGPS as a result of auto-enrolment. The additional cost is estimated at £23k per year;
 - ♦ 2015 Firefighters Pension Scheme (2015 FPS) - we do not yet know the full impact of the introduction of the 2015 FPS. At the time of writing this report the employer contribution rate for the new scheme has still not been published. We are also awaiting the results of the latest valuation of the Firefighters Pension Scheme and expect employer contribution rates for the 1992 and 2006 Schemes to be changed, with a suggestion that they will both increase. Our estimate of the financial effects on the

wholetime pay budget is that it will be broadly cost neutral, with approximately 50% of WDS posts transferring to 2015 FPS and the other 50% being fully or partly protected in 1992 FPS. We do know that as the new scheme is a CARE scheme, based on Career Average Earnings, that overtime payments will now be part of pensionable pay. We have included a provision of £50k for increased costs. For the retained pay budget the position is much more difficult to quantify, particularly with the RDS Modified Pension Scheme being available as well (see below); and

- ◆ RDS 'Modified' Pension Scheme - this is a modified part of the 1992 Firefighters Pension Scheme opened to certain RDS staff following the conclusion of the Part-Time Workers case. An options exercise is currently underway and eligible staff will shortly be receiving detailed financial information to enable them to decide whether they wish to join the modified scheme. The options exercise must be concluded by 31 March 2015. We previously assessed the maximum liability to be £235k per year should all eligible members of staff join the scheme, but this has since reduced by around £20k as a result of leavers and retirements in 2014. Overall we have allowed a provisional sum of £150k for increased employer pension costs in relation to RDS staff. A contingency of £80k remains in our Part Time Workers case provision and could be used to fund any additional costs over and above the £150k provisional sum.

3.2 The Final Business Case identified LIKELY CASE savings for 2015/16 of £784k across the two authorities. We have so far identified savings of £322k for 2015/16 from:

- ◆ Support staff vacancies (saving £111k);
- ◆ Capital financing costs (saving £100k); and
- ◆ Joint Command and Control Centre project (saving £111k) - this is a part-year saving based on a 1 October cutover date.

- 3.3 The table below shows the net budget requirement for 2015/16 with the two options for council tax.

Revenue Budget 2015/16	2014/15 £'000	Option 1 2015/16 £'000	Option 2 2015/16 £'000
Original Budget	30,188	29,847	29,847
<i>plus one-off items</i>	(1,442)	(759)	(759)
Base budget	28,746	29,088	29,088
<i>change in capital financing costs</i>	305	(102)	(102)
<i>change in pensions requirements</i>	9	279	279
<i>pay and inflation adjustments</i>	467	420	420
<i>regional projects**</i>	626	167	167
<i>other adjustments</i>	149	137	137
<i>council tax freeze funding</i>	0	0	(204)
<i>combination savings</i>	0	(322)	(322)
Estimated Service Budget	30,302	29,667	29,463
<i>contribution from balances</i>	0	(6)	(149)
<i>contributions to/(from) reserves</i>	(455)	(371)	(371)
Net Budget Requirement	29,847	29,290	28,943

** Funded from external grants held as earmarked reserves

- 3.4 Under Option 1 the budget can be balanced by transferring £6k from cost centre balances. Under Option 2 this transfer increases to £149k. *Both sums are subject to final confirmation of business rates income and employer pension contribution rates, provided they are available before 10 February.*

- 3.6 Following on from the budget information above, the two options for the fire precept for 2015/16 are shown below. Option 1 shows a council tax increase of just under 2% and Option 2 assumes a council tax freeze.

Fire Precept Scenarios for 2015/16	2014/15 £'000	Option 1 2015/16 £'000	Option 2 2015/16 £'000
Band D Council Tax	£66.60	£67.86	£66.60
Tax base	271,499	275,599	275,599
Fire Precept Income	18,082	18,702	18,355
Surplus from Collection Fund	183	118	118
Revenue Support Grant	6,486	5,350	5,350
Top-Up Funding	2,665	2,716	2,716
Business Rates	2,431	2,404	2,404
Total revenue funding	29,847	29,290	28,943
Budget requirement	29,847	29,290	28,943
Budget surplus/(deficit)	0	0	0
Annual increase in fire precept		£1.26	£0.00
Weekly increase in fire precept		2.4p	0.0p
% increase in fire precept		1.89%	0.00%

4. Medium Term Projections

- 4.1 The Authority usually produces a Medium Term Finance Plan (MTFP) on an annual basis and this is normally approved alongside the revenue budget proposals each year. In view of the Combination, for this year a separate MTFP document has not been produced. The Combined Authority will need a new Medium Term Finance Plan and this will be developed during 2015 as one of the key strategic plans.
- 4.2 The table below shows updated projections of Dorset's budget requirement for 2015/16 to 2019/20. The projections are based on the following assumptions:
- Funding settlement for 2015/16 in accordance with the Provisional Settlement
 - 22% funding reduction over the four years from 2016/17 to 2019/20
 - 2% fire precept increase each year
 - 2% pay awards each year, where relevant
 - 2.5% non-pay inflation on relevant budgets each year
 - Successful delivery of savings from the Joint Command and Control Centre project
 - Introduction of Single State Pension from April 2016 - this will mean an end to reduced, contracted-out, employer national insurance contributions. For this Authority the additional cost is now estimated at £333k. This is already built into our current medium term financial plan;

Revenue Budget Projections	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Original Budget	29,847	29,296	30,015	30,538	31,286
<i>plus one-off items</i>	(759)	(118)	9	36	28
Base budget	29,088	29,178	30,024	30,574	31,314
<i>change in capital financing costs</i>	(102)	(48)	141	172	247
<i>change in pensions requirements</i>	279	11	12	4	4
<i>pay and inflation adjustments</i>	420	961	584	565	575
<i>regional projects **</i>	167	80	80	74	0
<i>other adjustments</i>	137	138	57	61	0
<i>combination savings</i>	(322)	(79)	(190)	0	0
Estimated Service Budget	29,667	30,241	30,708	31,450	32,140
<i>contributions to/(from) reserves & balances</i>	(371)	(226)	(170)	(164)	(50)
Net budget requirement	29,296	30,015	30,538	31,286	32,090
Total funding	29,290	29,180	29,154	29,165	29,211
Budget gap	(6)	(835)	(1,384)	(2,121)	(2,880)

** Funded from external grants held as earmarked reserves

5. Reserves and Balances

5.1 General Reserves

- 5.1.1 The latest risk assessment of general reserves indicates that the current figure of £1.5m remains prudent and is maintained at approximately 5% of the Authority's net budget requirement. A similar position is maintained by Wiltshire and Swindon Fire Authority. During 2015/16 a new general reserves risk assessment will be carried out to reflect the requirements of the new Fire Authority. The Final Business Case for Combination assumes that a general reserve of £2.5m should be sufficient, allowing £0.5m to be released from the combined total of £3m in support of the Combination transition process.

5.2 Earmarked Reserves

- 5.2.1 The Authority is managing its earmarked reserves to help deal with specific risks that cannot be managed within the annual revenue budget, to help to provide funds for service transformation and to help to reduce levels of external debt.
- 5.2.2 This report focuses on the Capital Financing Reserve and Business Transformation Reserve.

Capital Financing Reserve

- 5.2.3 The current balance on this reserve is £3.5m. Our current forecasts indicate that we will need to begin calling on this reserve from 2015/16 onwards to help fund the capital programme and minimise long term debt.
- 5.2.4 The Transformation Funding Bid assumes that Dorset and Wiltshire will both contribute £500k towards the costs of the Safety Centre and Strategic Hub proposals. Dorset's contribution could be funded from this Reserve, although there may be alternative options available depending on the overall financial position of the Authority. A final decision on this will not be made until the outturn financial position for 2014/15 is clear.

Business Transformation Reserve

- 5.2.5 The current balance on this reserve is £1.147m and the original revenue budget plans for 2014/15 add a further £0.4m. This makes the reserve total £1.547m, with £0.5m earmarked as a contingency for one costs arising from the Joint Command and Control Centre.
- 5.2.6 In December the Authority approved the transfer of a further £0.5m to earmarked reserves to support work towards the Combination and the establishment of the Joint Command and Control Centre (JCCC).

5.3 Cost Centre Balances

- 5.3.1 At 31 March 2014 the level of balances stood at £682k. The 2014/15 revenue budget projections currently indicate that there will be a net increase in cost centre balances of £134k, taking them to £816k. Further details are included in the Third Quarter Financial Performance report elsewhere on the agenda.

6. Capital Programme

- 6.1.1 Draft capital expenditure requirements for 2015/16 to 2019/20 are shown in the table below, including details of the revised capital programme for 2014/15 and items being carried forward from 2014/15 to 2015/16. The capital programme for 2015/16 totals £2.965m and the carried forward items from 2014/15 total £607k.
- 6.1.2 The figures are Dorset specific and do not take account of any adjustments that may happen as a result of the Combination. Most significantly, our vehicle replacement requirements are likely to change, but ongoing requirements for property works and equipment replacement will also be reviewed alongside Wiltshire's current investment plans.
- 6.1.3 Within the 2014/15 carry forward amount and 2015/16 new start proposals there is a total of £1.2m allocated for the replacement of Dorset's two aerial appliances. Dorset and Wiltshire have already commenced a joint review of aerial appliance requirements which may see a reduction in the number of vehicles required across the two counties.

	2014/15 Revised Budget £'000	2014/15 Carry Forwards £'000	2015/16 New Starts £'000	2016/17 New Starts £'000	2017/18 New Starts £'000	2018/19 New Starts £'000	2019/20 New Starts £'000
IT and Communications Management	196	90	234	72	113	150	150
Information Systems	0	75	0	0	0	0	0
Operational Equipment	116	142	85	164	123	158	150
Vehicles	503	300	2,441	1,536	1,576	2,515	2,570
Station Improvements	506	0	205	250	270	250	250
TOTAL	1,321	607	2,965	2,022	2,082	3,073	3,120
Financed by							
Prudential borrowing	0	0	924	1,522	1,582	2,573	2,620
Capital receipts	0	0	1500	0	0	0	0
Revenue contributions	756	0	500	500	500	500	500
Specific Grants	565	607	41	0	0	0	0
TOTAL	1,321	607	2,965	2,022	2,082	3,073	3,120

- 6.1.4 The table also shows the assumptions currently being made about financing the capital programme. In 2015/16 we will not be receiving any further allocations of Fire Capital Grant from DCLG but some of the existing grant funding is being carried forward. We have been able to fund the whole of our capital programme requirements over the last three years without further increases in external borrowing. The current proposals for 2015/16 onwards, although showing that we will begin utilising the Capital Reserve fund, also mean that we are likely to need to undertake some new borrowing as well. This is very much dependent on the vehicle replacement programme and also whether other funding opportunities present themselves.
- 6.1.5 The anticipated annual revenue costs of supporting the capital programme are set out in the table below. The costs of external borrowing have reduced as a result of additional grant funding from DCLG in the form of Fire Capital Grant, use of capital receipts and some direct revenue financing.

	2014/15 Revised Budget £'000	2015/16 Original Budget £'000	2016/17 Original Budget £'000	2017/18 Original Budget £'000	2018/19 Original Budget £'000	2019/20 Original Budget £'000
Operating lease rentals	291	172	23	9	9	0
Costs of borrowing	1,187	1,105	1,205	1,360	1,471	1,727
TOTAL	1,479	1,276	1,228	1,369	1,480	1,727
Increase/ (Decrease) in budget		(203)	(48)	141	111	247
<i>Total previously approved in the Medium Term Finance Plan</i>	<i>1,479</i>	<i>1,376</i>	<i>1,328</i>	<i>1,469</i>	<i>1,580</i>	<i>1,827</i>
Additional Cost/ (Saving)		100	100	100	100	100

7. Conclusion

- 7.1 The December “*Budget Principles 2015/16 and Medium Term Finance Plan*” report to the Fire Authority outlined indicative budget proposals for 2015/16. The report highlighted a potential budget gap of £300k, with a need to offset this by savings that could be achieved in the run up to the proposed combination with Wiltshire and Swindon Fire Authority.
- 7.2 This report sets out the final revenue and capital budget requirements for 2015/16, subject to final confirmation of business rates income and employer rate contribution rates. Savings totalling £322k and aligned to the proposed combination have been included. Allowance has been made for a likely increase in employer pension costs and there remains some uncertainty over the amount of business rates income that the Authority will receive.
- 7.3 Option 1 for the 2015/16 fire precept is the preferred option. This allows the Authority to set a balanced budget of £29.290m for 2015/16, by using £6k from cost centre balances.

DARRAN GUNTER

Chief Fire Officer

2 February 2015