Item 07Appendix A

DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY

Dorset & Wiltshire Fire & Rescue Authority

Medium Term Finance Plan 2017-2020

February 2017

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1. Introduction

1.1 This Medium Term Finance Plan (MTFP) is an update on the previous Dorset & Wiltshire Fire and Rescue Authority's medium term aims and objectives with its investment strategy; long enough to support the strategic intent set out in the Community Safety Plan but short enough to enable anticipation of the main impacts. The plan embraces the ongoing development and implementation of the Authority's current Integrated Risk Management Plan (IRMP).

1.2 The current financial context of the Authority is set by the funding outcomes from the Government's latest spending review. The Joint Autumn Statement and Spending Review 2015, announced in November 2015, outlined the funding strategy for the period 2016/17 to 2019/20, which on submission of the Authority's Efficiency Plan and Strategy, was confirmed in the provisional finance settlement for 2017/18 in December 2016. The impact of this announcement, nationally and locally, is discussed on pages 4 and 5, along with a profile of how Dorset and Wiltshire compares with other fire and rescue authorities (page 9).

1.3 Both previous authorities have a long history of sound financial management and good governance and have delivered on their promises to achieve value for money. The Authority plans to continue this approach moving forward.

1.4 In developing our financial plans for 2017/18 onwards we have identified a number of budget scenarios, carrying out a sensitivity analysis on some key areas such as the impact of varying levels of fire precept increase.

1.5 Our medium term projections bring together all of this work and reflect how our aspirations from the Community Safety Plan translate into our revenue and capital budget requirements. Table 5 on pages 12 &13 shows our budget projections up to 2019/20.

1.6 Our capital investment needs to 2019/20 are shown in Section 5, page 17. This shows our draft capital investment requirements, how we plan to finance this investment and the impact on the revenue budget.

1.7 The final section of the Plan looks at our reserves and balances and how we plan to use them over the next few years to support the Authority's revenue budget and capital investment needs.

1.8 This is a dynamic document, integral to our financial management and will be updated in response to national, regional and local issues when these affect the Authority's financial position. The purpose of the report is to enable the Fire Authority to consider and assess the MTFP and the 4-year funding offer from Government up to 2019/20.

2. Financial Context

2.1 National context

2.1.1 As part of the provisional and final local government settlements, the Secretary of State for the Department of Communities and Local Government (DCLG) has issued a proposed 4-year settlement offer to Authorities covering the 4-year period 2016/17 to 2019/20.

2.1.2 The detail of the last settlement for fire authorities, comparing 2019/20 to 2015/16, showed proposals giving an average reduction in funding across all fire authorities (excluding London) of 21.7%. For combined fire authorities, such as Dorset and Wiltshire, the average reduction would be 23.1%, with Dorset and Wiltshire's actual reduction of 27.1%. This reduction includes a 61.8% reduction in revenue support grant funding as overall funding moves further towards full funding from local business rates.

2.2 Impact on Dorset and Wiltshire

2.2.1 The impact on Dorset and Wiltshire of these national funding changes is shown in Table 1 below. The Settlement Funding Assessment is the Governments assessment of how much funding is allocated to each Authority and is made up of two parts, i.e.

- Baseline Funding: the amount the Government expects the Fire Authority to receive from local business rates retention and top up grant;
- Revenue Support Grant, centrally funded grant distributed; the Governments' aim is to phase this out and move further towards full funding from local business rates.

Table 1: Settlement Funding Assessment (provisional as at Dec 16)

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Baseline funding	9.567	9.763	10.077	10.435
Revenue support grant	8.069	5.704	4.493	3.795
Settlement funding assessment	**17.636**	**15.467**	**14.570**	**14.230**

2.2.2 You can see from the table that the Governments Settlement Funding Assessment for Dorset and Wiltshire is reduced by some £3.5m over the period of three years to 2019/20.

2.2.3 The Government argues that the impact of these funding reductions is much less than this, when you take into account the full funding resources available to local government, by publishing a Core Spending Power calculation for each local authority, fire authority and police and crime commissioner. The latest details of this calculation for Dorset and Wiltshire, for the period up to 2019/20, are shown in the following extract (Table 2) from DCLG's published figures.

Table 2: Government Assessment of Core Spending Power

CORE SPENDING POWER				
Dorset & Wiltshire Fire and Rescue Authority				
Core Spending Power of Local Government				
	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Settlement Funding Assessment	17.636	15.467	14.570	14.230
Council Tax	36.316	36.683	39.103	40.578
Rural Services Delivery Grant	0.049	0.039	0.030	0.039
Transition Grant	0.167	0.210	0.000	0.000
Core Spending Power	**54.168**	**53.399**	**53.703**	**54.848**

2.2.4 The calculation of Core Spending Power is based on the assumption that funding from council tax will continue to increase in the period up to and including 2019/20. The Government has estimated the level of council tax funding based on the following assumptions: -

i) applying the average annual growth in the council tax base between 2013/14 and 2016/17 throughout the period to 2019/20; and

ii) assuming that local authorities increase their Band D council tax in line with the referendum limit throughout the period to 2019/20.

2.2.5 Work is continuing in central Government to redesign the funding system, and as such any future offer is subject to outcomes of that work, although the Government have accepted our efficiency plans to provide certainty over the settlement throughout the period to 2019/20.

2.2.6 It is also yet uncertain what the impact will be of Britain leaving the European Union (EU) therefore for the purposes of this paper no impact is assumed.

3. Efficiency and Value for Money

3.1 The combination of former Dorset FA and Wiltshire & Swindon FA put value for money at the heart of our governance arrangements. As part of establishing the new Service, we adopted the following principals, in that we are: -

- reviewing the way in which we formally deliver our services; sharing and adopting good practice and maximising our future efficiency, effectiveness and economy;
- eliminating unnecessary bureaucracy and making the best use of technology;
- rationalising the use of our estate through robust asset management including exploring use of shared premises;
- ensuring that procurement decisions are business led and focused on whole life costs;
- seeking more from our contracts and the quality of goods and services provided;
- pursuing greater economies of scale and synergy by maximising our partnership opportunities; and,
- seeking external funding and partnership opportunities in order to support our priorities.

3.2 During the lifetime of this plan, we will continue to drive value efficiency and value for money from the following perspectives: -

- embedding strong corporate governance;
- harmonising non station based resourcing;
- maximising technology and mobile working;
- progressing the concept of One public estate; and,
- integrated risk management planning – ensure our available operational resources are best aligned to community risks.

3.3 Details of our efficiencies can be found on our website: https://www.dwfire.org.uk/about-us/what-we-spend/efficiency-plan-2016-2020/. In summary, the efficiencies identify the projects and initiatives central to this efficiency plan which are derived from our transformation programme. Each project or activity has been incorporated within our planning, performance and project management arrangements.

3.4 The Government have confirmed the offer of the 4-year settlement to 2019/20 in relation to providing details of efficiency plans that are in place.

4. Budget 2017/18 and Future Years Forecasting

4.1 Budget Principles

4.1.1 The key budget principles and assumptions for planning purposes were approved at the Policy and Resources Committee in September 2016. Subsequently following notification from constituent authorities of taxbase for 2017/18, the assumptions on which this plan have been based have been amended. This Plan is therefore based on the following assumptions: -

(a) Government funding reductions of 12.3%, 5.8% (previously 6.0%) and 2.3% (previously 2.6%) in 2017/18, 2018/19 and 2019/20 respectively.

(b) taxbase increases of 1.0% each year over the period to 2019/20.

(c) fire precept band D council tax increases of 1.99% each year to 2019/20.

(d) referendum principles will continue at the 2% level for all Fire and Rescue Authorities.

(e) no surpluses or deficits on collection fund balances to 2019/20.

(f) pay awards are assumed at 2% per annum (unless otherwise agreed), and non-pay inflation at 1% each year.

(g) revenue budget gap will require funding from the use of balances.

(h) general reserves and balances above £2.5m are excess, and are available for use and will be considered to meet the one-off costs of emerging issues, e.g. Emergency Services Mobile Communications Project (ESMCP), capital funding, on-call duty system investment and resourcing and response in the Wiltshire area.

4.2 Funding

4.2.1 Funding, in this context, is about how much money the Authority receives to pay for the services it provides. The primary source of funding comes from two main areas:

- **Government Support** (grants from central Government and business rates retention from local authorities); and,

- **Precepts** (council tax collected from local tax payers).

Government Support

4.2.2 The previous Chancellor of the Exchequer published the Joint Spending Review and Autumn Statement 2015 on 25 November 2015, which identified the provisional levels of funding to all local authorities and signalling reductions in funding covering the period 2016/17 to 2019/20. The latest provisional finance settlement announced on 14 December 2016 showed marginal changes which are expected to be confirmed in February 2017.

4.2.3 This Finance Settlement detailed funding cuts of 12.3% in 2017/18, 5.8% in 2018/19 and 2.3% in 2019/20. Overall our Settlement Funding Assessment will have reduced from £19.436m in 2015/16 to £14.230m in 2019/20. This represents a cash reduction of £5.206m or 27% over the period 2015/16 to 2019/20.

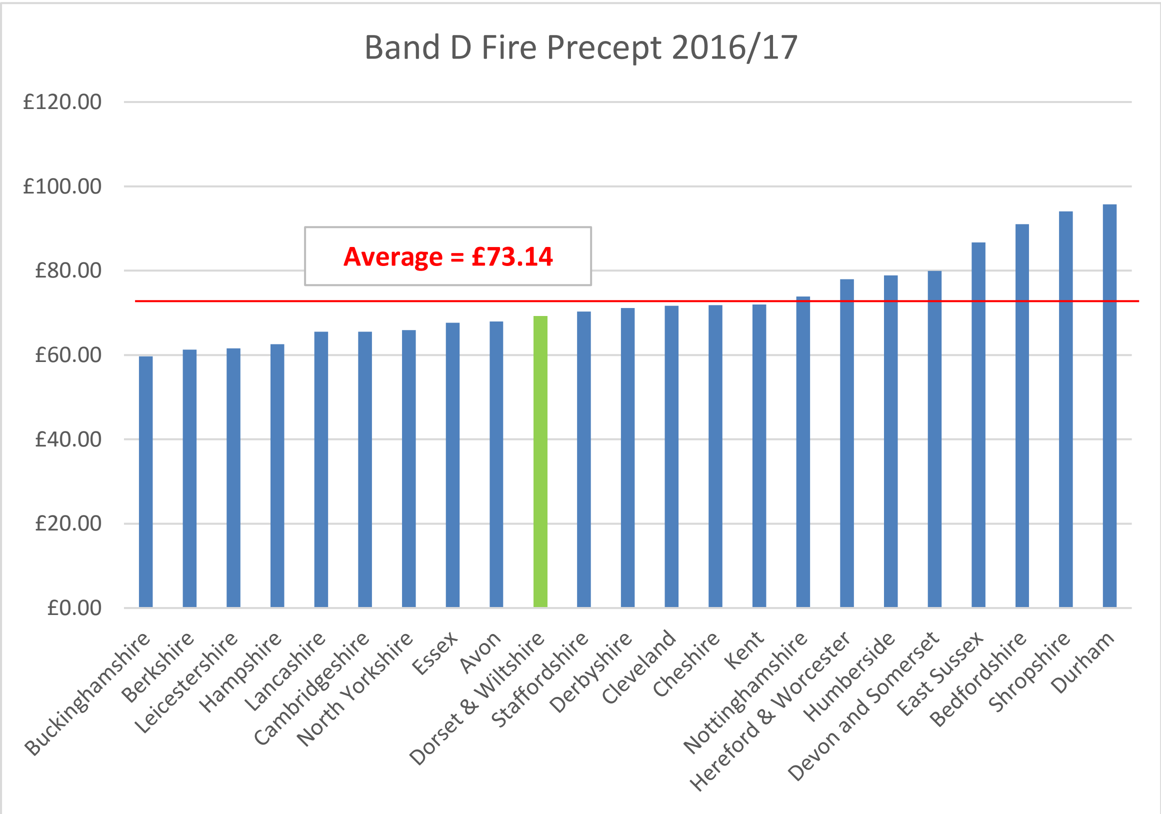
4.2.4 The funding mechanism to distribute funds to all local authorities is currently under review, in particular around business rates. No account is yet taken of any changes to the funding mechanism, as these are not yet known. In addition, Government responsibility for Fire has moved from Communities and Local Government (DCLG) to the Home Office (HO), however at this stage funding to Local Authorities still remains under the responsibility of DCLG.

Precepts

4.2.5 The former fire authorities of Dorset and Wiltshire have both traditionally been low spending authorities. However, we have also suffered from being low funded authorities as well, receiving much lower than average funding from central government, compared to other fire authorities.

4.2.6 The low level of funding inevitably places pressure on levels of council tax but again both former Dorset and Wiltshire's council tax has remained well below the average for combined fire authorities. For 2016/17 the Dorset and Wiltshire Fire and Rescue Authority Band D fire precept figure was £69.21, compared to a national average for FRAs of £73.14 (see Chart below).

Chart 3: Band D Council Tax 2016/17 (all Combined Fire Authorities)



4.2.7 Precept Income is that levied on the collecting authorities, and is based on a Band D council tax multiplied by the taxbase i.e. (the number of equivalent Band D dwellings in the area).

4.2.8 In establishing the budget for 2017/18, funding from precepts is as follows, based on a Band D fire precept of £70.59.

Collecting Authority	Taxbase 2017/18	Precept 2017/18 £
Bournemouth	61,759	4,359,583
Christchurch	19,624	1,385,258
East Dorset	37,043	2,614,865
North Dorset	25,910	1,828,994
Poole	56,366	3,978,876
Purbeck	19,052	1,344,888
Swindon	71,551	5,050,813
West Dorset	41,256	2,912,233
Weymouth & Portland	20,721	1,462,717
Wiltshire	177,805	12,551,261
TOTAL	**531,088**	**37,489,488**

4.2.9 The increase in taxbase in 2017/18 is on average 1.21%. Originally, as agreed at the Policy and Resources Committee in September, it was assumed that taxbase would increase by 1.5% each year over the period to 2019/20, which then closely aligned to forecast increases expected by the billing authorities. However, on notification from the billing authorities estimated increases in taxbase have been revised down to 1.0% beyond 2017/18.

4.2.10 Precepts will rise as a result of increased taxbase, and also as a result of council tax increases. The previous Medium Term Financial Plan, assumed 1.99% increases in fire precept Band D to 2019/20, and therefore for planning purposes, we will continue to assume increases in fire precept Band D council tax of 1.99% to 2019/20. A 1% change in fire precept Band D equates to approximately £370k per annum.

4.2.11 The increase of 1.99% is used to remain below the referendum limit (established in 2012/13), which is notified each year by the Chancellor. The provisional funding settlement announced in December confirmed that the core referendum threshold would be maintained at the existing level of 2%, but district councils and lower quartile police and crime commissioners would have a referendum principle of 2% or £5 whichever is the higher. The Government also allowed an adult social care council tax precept of 2% or 3% (Maximum 6% in the 3-year period) in addition to the core referendum threshold, allowing those councils with responsibility for adult social care to guarantee additional funding to be passported to provide care services for the elderly. This means that some councils can increase their precept levels by up to 5% for 2017/18. It is therefore anticipated that referendum principles will remain in operation at the 2% level for all Fire and Rescue Authorities.

4.2.12 Given the assumptions for increases in taxbase and planning assumptions on fire precept Band D increases of 1.99%, funding from Precepts is as per the following: -

	2016/17	**2017/18**	**2018/19**	**2019/20**
	Actual	Estimated	Estimated	Estimated
Assumed band D increase	1.99%	1.99%	1.99%	1.99%
Assumed taxbase increase	2.07%	1.21%	1.00%	1.00%
Taxbase	524,726	531,088	536,399	541,763
Fire Precept band D	£69.21	£70.59	£71.99	£73.42
Precept (£m)	£36.316m	£37.489m	£38.615m	£39.776m

4.2.13 In 2017/18 the collecting authorities have reported accumulated collection fund surpluses of £530k in total, primarily due to better than expected collection rates. Deficits also occur, so for planning purposes no assumption is made of any surpluses or deficits on collection fund balances in future years. Should any further surplus or deficit be reported by the billing authorities for 2017/18, these will add to or be deducted from general balances.

4.2.14 The provisional Local Government Funding Settlement for 2017/18 awarded local authorities additional grants in respect of Rural Service Delivery and Transition. These grants add to the funding received from central Government.

4.2.15 In summary, the table below shows the total funding assumed to 2019/20 based on assumptions around: -

- Settlement funding assessment reductions, 12.3%, 5.8% and 2.3% in 2017/18 to 2019/20;
- fire precept increases of 1.99%, annually (below referendum limit of 2%);
- taxbase increases of 1.0%, annually
- indicative notification of Rural Service Delivery and Transition Grants.

	2016/17	**2017/18**	**2018/19**	**2019/20**
	Actual	Estimated	Estimated	Estimated
Precepts	£36.316m	£37.489m	£38.615m	£39.776m
Collection Fund Surplus	£0.863m	£0.530m	£0.000m	£0.000m
Baseline Funding (business rates and top-up grant)	£9.567m	£9.763m	£10.077m	£10.435m
Revenue Support Gant	£8.069m	£5.704m	£4.493m	£3.795m
RSD and Transition Grants		£0.249m	£0.030m	£0.039m
TOTAL	**£54.815m**	**£53.735m**	**£53.215m**	**£54.046m**

4.3 **Pay Costs**

4.3.1 Pay and pensions expenditure accounts for about 70%+ of the Authority's net revenue budget requirement. Consequently, the cost of pay awards and other contractual costs such as pay increments are a major factor when budgeting for future years.

4.3.2 In successive Autumn Statement's, the Chancellor has commented and announced plans for restraint on public sector pay, with a policy to restrict pay awards at an average of 1%. Our assumptions include provision for a 2% average pay award all staff to 2019/20, where not already negotiated and agreed. The 2% assumption for staff is considered prudent given the level of pay restraint for a number of years now; especially as there may be added pressure for a more significant pay award particularly in view of potential changes to the firefighter role. Table 4 below summarises the estimated additional costs of pay awards over the life of this plan.

Table 4: Impact of pay awards

	2017/18	2018/19	2019/20
Cost of Pay Awards	£602k	£758k	£763k

4.3.3 The cost of pay awards is a significant risk factor for our budget. The cost of underestimating pay awards by 1% is approximately £300k-£350k for a full year. We have included provision for underestimating pay awards in our general reserves risk assessment, although this will only cover the in-year cost and will not account for the cumulative effect in subsequent years.

4.3.4 Local Government Pension Scheme (LGPS) – Following the triennial valuation of both the former Wiltshire and Dorset LGPS funds as at 31 March 2016, the respective actuaries have indicated increases in employer contribution for the next three years. The additional indicative costs of this are estimated at £175k for 2017/18.

4.4 **Other Inflationary Commitments**

4.4.1 Whilst the level of general inflation in the economy as a whole remains low at the current time we still see price pressures in fire specific cost areas. We also need to apply inflation increases to budgets where there is a contractual / legal commitment or for items beyond our control, such as business rates and utility costs. The total amount that has been allowed for contractual inflation in future years is approximately £200k each year.

4.4.2 In addition, we need to consider the impact of business rates revaluation in 2017. From April 2017 new valuations will apply to all of our premises, and whilst nationally there should be no net increase in business rates cost, locally and within particular sectors variations do occur. Nearly all of our premises show increased valuations, some significantly. Within the Governments proposals for business rates, changes have been made to the valuation bandings which determine the premises that attract small business rates relief. These changes help to mitigate some of the cost increases that we might have seen, and the Government is also proposing Transitional Relief arrangements. Overall we estimate that our business rates will increase by £136k for 2017/18, with further increases in the following two years as the Transitional Relief reduces.

4.5 Medium Term Forecast

4.5.1 The table below shows updated projections of the Authority's budget requirement from 2017/18 to 2019/20 based on the following assumptions, and additional spending proposals: -

- Government funding as per the provisional Local Government Finance Settlement 2017/18, i.e. acceptance of the 4-year funding settlement, with 12.3% 5.8% and 2.3% reduction in the settlement funding assessment to 2019/20;
- 1.99% increase in fire precept each year;
- 1% average increase in council taxbase each year;
- 2% pay awards each year, where applicable and 1% non-pay inflation, plus contractual commitments;
- Additional LGPS costs;
- Increased costs of Business Rates;
- Introduction of Apprenticeship Levy from 2017/18, equivalent to 3% of pay bill;
- Additional investment of £574k on our Retained On-call Duty staff, addressing issues of recruitment and retention;
- Savings on Wholetime efficiencies in 2017/18 of just under £500k, with work to deliver a further potential £1m of savings being deferred until this proves to be necessary;
- Net additional staffing costs allowing for necessary departmental transition adjustments and additional pension funding requirements;
- One-off spending over the next few years, funded from set aside earmarked reserves; and,
- Revenue impacts of our annual property, vehicle replacement and equipment capital programmes.

Table 5: Indicative Revenue Budget 2017/18 to 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Budget			
- Employees	39.367	38.707	39.221
- Other Employees	2.887	2.813	2.825
- Premises	2.967	3.035	3.085
- Transport	1.650	1.640	1.640
- Supplies and Services	4.378	4.265	4.263
- Agency & Contracted Out	2.391	2.305	2.303
- Democratic Representation	0.141	0.141	0.141
- Capital Financing/Leasing	2.946	3.202	3.548
- Transfers to Reserves	-0.730	-0.243	-0.027
- Income	-2.610	-2.660	-2.660

- Inflation	0.347	0.521	0.697
Service Budget Requirement	**53.735**	**53.728**	**53.037**

4.5.2 The current spending plans do not yet include the costs of the impact of the Emergency Service Mobile Communications Project (ESMCP), due in our South West region by the end of 2019. At this stage the project management cost of implementation have been estimated (approx. £0.5m) and £1m has been provisionally set aside to include these costs and a further £0.5m for the equipment, subject to member endorsement and approval. The national project is designed to replace the current 'Airwave' system with significant technological improvements.

4.5.3 Emerging issues around Emergency Medical Response should also be considered as part of the wider agenda around safe, health and wellbeing in the community. Currently, co-responder provision by the Fire Service is being reviewed nationally, with the Ambulance Service model looking to change in respect of the Fire Service provision, which will directly impact on opportunities for the Fire Service around alternative medical response. Development work will undoubtedly be required, therefore earmarking some funds as a contingency has resulted in £0.2m has been set aside.

4.5.4 Looking further beyond 2017/18, the medium term position, based on fire precept increases of 1.99% as per the planning assumption approved, shows indicative funding deficits of £513k and £991k in 2018/19 and 2019/20 respectively:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**
Net Budget Requirement	**53.735**	**53.215**	**54.046**
Total Funding	-53.735	53.728	55.037
Budget Gap (deficit)	**0.000**	**-0.513**	**-0.991**

4.5.5 To bridge the indicative budget deficits, the Service will need to use its general balances, transformation reserves and other earmarked reserves to support Service transformation and associated transition costs. Table 6 below shows the starting point for the balances and reserves available, and expected use.

4.5.6 Included in the general balances is the 2016/17 forecast underspending of £3m, resulting mainly from difficulties in recruiting and retaining staff to the desired staffing levels, which is being addressed, and a number of unexpected one-off amounts. The impact of this provides some flexibility in use of balances to deliver future efficiency savings and enhance service provision.

4.5.7 This underspending, is unprecedented, at a level not previously seen and is therefore not anticipated to occur in the future. Wholetime staffing resources are now closer to establishment, with 20 new firefighters (including 4 former apprentices) and 6 new firefighter apprentices joining the Service during 2016/17. Although challenging, we are working hard to address vacancy levels amongst corporate posts and deal with recruitment and retention issues in relation to retained on-call duty staff.

Table 6: Resources currently available to support transformation

	Balance B/F £m	**Transfers In/Out £m**	**Expected Use £m**	**Balance C/F £m**
General Balances				
2016/17 Opening Balance	6.701			**6.701**
Less Risk Assessed	-2.500			-2.500
Add transfers to Gen Bals		1.368		-1.368
Add 2016/17 Underspend		3.000		3.000
Less ESMCP & EMR Contributions			-1.200	-1.200
Less MTFP Deficits			-.0254	-0.254
2016/17 Closing Balance				**7.114**
2017/18	**7.114**			**7.114**
2018/19	**7.114**		-0.513	**6.601**
2019/20	**6.601**	0.416	-0.991	**6.026**
Transformation Improvement Reserves				
2016/17	1.793		-0.199	**1.675**
2017/18	1.675		-0.653	**1.022**
2018/19	1.022		-0.206	**0.816**
2019/20	0.816			**0.816**
Capital Replacement Reserves				
2016/17	4.456	0.100	-3.194	**1.362**
2017/18	1.362	0.100	-1.262	**0.200**
2018/19	0.200	0.100		**0.300**
2019/20	0.300	0.100		**0.400**
Capital Receipts				
2016/17	**1.379**		-1.379	**0.000**

4.5.8 Any forecast budget gap will need to be met from general balances that we have available, whilst maintaining a level of risk assessed general reserves of £2.5m.

4.5.9 Taking all of the details above into account the Service Budget requirement for 2017/18 is £53.735m. Three different options are exemplified for the level of fire precept for 2017/18; these are shown in Table 7 below, resulting in indicative budget deficits of £0k (1.99%

increase) to £733k deficit (no increase). A 1% change in fire precept amounts to approximately £370k - £380k additional income each year.

Table 7: Fire Precept Options for 2017/18

	Option 1 2017/18 1.99%	**Option2 2017/18 1.00%**	**Option3 2017/18 0.00%**
Taxbase	531,088	531,088	531,088
Fire Precept band D (£)	£70.59	£69.90	£69.21
Fire Precept Income (£m)	37.489	37.123	36.756
Collection fund surplus/deficit(-)(£m)	0.530	0.530	0.530
Revenue Support Grant (RSG)(£m)	5.704	5.704	5.704
BRR and Top Up grant (£m)	9.763	9.763	9.763
RSD/Transition Grants (£m)	0.249	0.249	0.249
Total Revenue Funding (£m)	**53.735**	**53.369**	**53.002**
Estimated Service Budget 2017/18	**53.735**	**53.735**	**53.735**
Budget Surplus/deficit(-)	**0.000**	**-0.366**	**-0.733**
Net Budget Requirement	**53.735**	**53.369**	**53.002**
Annual Increase in Fire Precept Band D (£)	**£1.38**	**£0.69**	**£0.00**
Weekly increase in Fire Precept Band D (pence)	**2.6p**	**1.3p**	**0p**

4.5.10 Option 1 (fire precept increase at 1.99%) means contributions from reserves are required to balance the budget gaps in the years 2018/19 and 2019/20, with an ongoing budget deficit of £991km in 2019/20. Our plans, at that level of fire precept increase, provide some funding flexibility in that general balances are estimated to stand at £6.026m at 31 March 2020.

4.5.11 This provides opportunities for service development, and the ability to address some issues and concerns that could alleviate pressures on the revenue budget, namely: -

- the requirement to develop and deliver savings through the IRMP and Wholetime efficiencies including a fire cover review (invest to save);
- improvement in availability and response of the RDS (on-call) addressing the sustainability of the RDS (on-call);
- use of balances to fund capital investment for which there is very little possibility of grant funding to support, thereby reducing the need for prudential borrowing (for a limited period);
- addressing the Authority's property maintenance requirements (approximately £3m+); and,
- the development of apprenticeships as the Authority has indicated that it wishes to support further apprentice schemes.

4.5.12 The other two options for the level of fire precept, how a 1% year on year precept increase looks and how a no increase option would look in terms of the impact on general balances (in excess of the £2.5m safety net), is shown below. More importantly, these options demonstrate how unsustainable the financial position would be. For example, an ongoing budget deficit of £1.766m in 2019/20 if no precept increase in 2017/18 (1.99% each year thereafter). Clearly available balances will be eroded very quickly beyond 2019/20.

Table 8: Impact of 2017/18 fire precept options

	Option 1 1.99% inc **£m**	**Option 2** 1% inc **£m**	**Option 3** 0% inc **£m**
General Balances 1 April 2017	**7.114**	**7.114**	**7.114**
Budget Deficit 2017/18	0.000	-0.366	-0.733
Budget Deficit 2018/19	-0.513	-0.888	-1.264
Budget Deficit 2019/20	-0.991	-1.375	-1.766
Transfers to General Bals 2019/20	0.416	0.416	0.416
General Balances 31 March 2020	**6.026**	**4.901**	**3.767**

5. Capital Programme

5.1 The capital programme, covering the revised programme for 2016/17 and requirements to 2019/20 is shown in Table 9 below. The revised amounts shown for 2016/17 include projects carried forward from 2015/16 and in-year changes to the programme.

5.2 The programme for 2016/17 also assumes the use of the capital replacement reserves (£3.193m) and capital receipts reserves (£1.379m) to fund part of the programme. The impact of this is to save approximately £400k in the revenue capital financing charge, equivalent to the borrowing costs if we were to borrow to fund this part of the programme.

5.3 The capital programme for 2017/18 totals £11.160m, the large proportion of which includes expenditure funded from grants and match funding (£3.291m) for the new Wiltshire safety centre.

Table 9: Capital Programme 2016/17 to 2019/20

	Original Budget 2016/17 £m	**Revised Indicative Budget 2016/17 £m**	**Indicative Budget 2017/18 £m**	**Indicative Budget 2018/19 £m**	**Indicative Budget 2019/20 £m**
Capital Expenditure					
Property/Estates	4.120	1.253	4.690	0.883	0.825
Vehicles	3.611	3.036	5.176	3.767	4.512
Equipment	0.164	0.262	0.225	0.171	0.682
ICT	0.856	0.872	1.069	0.455	0.210
TOTAL	**8.750**	**5.423**	**11.160**	**5.276**	**6.229**
Financed by					
Prudential borrowing	-5.023	0.000	-6.607	-5.276	-6.229
Transformation Reserves	-3.727	-0.752	-3.291	0.000	0.000
Capital Receipts	0.000	-1.379	0.000	0.000	0.000
Direct Revenue Financing	0.000	-0.099	0.000	0.000	0.000
Capital Reserves	0.000	-3.193	-1.262	0.000	0.000
TOTAL	**-8.750**	**-5.423**	**-11.160**	**-5.276**	**-6.229**

5.4 The 2017/18 capital programme also includes the replacement requirements for 2 aerial ladder platform (ALP) appliances (2 @ £681k, £1.362m) and 7 large fire appliances (7@ £308k, £2.156m). Decisions are awaited to determine whether a further 2 ALPs will be required to be replaced beyond 2017/18. 2018/19 and 2019/20 include replacements of a further 19 large pumping appliances.

5.5 Also included in the capital programme are the outcomes of a property conditions survey, identifying the property assets in most need of attention now and over the next few years.

5.6 Table 9 above also shows the assumptions currently being made about financing the capital programme. Capital expenditure is generally funded by a number of sources, namely capital receipts, direct revenue contributions, specific capital grants, and under the capital accounting regime in respect of local authority capital accounting, through prudential borrowing.

5.7 Prudential borrowing is undertaken usually at the end of the financial year in which the expenditure is incurred. Currently the revenue costs of borrowing are approximately £75k per £1m borrowed (based on interest rate of 3.5% and debt repayment of 4% over a 25-year period). The service revenue budget requirement includes provision for the costs prudential borrowing as per table 9 above.

5.8 Given our level of reserves and balances we have used surplus cash balances as a temporary measure to fund previous years' capital programmes. This has resulted in an under-borrowing position of approximately £15m, as at 31 March 2016, i.e. rather than borrow we have used internal cash flow to fund the capital programmes as it has been more efficient and economical to do so. The added benefit also arises, in that if we had borrowed the £15m, we would have a further £1.125m revenue costs to service the debt i.e. the revenue budget has been set approximately £1.125m less, as savings have been taken in respect of internal borrowing. The dis-benefit means that at some stage we may be in a position where we do not hold sufficient cash balances and in line with external professional advice we may have to re-finance or borrow in order to pay our suppliers and staff.

5.9 Within the Revenue Budgets for 2017/18 to 2019/20 (included in Table 5, under capital financing) are the costs of prudential borrowing in respect of the previous years' capital programmes i.e. 2018/19 will include the capital financing costs of the prudential borrowing required of £6.607m from the 2017/18 capital programme.

5.10 Future capital requirements arising from the Integrated Risk Management Review (IRMP) in particular around assets i.e. stations and vehicles, will potentially impact on 2018/19 and thereafter, therefore it is anticipated that programmes identified in 2018/19 will be adjusted to reflect any new requirements following the review. In particular, there may be options around replacing large pumping appliances (see para 5.4 above replacement of 19 large pumping appliances 2018/19 to 2019/20).

6. Reserves and Balances

6.1 The Fire Authority needs to maintain separate reserves and balances to help deal with unexpected contingencies and specific risks that cannot be managed within the annual revenue budget, and to provide a working balance to help manage cash flow fluctuations arising from their normal business activities. An annual review of reserves is carried out as part of the budget setting cycle.

6.2 General Balances and Reserves

6.2.1 General Balances have been risk assessed at £2.5m. Following a review against the strategic risk register and other financial risks, the risk assessment of £2.5m remains prudent, at approximately 5% of the Authority's net budget requirement.

6.2.2 Taking into account applications and transfers expected over the next few years to 2019/20, available general balances in excess of the £2.5m risk assessed are estimated to amount to just over £6.5m (based on 1.99% increases in fire precept each year).

General Balances and Reserves	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
General Balances at 1 April	6.701	7.114	7.114	6.503
Less Risk Assessed	-2.500			
Transfer to General Balances	1.368			0.416
Add Predicted Underspending 2016/17	3.000			
Contribution to ESMCP & EMR	-1.200			
Budget Deficit/Gap	-0.254	0.000	-0.513	-0.991
Available General Bals at 31 March	**7.114**	**7.114**	**6.601**	**6.026**

6.2.3 Available balances and reserves are eroding, and base budgets are running with an estimated annual deficit between £991k and £1.766m (1.99%, 0% increase in fire precept 2017/18 respectively). Taking into account applications and transfers expected over the next few years to 2019/20, available general balances in excess of the £2.5m risk assessed are estimated to amount to (see Table 8 above): -

- £6.026m (based on 1.99% increases in fire precept each year), with an ongoing budget deficit of at least £991k;
- £3.767m (based on no increase in fire precept 2017/18), with an ongoing budget deficit of £1.766m, i.e. reserves will rapidly deplete beyond 2019/20.

6.3 Earmarked Reserves

6.3.1 Earmarked reserves are also held to provide funds to meet future known or predicted financial costs or liabilities. They help deal with specific risks that cannot be managed within the annual revenue budget or where significant fluctuations in budget or council tax would be required. Earmarked reserves are also linked to any one off costs or liabilities arising from the strategic risk register.

6.3.2 Table 10 below shows a summary of the Authority's current earmarked reserves and indicative plans for their use over the next few years. These are expected to reduce from £12.320m to £3.633m by 2019/20.

6.3.3 Explanation of main reserves:

Ill health and injury pensions – since 2006 individual fire and rescue services have been responsible for the costs of ill health and injury pensions, including related additional lump sum payments that we may be required to pay. For a firefighter these payments can range between £60k and £120k, with higher amounts payable for more senior ranks. Both Services have established reserves, particularly to manage any one-off additional costs.

Insurance – The Authority self-insures much of its insurable risks. This reserve represents funding set aside to manage the risk of extraordinary losses over and above those expected in normal circumstances, or those not covered by external insurance policies.

Part time workers (RDS pensions) – this reserve was set up by Wiltshire Fire Authority to mitigate the effect of the Employment Tribunals decisions relating to the pension access rights of retained firefighters. The need for this reserve going forward has been reviewed and can be transferred to general balances as the issue has been resolved without the need for the reserve.

Transformation Improvement – this is funding previous set aside to support individual Service transformation programmes and transition to the new fire and rescue service.

Capital Replacement – in previous years each authority has been setting aside funds to support future capital expenditure and reduce the requirement to undertake long term borrowing. It is the intention to fully utilise this reserve over 2016/17 and 2017/18.

Combined Control Contingency – both former authorities established a fund to finance the additional costs of setting up the joint command and control centre for Dorset and Wiltshire Fire and Rescue Authority. There are staff transition costs up to 2019/20, after which the remaining balance will be transferred to general reserves.

Safety Centre – as part of the bid for Transformation Funding each authority agreed to provide £500k of matched funding to support the development of the new safety centre in the north of the Authority area. This is expected to be used in 2017/18.

Five Rivers Leasing – as part of the bid for Transformation Funding, money was allocated to the new service for its strategic headquarters at Five Rivers. A leasing reserve has been established against which a charge is made annually for the use of the site.

Table 10: Summary of Earmarked Reserve

Earmarked Reserves	Balance as at 01/04/16 £m	Expected use 2016/17 £m	Expected use 2017/18 £m	Expected use 2018/19 £m	Expected use 2019/20 £m £m	Transfer to General Balances £m	Balance as at 31/03/20 £m
Hydrants	0.119		-0.059	-0.059			0.000
Ill Health Retirement	0.745	-0.040	-0.113				0.592
Insurance	1.024						1.024
Retained Pensions (part-time workers)	1.000					-1.000	0.000
Transformation Improvement	1.793	-0.119	-0.653	-0.206			0.816
Training	0.035	-0.035					0.000
Capital Replacements	4.275	-2.923	-0.990	0.100	0.100		0.400
Combined Control Contingency	0.558		-0.057	-0.057	-0.028	-0.416	0.000
Community Safety Innovation Fund	0.050					-0.050	0.000
Planning Gain	0.181	-0.181					0.000
Inland Revenue	0.049					-0.049	0.000
Business Rates Funding Adjustment	0.100					-0.100	0.000
Safeguarding	0.013	-0.013					0.000
Fitness Equipment	0.104	-0.104					0.000
Match Funding – Safety Centre	1.000		-1.000				0.000
Five Rivers Leasing	0.836	-0.085	-0.085	-0.085	-0.085		0.496
PFI	0.039					-0.039	0.000
Leadership/Organisational Dev't	0.271	0.035	-0.070	-0.070	-0.060		0.106
Retained Duty System	0.130					-0.130	0.000
Emergency Services Mobile Comms Programme (ESMCP)	0.000	1.000	-0.146	-0.689	0.165		0.000
Emergency Medical Response (EMR)	0.000	0.200					0.200
Total	**12.320**	**-2.253**	**-3.346**	**-1.065**	**-0.237**	**-1.784**	**3.633**