DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 7

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	9 February 2017
SUBJECT OF THE REPORT	Budget 2017/18
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	This report provides the final position on the revenue and capital budget requirement for 2017/18; presents the Medium Term Financial Plan; and considers three options for fire precept Band D. This follows the budget seminars held in Salisbury on 29 November 2016 and 25 January 2017. The budget requirement for 2017/18 is set out on section 3 of the report. It includes provisional sums for business rates income as at the time of writing we have yet to receive final confirmation from the billing authorities. The report considers three options for fire precept Band D, ie: 1.99% increase; 1% increase; and no increase. Option 1 is recommended by the Policy and Resources Committee for Fire Authority approval, endorsed by the Treasurer, ie: an increase of only £1.38 (2.6p per week) or 1.99% resulting in a fire precept Band D of £70.59, providing a net budget requirement of £53.735m.
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, as does the uncertainty of how the funding mechanism may develop and in light of responsibility for Fire moving away

	from the Department of Communities and Local Government (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 Authority: 1. Approve the revenue and capital budgets for 2017/18 and the Medium Term Financial Plan 2. Approve the basic amount of fire precept Band D for the Dorset & Wiltshire Fire and Rescue Authority as set out in the appendix C, i.e. an increase of £1.38 (2.6p per week) or 1.99% resulting in a fire precept band D of £70.59 3. Authorise the Treasurer to issue precept notices on the Dorset & Wiltshire collecting authorities accordingly
BACKGROUND PAPERS	2017/18 Provisional Local Government Finance Settlement, DCLG, 14 December 2016
APPENDICES	A: Medium Term Finance Plan 2017-2020 B: Summary Options Fire Precept Band D C: Precept Requirements 2017/18
REPORT ORIGINATOR AND CONTACT	Phil Chow, Director of Finance & Treasurer Tel: (01722) 691071 email: phil.chow@dwfire.org.uk

1. Introduction

1.1 This report provides the final position on the revenue and capital budget requirements for 2017/18; presents the Medium Term Financial Plan; and recommends a fire precept Band D for approval, following the budget seminars held on 29 November 2016 and 25 January 2017. These are based on the budget principles as approved by the Policy and Resources Committee and amended in light of the provisional finance settlement of the 14 December 2016.

1.2 There are a number of issues and financial implications presented to the Authority in this report, which are based on best information and professional forecasts. At the time of writing provisional sums for business rates income as per the settlement funding assessment are included, as we have yet to receive final confirmation from the billing authorities.

2. Funding Issues

2.1 Local Government Finance Settlement

2.1.1 The Provisional Finance Settlement details for 2017/18 were published on 14 December 2016. The final details were expected early February, but at the time of writing they have yet to be finalised. The provisional figure for the new Authority's Settlement Funding Assessment (SFA) for 2017/18 is £15.467m.

2.1.2 This is a reduction of £2.169m or 12.3% compared to the SFA for 2016/17, but in line with our expectations from the four- year funding settlement offer. The SFA includes Revenue Support Grant (RSG) funding of £5.704m and a Baseline Funding Level (BFL), under the Business Rates Retention (BRR) Scheme of £9.763m.

	2016/17 £m	2017/18 £m	Difference £m
Settlement Funding Assessment (SFA)	17.636	**15.467**	-2.169
made up of:			
Revenue Support Grant (RSG)	8.069	**5.704**	-2.365
Baseline Funding Level (BFL)	9.567	**9.763**	0.196

2.1.3 The reduction for Dorset & Wiltshire Fire and Rescue Authority of 12.3% for 2017/18 was one of the highest funding reductions when comparing all combined Fire Authorities; the average reduction was 10%.

2.1.4 The Government, in making its assessment of the reductions, has already built into its estimates and assumed an income for Fire Authority to include fire precept increases of 2% and taxbase growth, based on the average annual taxbase growth between 2013/14 and 2016/17.

2.1.5 The Baseline Funding Level (BFL) is split between an assumed level of business rates retention and a top up grant payment from DCLG. The top up grant is increased each year in line with inflation. The amount of business rates retention is subject to some uncertainty. Whether the amount assessed within the SFA will be close to the amount actually received from the billing authorities remains to be seen. The amounts due from the billing authorities have yet to be confirmed. In addition to this, the Government is expected to continue to cap the small business rates multiplier. Additional funding through Section 31 grant will be made available to local authorities to compensate for their loss.

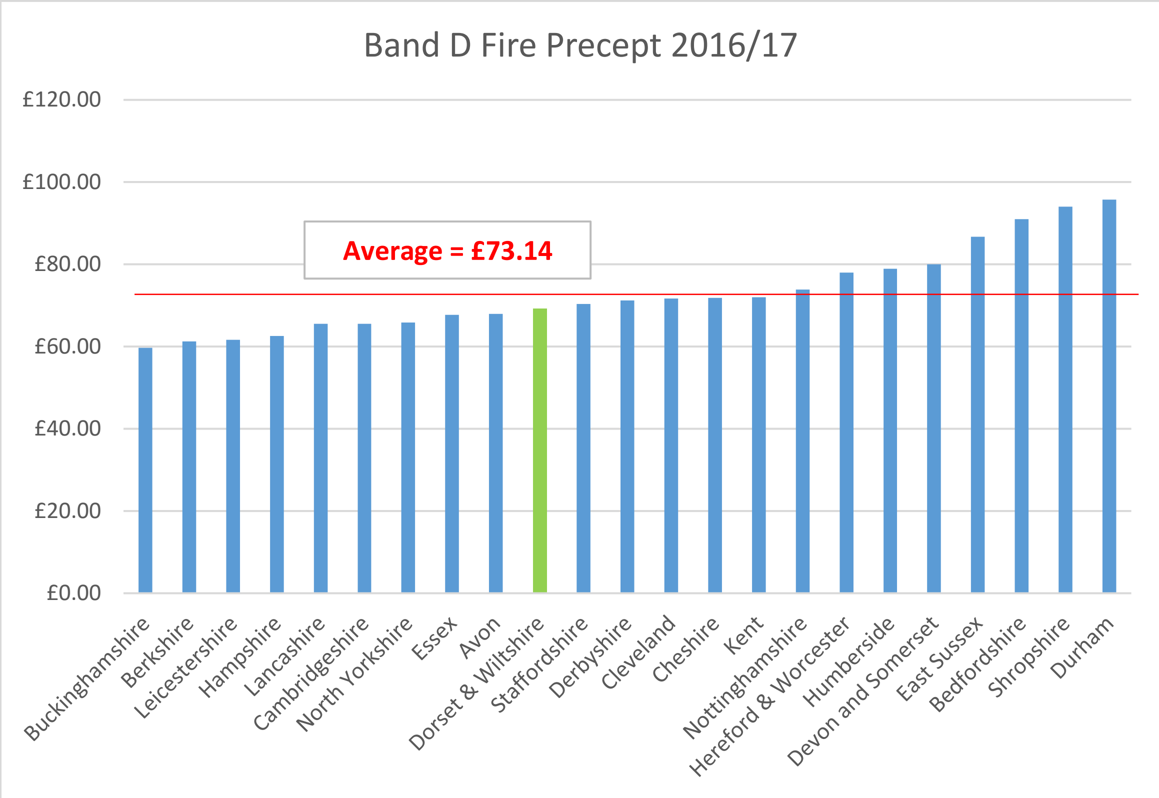
2.1.6 The Provisional Settlement for the period 2017/18 to 2019/20 is as largely predicted which was as a result of our four-year efficiency plan agreed by the Authority at its September meeting. Consultation on the provisional settlement concluded on 13 January 2017 and we expect to see the Government's response when the final settlement is announced in early February 2017.

2.2 Fire Precept

2.2.1 The former Fire Authorities of Dorset and Wiltshire and Swindon have both traditionally been low spending authorities. As a result, we too have suffered from being low funded authorities, receiving much lower than average funding from central Government, compared to other Fire Authorities.

2.2.2 The low level of funding inevitably places pressure on levels of fire precept/council tax. For 2016/17 the Dorset & Wiltshire Fire and Rescue Authority Band D fire precept figure was £69.21. This is much lower when compared to a national average for FRAs of £73.14 (see Chart below).

Chart 1: Band D fire precept 2016/17 (combined fire authorities)



2.2.3 We are unable to raise our precept to the national average level of £73.14, which would mean a 6% rise, because we would be in breach of the referendum threshold.

2.2.4 The Provisional Settlement for 2017/18 announced a council tax referendum threshold for 2017/18 of 2% for the Fire Authority. Some Authorities have been given the opportunity to increase their council tax by more than the 2% threshold. This will take in to account the cost of adult social care provision and have a limit of an additional 2% or 3% over this and the next two years, with a limit of 6% in the 3-year period. District Councils and Police and Crime Commissioners (PCCs) in the lower quartile for precept, have been allowed to increase their council tax by up to 2% or £5, whichever is the higher. For medium term financial planning purposes, and in line with Government assumptions, we have assumed that the 2% referendum cap will remain in force in future years.

2.2.5 Total fire precept funding is also impacted by increases in the taxbase, i.e. the number of Band D equivalent households in the Authority area. We have been notified by each billing authority of our taxbase figures for 2017/18. On average across the whole of the Authority area our taxbase has risen by 1.21%. Taking a prudent approach, for medium term financial planning purposes, we have adjusted our initial estimates, included in the Financial Principles paper to Policy and Resources Committee, to reflect taxbase increases of 1.0% for future years. This is in line with forecast increases expected by the billing authorities.

2.2.6 There are also one-off collection fund surpluses and deficits held at each of the billing authorities, which offset or add to the amount collected in the year in respect of council tax income. In total these amount to £530k for 2017/18 but these amounts are one-off windfalls and cannot be relied upon over the medium term.

2.3 **Funding Summary**

2.3.1 The table below shows the overall funding position taking account of potential precept increases available for 2017/18 together with reported taxbase increases, anticipated grant funding and Business Rates Retention (BRR):

	Option 1 1.99% increase	**Option 2 1.00% increase**	**Option 3 0% increase**
Taxbase	531,088	531,088	531,088
Fire Precept band D (£)	£70.59	£69.90	£69.21
Fire Precept (£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 Grant	0.249	0.249	0.249
Total Funding (£m)	**53.735**	**53.369**	**53.002**

3. Budget Requirement 2017/18

3.1 In determination of the budget 2017/18 there are a number of factors influencing the 2017/18 budget and the medium term financial plan, outside of the issues around precept and Government funding. These are considered below:

3.1.1 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.

3.1.2 Staffing costs assume 2% pay awards for all staff groups, which is considered prudent given successive years of pay restraint, inflationary forecasts and the consequential pressure on wage demands.

3.1.3 2017 Business Rates Revaluation – This shows some significant increases in the valuation of fire premises. After allowing for changes in valuation bands, which put more of our premises into the Small Business Rates category, and the potential for Transitional Relief, we have estimated additional costs of £136k for 2017/18. Costs will increase further in 2018 and 2019 as the Transitional Relief reduces.

3.1.4 Inflationary and contractual increases equating to approximately 1% on non-pay budgets.

3.1.5 Transitional work continues over the next few years to ensure that service provision is maintained and transition to the steady state is achieved. Much of this is associated with transition to the new organisational structure. The budgeted costs of the transition process are currently £4.358m with much of the costs being incurred in 2015/16 and 2016/17. £968k is included in the 2017/18 budget.

3.2 Taking all the changes into account, the Service Budget Requirement is £53.735m recommended for approval for 2017/18 is as follows:

	Budget 2017/18 £m
Base Budget	51.933
- 2016/17 Pay Award Adjustments	-0.219
- 2017/18 Pay Awards	0.602
- LGPS Contributions	0.175
- Other Inflationary Costs	0.198
- Transitional Costs	0.968
- Efficiencies	-0.379
- Apprenticeship Levy	0.150
- Business Rates	0.136
- Other Changes	0.172
Service Budget Requirement	**53.735**

3.3 Officers have exemplified three options for the fire precept Band D:

- Option 1: an increase of 1.99% (£1.38 per year)
- Option 2: an increase of 1% (£0.69 per year)
- Option 3: no increase.

3.4 Where deficits occur, there is a requirement to use reserves to balance the budget ie: £366k or £733k, will be required to be drawn from balances for Options 2 and 3 respectively. This breakdown is outlined in the table below:

	Option 1 2017/18 1.99% increase	Option 2 2017/18 1.00% increase	Option 3 2017/18 0% increase
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
Rural Services Delivery/Transition Grants	0.249	0.249	0.249
Total Revenue Funding (£m)	**53.735**	**53.369**	**53.002**
Estimated Service Budget 201718	**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. Medium Term Finance Plan

4.1 The Authority produces or updates the Medium Term Finance Plan (MTFP) on an annual basis. The 2017/18 Plan is attached at Appendix A and presented for approval.

4.2 The table below shows updated projections of the Authority’s budget requirement from 2017/18 to 2019/20, based on the following assumptions:

- Funding settlement 2017/18 to 2019/20 in accordance with the Finance Settlement announced in December 2016. These include reductions of 9.3%, 12.3%, 5.8% and 2.3% as part of the four-year settlement 2016/17 to 2019/20
- A 1.99% increase in fire precept Band D each year
- A 1.0% increase (on average) in taxbase each year
- Provision for 2% pay awards each year, where relevant
- An increase in business rates costs and an allowance for 1% non-pay inflation, plus contractual commitments
- Introduction of Apprenticeship Levy 2017/18, equivalent to 3% of pay bill
- Ongoing transitional costs funding staffing, redundancies, delayed notice period, pay protection etc

4.3 The table below shows the indicative funding available based on the assumptions above, over the period 2017/18 to 2019/20, assuming Option 1 for 2017/18.

Option 1: 1.99% increase each year	2017/18 £m	2018/19 £m	2019/20 £m
Taxbase	531,088	536,399	541,763
Fire Precept band D (£)	£70.59	£71.99	£73.42
Fire Precept (£m)	37.489	38.615	39.776
Collection fund surplus/deficit(-)(£m)	0.530	0.000	0.000
Revenue Support Grant (RSG)(£m)	5.704	4.493	3.795
BRR and Top Up grant (£m)	9.763	10.077	10.435
RSD/Transition Grant (£m)	0.249	0.030	0.039
Total Funding (£m)	**53.735**	**53.215**	**54.046**

4.4 The table below shows the indicative net budget requirements based on the assumptions above:

	Budget 2017/18 £m	Budget 2018/19 £m	Budget 2019/20 £m
Previous Year's Budget	55.070	53.735	53.728
Less One-Offs	-3.138	-0.906	-0.150
Base Budget	**51.933**	**52.829**	**53.578**
- 2016/17 Pay Award Adjustments	-0.219	0.000	0.000
- Pay Awards	0.602	0.759	0.765
- LGPS Contributions	0.175	0.000	0.000
- Other Inflationary/Contractual Costs	0.198	0.198	0.198
- Transitional Costs	0.968	0.215	0.100
- Efficiencies	-0.379	-0.215	-0.026
- Apprenticeship Levy	0.150	0.000	0.000
- Business Rates	0.136	0.050	0.050
- Other Changes	0.172	-0.109	0.372
Estimated Service Budget	**53.735**	**53.728**	**53.037**

Estimated Service Budget	**53.735**	**53.728**	**53.037**
Total Funding	**-53.735**	**-53.215**	**-54.046**
Budget Gap (surplus(+)/Deficit(-))	**0.000**	**-0.513**	**-0.991**

4.5 As can be seen from the table above, assuming a year on year 1.99% increase in fire precept (Option 1), there is still a significant estimated ongoing base budget gap in 2019/20 of £991k. In the medium term we will need to consider the use of our reserves and available resources to provide a sustainable budget position.

4.6 The Service will also need to use its revenue balances, transformation reserves and other earmarked reserves to support Service transformation and associated transition costs, ie: General Balances, Transformation Improvement Reserves, Capital Replacement Reserves and Capital receipts. The table below shows the starting point for general balances, and their expected use:

Trans General Balances	**Balance B/F 1 April £m**	**Transfers in/Out £m**	**Expected Use £m**	**Balance C/F 31 March £m**
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 underspending 2016/17		3.000		3.000
Less ESMCP & EMR contributions			-1.200	-1.200
Less MTFP Deficits			-0.254	-0.254
2016/17 Closing Balance				**7.114**
2017/18	7.114		0.000	**7.114**
2018/19	7.114		-0.513	**6.601**
2019/20	6.601		-0.991	**6.026**

4.7 Included in general reserves and balances is the 2016/17 forecast underspending of £3m, in line with the 2nd Quarter Financial Report presented to the Finance and Audit Committee, largely resulting mainly from difficulties in recruiting and retaining corporate staff to the desired staffing levels, which is now in a stronger position. The impact of this provides some flexibility in use of balances to deliver future efficiency savings and enhance service provision.

4.8 The predicted level of underspend for 2016/17, is unprecedented and is therefore not anticipated to occur in the future. Wholetime staffing resources are now closer to establishment, with 20 new firefighters (including four former apprentices) and six new firefighter apprentices joining the Service during 2016/17.

4.9 With an increase of just under 2% for 2017/18 and the next two years, then our forecast budget gap can be met from general balances that we have available. This reduces the level of general balances to just over £6m by March 2020.

4.10 The level of general balances allows flexibility and provide opportunities for further transformation and provides the ability to address issues and concerns that will help alleviate pressures and potential risks on the revenue budget:

- On-going annual capital investment beyond 2017/18, as grant funding for capital purposed has ceased
- The Authority has a property maintenance requirement to address of approximately £3m.
- The impact of the replacement national radios and communication system known as the Emergency Services Mobile Communications Programme (ESMCP) is evolving and as yet it is not clear if there will be any additional costs to the Service
- The Home Office now has responsibility for the Fire Service and it is not clear how this will affect the funding mechanism for fire, in particular its impact on Business Rates funding
- We have an ageing workforce, predominantly retained duty system (RDS) based staffing model through the rurality of Dorset and Wiltshire and vacancy management is a significant issue for the Service
- Sustainability of the RDS (on-call) is becoming more significant as the number of calls reduces
- The sustainability of our youth intervention initiatives, including salamander, troubled families, SPARC, cadets and Prince's Trust, is at risk due to pressures on partnership funding
- The Authority has indicated that it wishes to support further apprentices. The cost of 4 firefighter apprentices, is approximately £80k-£100k per year

4.11 The other two options for the level of fire precept (i.e. 1% (Option 2) and 0% (Option 3) increases in 2017/18) would require additional use of reserves and balances and mean increased estimated ongoing base budget deficits rising to £1.375m and £1.766m by the end of 2019/20.

	Option 1 £m (1.99% inc)	Option 2 £m (1% inc)	Option 3 £m (0% inc)
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 Gen Bals 2019/20	0.416	0.416	0.416
General Balances 31 March 2020	**6.026**	**4.901**	**3.767**

4.12 What all three options mean over the medium term, and the impact of the forecast surplus or deficit on our overall financial position, is shown in the summary Appendix B.

4.13 It is recommended therefore that Option 1 be considered for future sustainability ie: approve an increase in the fire precept Band D of £1.38 for 2017/18.

5. Capital Programme

5.1 Capital Expenditure Summary

5.1.1 Draft capital expenditure requirements for 2016/17 to 2019/20 are shown in the table below. The revised capital programme for 2016/17 as approved by the Authority in December 2016 totals £5.423m. The capital budget for 2017/18 recommended for approval is £11.160m.

Table: 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	3.831
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**	**5.548**
Financed by					
Prudential borrowing	-5.023	0.000	-6.607	-5.276	-5.548
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**	**-5.548**

5.2 **Property/ Estates - Station Improvements**

5.2.1 The 2017/18 programme includes the outcomes of a property condition survey, identifying the property assets in most need of attention now and over the next few years, based on risk and priority.

5.2.2 A full ‘fit for purpose’ review of the combined estate is currently being undertaken and the outcomes will inform future capital budget requirements beyond 2017/18.

5.3 **Vehicles**

5.3.1 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2017/18 capital programme includes the replacement requirements for two aerial ladder platform (ALP) appliances (2 @ £681k, £1.362m) and seven large fire appliances (7@ £308k, £2.156m). Officers are working up proposals through the Integrated Risk Management Programme (IRMP) process to determine whether further ALPs will be required to be replaced beyond 2017/18. 2018/19 and 2019/20 include replacements for a further two ALPs, and 19 large pumping appliances. A wider review of fleet will be completed to update the current vehicle replacement plan. Similar to the property estates review, the programme for 2017/18 is based on immediate requirements and future years are likely to changes subject to the reviews.

5.4 **Equipment**

5.4.1 The programme for equipment is made up of Operational Equipment and Personal Protective Equipment (PPE) requirements for the next few years, alongside additional training equipment and equipment for the reserve vehicles.

5.5 **Information Technology and Communications (ICT)**

5.5.1 Ongoing ICT infrastructure requirements to include hardware replacements, radios, mobile data terminals, mobile communications and Incident Assessment Centre equipment.

5.6 **Capital Financing**

5.6.1 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 as system of prudential borrowing.

5.6.2 The Service maintains a capital expenditure reserve at £4.456m as at 1 April 2016. These reserves will be used to help finance the 2016/17 and 2017/18 capital programmes.

5.6.3 The system of capital grants within the Fire Service no longer exists, and has been replaced with a capital and revenue grant bidding system open to all FRSs. We anticipate that no capital grants will be available for 2017/18.

5.6.4 Any shortfall of funding available to meet the capital programme is made up from prudential borrowing.

5.6.5 Prudential borrowing is undertaken usually at the end of the financial year in which the expenditure is incurred, the revenue costs of which are approximately £75k per £1m borrowed (based on interest rate of 3.5% and debt repayment of 4% over a 25-year period). The budget for future years beyond 2017/18, includes provision for prudential borrowing ie: £6.607m in 2018/19 (in respect of 2017/18 programme), £5.276m in 2019/20 (in respect of the 2018/19 programme) and £6.229m in 2020/21 (in respect of the 2019/20 programme).

5.6.6 As capital grant is no longer received to sustain capital expenditure, prudential borrowing will be required beyond 2019/20, and therefore funding through increases in precepts will be required to meet the additional costs of capital borrowing.

6. Reserves and Balances

6.1 General Balances and Reserves

6.1.1 General Balances are set aside as a safety net to cover unplanned and unbudgeted costs. 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. Following the latest review, we will be maintaining risk assessed general balances at £2.5m, a prudent level, equating to approximately 5% of the Authority's net budget requirement.

6.1.2 General Balances at the start of 2016/17 amount to £6.701m, and section 4.6 above shows how the level of balances would change over the period to 2019/20 assuming Option 1 for the 2017/18 budget is approved. By the end of 2019/20 the level of balances would have reduced to £6.026m. If the fire precept is not increased in 2017/18 (Option 3), but is in subsequent years, the level of balances would be reduced to £3.767m (see para 4.11 above).

6.2 Other Earmarked Reserves

6.2.1 The Authority has a number of other reserves earmarked for specific purposes.

6.2.2 The Authority manages its earmarked reserves to help deal with specific risks that cannot be managed within the annual revenue budget. For instance, this helps provide funds for service transformation, to reduce external debt and for other specific reasons.

6.2.3 Further detail regarding earmarked reserves is provided in the attached MTFP, Appendix A.

7. Fire Precept Band D Options

7.1 Increases in the taxbase (ie: equivalent Band D households) across the Authority area will provide additional funding of approximately £0.370m for a 1% increase. On average our taxbase is currently estimated to rise by 1.21% for 2017/18. We initially assumed 1.5% for planning purposes in the Medium Term Financial Plan, but moving forward we have revised this to 1% beyond 2017/18, in line with our partner assumptions.

7.2 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 income.

Initial estimates of Collection Fund surpluses currently amount to £530k for 2017/18. It must be stressed that these one-off 'windfall' amounts are not guaranteed to be sustainable in future years.

7.3 Three options for fire precept increases have been exemplified above. In summary they are:

7.3.1 Option 1 is for a fire precept Band D increase up to the cap for referendum purposes, ie: an increase of 1.99% (only £1.38 or 2.6 pence per week) for 2017/18 to £70.59, with a manageable estimated budget deficit in 2019/20 of £991k.

7.3.2 Option 2 is for a fire precept Band D increase of 1.00% to £69.90 in 2017/18. This option will require the use of balances of £366k to set a balanced budget. If the fire precept Band D is increased each year thereafter, by 2019/20 there will be an estimated on-going base budget deficit of at least £1.375m. This will mean that available general balances will rapidly deplete over the following years, with further ongoing pressures being unable to be funded.

7.3.3 Option 3 is for no fire precept Band D increase in 2017/18, ie: the fire precept to remain at £69.21 per Band D household. Option 3 requires even greater use of balances (£733k) to set a balanced budget for 2017/18. More worryingly, there will be an estimated on-going base budget deficit of £1.766m by 2019/20 meaning again, available balances will be rapidly depleted beyond this period. Again further significant cuts would be required as service provision will not be sustainable.

7.4 It is my recommendation that Option 1 is approved by Members, i.e. an increase in fire precept Band D of £1.38 to £70.59 for 2017/18 as per Appendix C.

8. Statutory Declarations

8.1 Robustness of the Estimates

8.1.1 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
- the adequacy of the financial reserves in the budget.

8.1.2 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'
- The prudential code, introduced under the Local Government Act 2003, which applies to capital financing and treasury management decisions

8.1.3 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 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.

8.1.4 The revenue and capital budgets can be regarded as robust and, although there are risks in the 2017/18 budgets, 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.

9. Summary & Key Messages

9.1 Following the budget seminars held on 29 November 2016 and 25 January 2017, the approval of the finance principles by the Policy and Resources Committee and the announcement of the provisional finance settlement on 14 December, this report outlines the revenue and capital budget proposals for 2017/18. The report highlights that over the next three years, based on our assumptions, reserves and balances will need to be used in order to balance budgets and continue the transformation programme. This is clearly shown in the attached Appendix A.

9.2 The net spending requirement has been established at £53.735m for 2017/18. In order to meet the budget requirement and taking into account the level of Government funding in the finance settlement, precept funding through Option 1 is recommended (i.e. increase the fire precept Band D by £1.38 to £70.59, an increase of 2.6p per week per Band D household). This is the most sustainable option, as ongoing base budget deficits with other options will require further significant budget reductions beyond 2019/20.

9.3 Capital programme requirements for 2017/18 equate to a £11.160m, which will be funded through prudential borrowing (£6.607m), transformation grant for the safety centre programme (£3.291m) and Capital Reserves (£1.262m).

9.4 We have a low fire precept Band D, well below the national average, and one of the highest government funding reductions (-12.3%) of all combined authorities. With an increase in fire precept Band D of 1.99%, only £1.38 for 2017/18, we will have a manageable ongoing budget deficit. We are able to invest in addressing our property maintenance backlog as well as investing in RDS, expanding the salary scheme to make it sustainable in the medium to longer term and improve our ability to retain our valuable members of staff. Our continued focus on delivering effective prevention arrangements is a critical part of our Community Safety Plan. The increase in the precept will also allow us to reinforce the arrangements and put extra resources into areas where we are unable to improve our response arrangements due to prohibitive costs. We will also be able to continue to use our brand and reputation to contribute towards achieving wider partner outcomes that will positively benefit all of our communities.

BENJAMIN ANSELL
Chief Fire Officer
February 2017