Item 21/09 Appendix C

DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Medium Term Finance Plan 2021-22 to 2024-25

February 2021

Contents

1. Introduction

1.1 This Medium Term Finance Plan (MTFP) sets out an outline financial strategy to meet the requirements of Members' agreed vision and strategic priorities as set out in the Community Safety Plan. The investment strategy is sufficiently robust enough to support the strategic intent of our approach to integrated risk management planning but has the flexibility to anticipate and react to changes in our operating environment.

1.2 The current financial context of the Authority is set by the funding outcomes from the Government's latest spending review. Future funding beyond 2021-22 is subject to the outcomes of the Spending Review 2021, which we hope will provide a full, multi-year spending review.

1.3 In developing our financial plans for 2021-22 onwards we have identified a number of financial scenarios. We have also ensured that our plans are reflective of the investment needs required to mitigate and manage our strategic risks. We have also carried out a sensitivity analysis on some key areas such as the impact of varying levels of fire precept increase.

1.4 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.

2. Key messages

- The Authority has below average costs and have found over £6.6m of annual savings since being formed in 2016
- The Service is rated as 'Good' in all areas of Efficiency, Effectiveness and People by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
- There are a significant number of strategic challenges facing the Authority
- Financial uncertainty, including the impacts from Covid-19 on local income, makes it difficult to do meaningful medium-term planning.
- Currently the Authority is forecasting budget deficits of £1.5m in 2022/23 rising to £3m in 2024/25
- Reserves will largely be exhausted over the lifetime of this plan unless savings are taken or income increased
- Increasing council tax flexibility remains a key issue if significant cuts are to be avoided.

3. Financial context

3.1 National context

3.1.1 2019-20 was the fourth and final year of the settlement relating to the 2015 Spending Review. The Government has been committed to reviewing the funding mechanism for all local authorities, moving towards a new Fair Funding Formula and introducing changes to the Business Rates Retention (BRR) scheme. In terms of BRR, this was originally looking at a 100% rates retention scheme but has more recently moved towards a 75% rates retention model.

3.1.2 The move to 75% business rates retention will reduce Government grant income further and increase the reliance on business rates. Under the current system, Fire receives 1% of business rates and a top-up grant from the Ministry for Housing, Communities and Local Government (MHCLG). The BRR system will be changing quite significantly, with the intention of reducing the volatility in the current system, but the impact on Fire is not clear yet. The introduction of any new systems has been delayed further, due to the coronavirus pandemic, and no changes will be made until 2022-23 at the earliest.

3.1.3 The Government had indicated that there would be a new multi-year Spending Review taking place in 2019, but this was replaced by a fast tracked one-year Spending Round covering 2020-21 only. The coronavirus pandemic has introduced further delay, with the Spending Review 2020 only providing a further one-year funding settlement. There will now be a full Spending Review taking place in 2021 and we expect this to provide a multi-year funding settlement.

3.2 **Impact on Dorset & Wiltshire Fire and Rescue Authority**

3.2.1 The impact on the Authority of national funding changes is shown in the table below. The Settlement Funding Assessment (SFA) is the Governments assessment of how much funding is allocated to each Authority and is made up of two parts, i.e.

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

Table: Settlement funding assessment (as at December 2020)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m	£m	£m	£m
Baseline funding level	9.478	9.567	9.763	10.056	10.286	10.454	10.454
Revenue Support Grant	9.948	8.069	5.704	4.493	3.796	3.857	3.878
Settlement funding assessment	19.426	17.636	15.467	14.549	14.082	14.311	14.332
Reduction in grant since 2015-16							**£5.1m**

3.2.2 From the table above it is evident that, despite the 'real' terms increases for 2020-21 and 2021-22, the Government's Settlement Funding Assessment for the Authority is reduced by approximately £5.1m over the period 2016-17 to 2021-22.

3.2.3 The Government argues that the impact of these funding reductions is much less than this, when taking into account the full funding resources available to local government. They justify this by publishing a 'Core Spending Power' calculation for each Authority. The latest details of this calculation for the Authority for the period up to 2021-22 are shown in the following extract (table below) from MHCLG's published figures.

Table: Government assessment of core spending power for the Authority

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m	£m	£m
Settlement funding assessment	17.636	15.467	14.549	14.082	14.311	14.332

Precepts (Council Tax)	36.316	37.489	39.348	41.239	42.397	43.857
Rural Services Delivery Grant	0.049	0.039	0.049	0.049	0.049	0.052
Transition Grant	0.167	0.210	0.000	0.000	0.000	0.000
Compensation for under-indexing business rates multiplier	0.138	0.147	0.230	0.335	0.419	0.545
Core spending power	**54.306**	**53.352**	**54.176**	**55.705**	**57.176**	**58.786**

3.2.4 Looking at this table, our Core Spending Power shows an increase of £1.57m or 2.8%. Unfortunately, this does not reflect the true reality of our funding position. The Precept, or Council Tax funding, shown for 2021-22 is based on an estimate of council taxbase that does not reflect the significant impact of coronavirus on council tax income. We expect our actual council tax income to be somewhat lower at £42.933m, although the Government is providing us with an additional one-off grant of £700k in 2021-22 only to help offset the difference.

3.2.5 Whilst we also welcome the ‘real’ terms increases in funding provided by the one-year settlements for 2020-21 and 2021-22, they do little to help with our medium-term financial planning and make it hard to be clear about timescales for the Service changes that will be required to deal with our forecast budget gaps. The longer-term picture will not now become clear until a full, multi-year Spending Review is hopefully carried out in 2021.

4. Service context

4.1 Strategic assessment of risk

4.1.1 To ensure that our Community Safety Plan (CSP) remains relevant and reflective of the wider landscape in which we operate, we undertake a biennial strategic assessment of risk.

4.1.2 This assessment examines a range of key factors that impact on our organisation from opportunities and challenges emerging from within the fire sector and those within the wider public-sector environment.

4.1.3 The assessment aims to help ensure that our planning and decision-making remains current and reflective of the landscape within which we operate. It is developed from analysis that draws on a broad range of information, data, and intelligence, looking both externally and internally and against risk and demand. All local resilience forum partners have been consulted during its production.

4.1.4 The document evidences a large number of key strategic issues facing the Authority within its current and future planning including:

- Financial uncertainty for the Authority and its partners is set to continue for the foreseeable future from several quarters including the UK exit arrangements from the EU and the need to address the national deficit
- There is a growing number of individuals and householders that the Service needs to engage with to reduce the number of deaths and serious injuries from fire or to prevent unnecessary hospital stays
- The number of people killed or seriously injured on our roads remains consistently high and needs to be further reduced
- The recruitment and retention of on-call firefighters will remain increasingly difficult with a significant impact upon the availability of appliances and costs
- The outcomes and findings of the Grenfell Tower inquiry and other reviews, such as the Dame Hackitt review, are likely to have a significant impact upon the fire sector particularly in the areas of current system of building regulations and fire safety. This will infer more statutory responsibilities and the need for significant investments in fire safety
- There is a need to ensure that the Authority plays its part in reducing the Service's environmental impact, which will need some one-off "Invest to Save" funding to generate longer term, ongoing savings as part of our efficiency plan
- The diversity of the workforce is not sufficiently reflective of the community we serve and the extensive programme of work needs to continue
- Due to the lack of wholetime recruitment, the Service has an ageing operational workforce giving rise to a potential increase in ill-health retirement costs
- There is a need to continue strengthening the work pursued within the Network Fire Service Partnership (NFSP) with our neighbouring fire and rescue services to upgrade the mobilising systems and drive costs and efficiency savings through borderless mobilising operational assets
- There is a continued need to engage and financially resource the emergency services' mobile communications programme to improve future resilience of communications and incident management as the Airwave system comes to end of its contract
- There is a need to further increase the financial investment in our ICT and associated management systems to ensure they remain fit for purpose and resilient to against cyber-attacks
- There is a requirement to consider the sustainability of our operational training centres, including the feasibility of developing a single, central and modernised training facility to further improve firefighter safety; reduce medium-term costs and mitigate the risks associated with the existing lease arrangements.

4.1.5 Our Resourcing and Savings Programme work (see next section) has looked to address the financial consequences of these strategic risks and issues and, where appropriate, this is included in our budget forecasts later in this document. We have also earmarked reserves that are available to support some of these issues and these are discussed in more detail in Section 8.

5. Efficiency and value for money

5.1 About our efficiency plans

5.1.1 Prior to their combination in April 2016, both legacy authorities were traditionally low spending and low funded organisations. They also received higher than average cuts to government grant when compared to other combined fire authorities. The new Authority continues to be a low spending, low funded organisation, but at the same time has been awarded three “Good” ratings in the first round of Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services inspection process.

5.2 Approach to securing greater value for money

5.2.1 There is a comprehensive approach to achieving value for money (VFM) that centres our efficiencies on:

- **Cashable savings**… money that we can redirect
- **Non-cashable savings**… savings in time or costs that are avoided
- **Savings to the wider public purse**… savings to our partners.

5.2.2 To help demonstrate our savings we benchmark our performance against ourselves and with others using key performance indicators. We also use unit costs that have been developed nationally or that we have developed to help show these savings.

5.2.3 Our approach to ensuring VFM is all encompassing and engrained in everything we do. More specifically we work hard at:

- reviewing the way deliver our services; sharing and adopting good practice where we think this can be done
- ensuring that our operational resources are best aligned to community risks by analysing risk and using good data
- eliminating unnecessary bureaucracy and by making the best use of technology
- putting in place and encouraging mobile working so that we avoid unnecessary travel time and costs
- rationalising the use of our estate and maximising the opportunities to share 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
- seeking external funding and partnership opportunities
- comparing our financial performance with our peers, using our own measures and through wider exercises such as the Basket of Goods' exercise
- ensuring sound governance and performance management.

5.3 Our efficiency journey so far

5.3.1 Since 1 April 2016 when the new Authority and Service was established, £6.7m of cashable efficiencies had been realised by March 2020.

	£m
Non-station based staff incl. senior management	3.720
Procurement and contracts	0.416
Estates	0.252
Service Control Centre	0.450
Smarter Working	0.034
Streamlining the Authority	0.055
Duty systems	1.670
Emergency response vehicles	0.064
TOTAL SAVINGS	**6.661**

5.4 Resourcing and Savings Programme

5.4.1 We recognised that despite our low funding position, and our excellent record of reducing costs, significant financial challenges remained. During 2020, along with responding to the challenges of the Covid-19 pandemic, we have been taking an in-depth look at Service finances to see where further savings and efficiencies could be achieved. The drivers for the Programme have been:

- Delivering further financial savings.
- Maintaining our statutory responsibilities.
- Addressing the issues arising from the Strategic Assessment of Risk.
- Protecting reserves to better support future reform and deliver further savings.
- Maintaining the sound reputation of the Service and ratings from Inspection.

5.4.2 In support of this we have:

- Costed all functions and budget lines across all departments, with some further savings achieved, including where we have been able to capitalise on opportunities arising from Covid-19, such as reduced fuel costs
- Zero based revenue budgets and reduced expenditure where appropriate
- Conducted in-depth and focused response reviews, based upon evidence, and discussions with staff and their representative bodies over all aspects of the Service including prevention, protection, response and support
- Fully considered staff suggestions for savings
- Developed our examination and recording of VFM more generally to explore specific issues. This work has included further strengthening our business case development process and our project and programme arrangements.

5.4.3 The focused response reviews have looked at:

- Technical rescue provision – we reviewed the specialist technical rescue provision and disposition from a Service-wide perspective with the aim of rationalising our approach in order to provide a more consistent delivery model in the most effective way, matching known demand and risk. This review concluded that our technical rescue resources would be best provided through a three-station model providing a full technical rescue capability at each station
- Aerial ladder platforms (ALPs) – we have three ALPs that are crewed by wholetime staff and one that is crewed by on-call staff. This review has looked at the number and disposition of these vehicles across the Service and has been aligned with the technical rescue review. We have been able to significantly reduce future capital spend by removing the requirement need to replace a fourth ALP when it comes to end of life
- ‘Second aways’ – we currently have fourteen solely on-call stations with a ‘second away’ pumping appliance and one wholetime station at Poole with a wholetime “second away". The locations of these appliances were determined by the Integrated Risk Management Plans of the two legacy Services. We have assessed the numbers and locations of these appliances against a range of factors including both current and future risk and demand, and current availability. The review has concluded that an initial five appliances can be removed over the long term from the capital investment programme without comprising our operational response arrangements. This provides both revenue and significant capital savings in future years helping to support a more affordable investment programme over the medium to long term
- Wholetime crewing review – we have explored the feasibility of further reducing watch strength at several wholetime stations whilst still maintaining technical rescue and aerial ladder capability. The review has concluded that there is scope to make further reductions should our financial position not improve

- Daytime duty systems – we reviewed the crewing model at Ferndown to determine the most suitable and cost-effective crewing model to meet current and future risk and demand. The review concluded that Ferndown could move to being an on-call only station. Provided our funding position allows, we will look to re-deploy resources to Amesbury where there is a greater risk and demand. This will be considered in more depth in 2021
- Attribute based response (ABR) – ABR will develop a system to count the number of individual people, or skill sets available, and mobilise these resources to each incident. This will help to improve service provision and ensure resources are used efficiently and effectively. ABR will be trialled in 2021.

5.4.4 The table below summarises the net savings that we have been able to make so far and which have been included in our 2021-22 budget and this plan.

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Capital financing	£0.660	£0.581	£0.747	£0.815
Workforce planning	£0.075	£0.200	£0.125	£0.000
Technical rescue	(£0.034)	£0.031	£0.032	£0.032
4th aerial ladder platform	£0.000	£0.000	£0.000	£0.100
‘Second away’ appliances	£0.000	£0.200	£0.204	£0.253
Protection	(£0.191)	(£0.391)	(£0.311)	(£0.311)
Prevention	£0.186	£0.171	£0.160	£0.160
Other net changes	£0.379	£0.547	£0.414	£0.314
TOTAL	**£1.075**	**£1.339**	**£1.371**	**£1.363**

5.5 Future plans

5.5.1 Section 6 sets out our budget and medium-term finance plan in detail. Taking account of the savings highlighted above, some other budget changes, and based on our planning assumptions for the period to 2024-25, we currently need to identify further savings, assuming that our funding position does not improve. Indicative budget gaps are as follows:

Table: Indicative Funding Gaps/Deficits

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Total Funding	57.031	57.841	58.491	59.214
Estimated Net Service Budget	57.031	59.287	60.748	62.322
Budget surplus(+)/deficit(-)	**£0.000**	**-£1.446**	**-£2.257**	**-£3.108**

5.5.2 These deficits are based upon the agreed financial assumption and represent a significant challenge going forward. We will continue to:

- scrutinise every line of expenditure and ensure avenues for cost reductions are taken
- ensure that our procurement considers “whole life cost” (i.e. acquisition cost, cost of maintenance and running costs, disposal cost etc.) of a purchase, as well as ensure its fitness for purpose (i.e. quality and ability to meet our requirements)
- collaborate on all significant procurements (over £100k), using pre–established frameworks, or developing frameworks, to maximise any partnership opportunities and economies of scale where it is practical and beneficial to do so
- benchmark our position against the Home Office’s ‘basket of goods’ exercise that has demonstrated below average costs are being secured.

5.5.3 In addition to the possibilities for further cuts so far identified that will be subject to further debate and future budget settlements, we will also be looking at:

- Ensuring that we are managing our staffing resources in the most efficient and effective way possible
- Revisiting our future capital programme requirements by examining a number and specifications of specialist vehicles
- Developing a business case for the delivery of a new central training facility
- Developing a strategic property transition plan to reduce costs, mitigate risks and to support the potential financing of a centralised and modernised training facility
- Reviewing the future scope of our prevention activity
- Reviewing our reserves strategy to ensure that we are maximising the opportunities it provides to deliver further transformation and savings, as well as ensuring that we are adequately protected from potential financial risks.

5.5.4 This work will progress throughout 2021, including regular scrutiny by the Authority, allowing us to develop our future budget plans and respond to the Spending Review 2021.

6. Budget 2021-22 and future years’ forecasting

6.1 Finance assumptions and principles

6.1.1 The key finance assumptions and principles have been updated to ensure that they remain reflective of both our operating environment and our agreed strategic risks. Forecasts, projections and examples within this MTFP are reflective of these assumptions and principles, which were discussed with Members in September 2020 and at our subsequent finance seminars in December 2020 and January 2021. They are:

	2020-21	2021-22	2022-23 onwards	financial impact of 1% variation
1. Change in government funding settlement	+1.6%	+0.15%	-5.0%	£143k
2. Change in council taxbase	+0.88%	-0.71%	+1.0%	£438k
3. Council tax referendum threshold	+2.0%	+2.0%	+2.0%	
4. Change in Band D council tax	+1.99%	+1.99%	+1.99%	£428k
5. Pay award - uniformed	+2.0%	+1.0%	+2.0%	£350k
6. Pay award - corporate	+2.75%	+1.0%	+2.0%	£125k
7. Non-pay inflation		+1.0%	+1.0%	£150k
8. Any residual revenue budget gap will require funding from the use of reserves				
9. Maintain general balances at 5% or £2.5m				

6.2 Funding

6.2.1 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)
- **Precepts** (council tax collected from local taxpayers).

6.2.2 Government support

6.2.3 The Provisional Local Government Finance Settlement announced on 17 December 2020 showed an anticipated funding increase of 0.15% in 2021-22. The Final Settlement is expected to confirm this in early February 2021. Overall, our Settlement Funding Assessment will have reduced from £19.426m (accumulated as two separate Authorities) in 2015-16 to £14.332 in 2021-22, representing a cash reduction of £5.1m or 26.2% over the period 2015-16 to 2021-22.

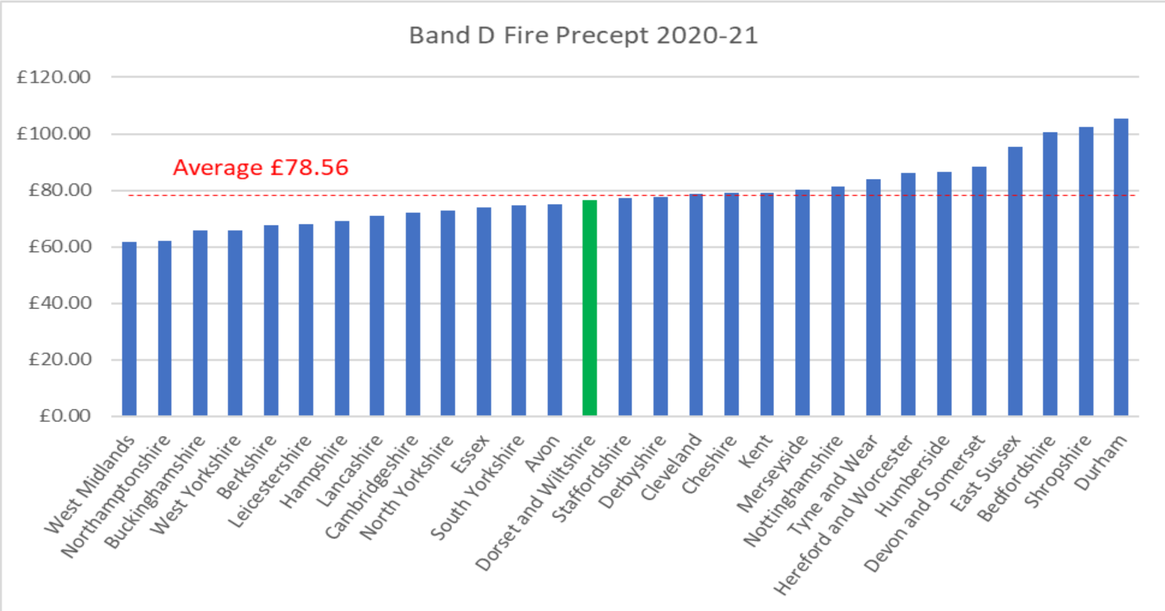
6.2.4 The settlement for 2021-22 followed the Government's one-year Spending Review for 2020. We expect the Government to carry out a full Spending Review in 2021, which will inform funding levels for the next three or four years. Acting prudently, we are assuming that there will be further reductions in Government funding each year from 2022-23 onwards with each 1% reduction in funding worth approximately £143k. Our assumption of a 5% reduction equates to an approximate £717k reduction in funding for 2022-23. We will keep these positions under review as we make our plans for 2022-23 onwards.

6.2.5 **Precepts**

6.2.6 The Authority has a history of being a low funding, low spending authority. Currently, only 25% of our funding is provided centrally, with the remaining 75% coming from local council tax funding. This reflects the £5m reduction in central funding that the Authority has seen since 2015-16.

6.2.7 The low level of funding inevitably places pressure on levels of fire precept. Our 2020-21 fire precept figure of £76.36 compares to a national average for all standalone FRAs of £78.56 (see graph below).

Graph: Band D Fire Precept 2020-21 (all standalone Fire and Rescue Authorities)



6.2.8 Raising our precept to the 2020-21 national average level of £78.56 would require an increase of £2.20 or 2.9%, breaching the current referendum threshold. For some time now, Members and Officers have been putting forward the case for local council tax flexibility and the option for a £5 de-minimis increase in the fire precept. The Spending Review bid submitted jointly by the National Fire Chiefs Council (NFCC) and Local Government Association (LGA) again put forward this option.

6.2.9 Despite these efforts there has so far been no change in approach from the Government. The provisional finance settlement consultation document included the following referendum principles for 2021-22:

- a core principle of up to 2%, applicable to shire counties, unitary authorities, London borough, the Greater London Authority general precept, and fire authorities
- a bespoke council tax referendum principle of 2% or £5, whichever is higher, for shire district councils
- an adult social care precept at an additional 3%, with an option to defer some or all its use into 2022-23

- a referendum principle of £15 for Police and Crime Commissioners
- no referendum principles for mayoral combined authorities or parishes.

6.2.10 The Provisional Settlement Consultation document again asked for views on this package of referendum principles and our response continues to put forward the compelling case for a £5 de-minimis increase for Fire. Section 6.6.4 illustrates the financial impact of a £5 increase for this authority.

6.2.11 It is anticipated that referendum principles will remain in operation at the 2% level for all Fire and Rescue Authorities beyond 2021-22 as per Finance Principle 3 above. For planning purposes in this MTFP, we are therefore assuming fire precept Band D council tax increases of 1.99% for 2021-22 and subsequent years, as per Principle 4.

6.2.12 A 1% change in fire precept Band D or a 1% change in taxbase equates to approximately £430k per annum.

6.2.13 Precept income is 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). On average across the whole of the Authority area our taxbase for 2021-22 has fallen by approximately 0.7% as a result of the increase in claims for local council tax support due to the economic impact of the coronavirus pandemic. This equates to a loss of funding of £739k compared to a 1% increase in taxbase. The Government has provided additional one-off grant funding of £700k for 2021-22 to help mitigate this shortfall, but the medium to long-term impact is not clear.

6.2.14 In establishing the indicative budget for 2021-22, funding from precepts to be issued to billing Authorities is estimated, based on a fire precept of £77.88 (a 1.99% increase) and the taxbase reduction of 0.7%, to be as follows:

Table: Estimated precepts – billing Authorities

Collecting Authority	**Taxbase 2021-22**	**Precept 2021-22 £000**
Bournemouth, Christchurch & Poole Council	139,170.50	10,839
Dorset Council	148,319.70	11,551
Swindon Borough Council	76,260.30	5,939
Wiltshire Council	187,517.35	14,604
TOTAL	**551,267.85**	**42,933**

6.2.15 Given our assumptions for taxbase and fire precept Band D, funding from Precepts is estimated as follows:

Table: Estimated funding from precepts

	2020-21 Actual	2021-22 Estimated	2022-23 Estimated	2023-24 Estimated	2024-25 Estimated
Band D increase	+1.99%	+1.99%	+1.99%	+1.99%	+1.99%
Taxbase change	+0.88%	-0.71%	+1.00%	+1.00%	+1.00%
Taxbase	555,221	551,268	556,781	562,349	567,972
Fire precept	£76.36	£77.88	£79.43	£81.01	£82.62
Precept	£42.397m	£42.933m	£44.225m	£45.556m	£46.926m

6.2.16 There are also one-off collection fund surpluses and deficits held by the billing authorities, which offset or add to the amount council tax income collected each year. In total, there is a deficit amount of £656k for 2021-22, compared to a surplus of £176k for 2020-21. This shows the significant adverse impact of the Coronavirus pandemic on council tax collection rates, and again, the increase in local council tax support claimants. Ordinarily this deficit would have to be funded entirely through the 2021-22 revenue budget, but new legislation has been enacted which requires all local authorities to spread any 2020-21 deficits over a 3three-year period. The charge for 2021-22 is £234k, with £211k then being charged in 2022-23 and 2023-24. MHCLG is providing a local tax guarantee which will fund 75% of irrecoverable council tax and business rates collection deficits via a special grant. We do not know the full details of this guarantee yet or how much funding might be received locally.

6.2.17 In summary, the table below shows the total funding assumed to 2024-25 based on the finance principles and assumptions above:

Table: Estimated Total Funding

	2020-21 Actual	2021-22 Estimated	2022-23 Estimated	2023-24 Estimated	2024-25 Estimated
	£m	£m	£m	£m	£m
Precept	42.397	42.933	44.225	45.556	46.926
Collection Fund Surplus	0.176	(0.234)	(0.211)	(0.211)	0.000
Revenue Support Grant	3.857	3.878	3.684	3.500	3.325
Baseline Funding Level	10.454	10.454	9.932	9.435	8.963
TOTAL	**56.884**	**57.031**	**57.630**	**58.280**	**59.214**

6.3 Pay costs

6.3.1 Pay and pensions expenditure accounts for approximately 80% 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.

6.3.2 Based on our agreed financial principles we would ordinarily assume a 2% pay award for all staff groups for next year, but following the Spending Review, we are aware that the Government is signalling a public sector pay freeze for 2021-22. Whilst being cognisant of this, the Fire and Local Government sectors are subject to separate national negotiation through their respective National Joint Council (NJC) bodies. We believe it is prudent to include some pay award provision in the budget but have reduced the assumption to 1% for 2021-22. Any increase above this would initially be funded from reserves but would clearly have a considerable ongoing base budget impact that would require funding from 2022-23. A 1% variation in the pay award is worth approximately £475k.

6.3.3 The risk assessment of our General Reserves and Balances includes the potential impact of pay variation, although this would only cover the in-year cost of an increased award and would not account for the cumulative effect in subsequent years.

6.3.4 The table below summarises the indicative additional costs of a 1% pay award for 2021-22 and 2% pay awards for future years.

Table: Estimated impact of pay awards

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Full year cost of pay award	0.476	0.951	0.964	0.987

6.3.5 The cost of firefighter pensions has increased significantly in recent years. In late 2018 we were notified of the Government's Actuary Department (GAD) latest valuation of the firefighters' pension fund. This confirmed a significant increase in employer contribution rates for 2019-20 onwards. The Government agreed to fund 90% of the additional costs in 2019-20 by way of Section 31 grant funding and this has continued 2020-21. We understand that this funding is now in base funding from the Home Office and may well be provided directly to fire authorities through the local government finance settlement from 2022-23. Our share of grant for 2021-22 and future years has been estimated at £2.7m in this MTFP.

6.3.6 We are likely to see a further increase in employer contribution rates for the FPS from April 2023 as the scheme picks up the costs associated with the McCloud remedy, associated with the age discrimination judgement and other FPS scheme valuation changes. Employer costs are estimated at £4.6m, at the 2015 scheme employer contribution rate of 28.8%. As an indication, an increase by 1% point would therefore cost around £160k per year, but we simply do not know what the impact might be at this stage.

6.3.7 We have also seen an increase in costs for the Local Government Pension Scheme. Following the latest triennial valuation, and a change to our employer contribution rate, our annual costs increased by an estimated £77k from April 2020.

6.4 **Other inflationary commitments**

6.4.1 The level of general inflation in the economy as a whole is growing and we continue to see price pressures in fire specific cost areas. We also need to apply inflation increases to budgets where there is a contractual or 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 £230k each year.

6.5 **2021-22 budget requirement**

6.5.1 Taking all of the changes into account, the net budget requirement for 2021-22 is £57.031m as summarised below:

Table: Budget requirement 2021-22

	Budget 2021-22 £m
Revenue Budget	
- Employees	49.322
- Premises	3.828
- Transport	1.278
- Supplies & services	5.063
- Agency & contracted out	2.285
- Democratic representation	0.110
- Capital financing/leasing	3.287
- Income	-7.544
- Transfers to/from reserves	-0.598
Net budget requirement	**57.031**

6.6 **Medium Term forecast**

6.6.1 The table below shows updated projections of the Authority's budget requirement from 2021-22 to 2024-25 based on the agreed Financial Principles, current data received from our constituent authorities, Service spending proposals and our Strategic Assessment of Risk, previously outlined in Section 3.

Table: Estimated revenue budget 2020-21 to 2024-25

Revenue budget	**2020-21 £m**	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
- Employees	48.191	49.322	49.582	50.379	51.538
- Premises	3.789	3.828	3.929	3.997	4.066
- Transport	1.495	1.278	1.312	1.324	1.316
- Supplies & services	5.240	5.063	5.132	5.204	5.310
- Contract out services	2.274	2.285	2.281	2.263	2.276

- Democratic rep	0.115	0.110	0.110	0.110	0.110
- Capital financing	3.280	3.287	3.981	4.165	4.434
- Reserve transfers	-6.697	-7.544	-6.982	-6.890	-6.929
- Income	-0.803	-0.598	-0.269	-0.015	0.201
Service budget requirement	**56.884**	**57.031**	**59.076**	**60.537**	**62.322**

6.6.2 Looking beyond 2021-22, based on our funding assumptions and forecast spending plans we have indicative funding deficits of £1.446m rising to £3.108m between 2022-23 and 2024-25 respectively:

Table: Indicative funding gaps/deficits

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Total Funding	57.031	57.630	58.280	59.214
Estimated Net Service Budget	57.031	59.076	60.537	62.322
Budget surplus (+) / deficit (-)	**£0.000**	**-£1.446**	**-£2.257**	**-£3.108**

6.6.3 Our assumption about future funding cuts impacts significantly on the projections shown, but without a multi-year settlement from Government, it is difficult to predict what the actual position might look like. If we look at a scenario where our government funding does not reduce by 5% each year, a ‘flat cash’ scenario, the medium-term projections would look like this:

Table: Indicative funding deficits, with ‘flat cash’ funding settlement

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Total funding	57.031	58.346	59.677	61.268
Estimated net service budget	57.031	59.076	60.537	62.322
Budget surplus (+) / deficit (-)	**£0.000**	**-£0.730**	**-£0.860**	**-£1.064**

6.6.4 We continue to lobby for increased flexibility around precept increases. The table below illustrates the significant beneficial impact of a £5 increase in the fire precept, which would deliver approximately £1.9m of additional funding.

Table: Indicative Funding Deficits, with £5 precept increase in 2022-23

	2021-22 £m	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Total Funding	57.031	59.550	60.259	61.253
Estimated Net Service Budget	57.031	59.076	60.537	62.322
Budget surplus (+) / deficit (-)	**£0.000**	**+£0.474**	**-£0.278**	**-£1.069**

6.6.5 To bridge the indicative budget deficits, the Service will use its reserves and balances to support Service transformation and the associated transition costs, and look to find further reductions in budgets and/or cost efficiencies through the Resourcing and Savings Programme.

7. Capital expenditure and financing

7.1 Capital expenditure programme

7.1.1 The capital programme, covering the anticipated revised programme for 2020-21 and requirements through to 2024-25, is shown in the table below. The revised amounts shown for 2020-21 include projects carried forward from 2019-20 and anticipated in-year changes to the programme.

7.1.2 The capital programme for 2021-22 totals £9.068m, the majority of which will require funding through prudential borrowing.

Table: Capital programme

	2020-21	2021-22	2022-23	2023-24	2024-25
	Estimate	**Indicative**	**Indicative**	**Indicative**	**Indicative**
Capital Budget	**£m**	**£m**	**£m**	**£m**	**£m**
Property/Estates	1.019	1.136	0.750	0.750	0.750
Vehicles	4.706	6.382	2.139	2.055	5.510
Equipment	0.269	0.526	0.114	0.150	0.150
ICT	1.045	1.024	0.636	0.275	0.325
TOTAL	**7.039**	**9.068**	**3.639**	**3.230**	**6.735**
Financed By					
Prudential Borrowing	6.884	8.912	3.639	3.230	6.735
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Other Earmarked Reserves/ Unapplied Grants	0.155	0.156	0.000	0.000	0.000
TOTAL	**7.039**	**9.068**	**3.639**	**3.230**	**6.735**

7.1.3 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2021-22 capital programme includes the completion of the project to replace nineteen large fire appliances, which has been delayed as a result of the pandemic. Over the next five years there is provision to replace a further twenty-five large fire appliances and eight 4x4 fire appliances. The programme takes account of the reviews in the Resourcing and Savings Programme including the planned reduction in second away appliances and removing the cost of purchasing a fourth new aerial appliance, estimated at £715k. The new programme assumes no ‘white’ fleet replacements over the next two financial years as we look to reduce the capital programme and re-assess our requirements post-pandemic.

7.1.4 The programme for equipment is made up of operational equipment and personal protective equipment (PPE) requirements. 2020-21 has seen the final completion of the major refresh of PPE costing approximately £1.6m. We had been planning for a major breathing apparatus (BA) replacement for 2023-24 at a similar cost of circa £1.6m, but this can now be significantly reduced. Carrying out a BA refresh during 2021-22 at a cost of £60k will extend the life of our current BA sets to 2031.

7.1.5 The programme also incorporates ongoing ICT requirements as determined by the 'ICT Roadmap' and this includes IT hardware and software replacements, communications equipment, systems and infrastructure.

7.1.6 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. This now reflects a seven-year refresh cycle, increased from the previous five-year refresh cycle. No provision has been made for major station replacements or enhancements.

7.2 Financing the capital programme

7.2.1 The table in 7.1.2 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, revenue contributions, specific grants and contributions and through prudential borrowing.

7.2.2 Capital receipts from the disposal of existing capital assets can only be used to fund expenditure on new capital assets. At the current time, all available capital receipts of the Authority have been used to finance previous capital expenditure programmes.

7.2.3 The Authority can make revenue contributions to the cost of its capital expenditure, either direct from its revenue budget or from earmarked reserves. There is no current base budget allocation for direct revenue contributions and earmarked capital reserves stood at £1m on 31 March 2020. Planned savings in the revenue budget allow us to release £2.7m from our Transformation Reserve to support capital financing. We are also able to release £319k from other reserves that are no longer required for their original purpose. Along with £100k that included in the revenue budget as an ongoing contribution to capital reserves, we are able to create a capital reserve fund of just over £4m to support future capital investment and reduce borrowing costs. We will also look to add to this reserve where we are able to find additional revenue budget savings.

7.2.4 Specific grants for capital funding are no longer available, having been replaced with a capital and revenue grant bidding system open to all FRSs, if and when monies are made available by Government. We do not anticipate any new capital grants for 2021-22.

7.2.5 Developer contributions, usually derived from Section 106 agreements, are awarded to mitigate the impact of developments on communities. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects or affordable housing schemes. At the present time the Authority is holding S106 funding totalling £407k and this in included in our capital reserve.

7.2.6 Further developers' contributions, through the Community Infrastructure Levy, may be available moving forward, but none are held at the current time and there are a number of stakeholders competing for these limited one-off funds.

7.2.7 The Authority will first utilise all of the funding streams highlighted above as the cheapest form of funding, but any shortfall of funding has to be made up from prudential borrowing.

7.2.8 The Prudential Code for Capital Expenditure for Local Authorities allows local authorities to undertake unsupported borrowing. This type of borrowing has revenue implications for the Authority in the form of financing costs, which vary depending on the amount and the length of any loan taken out. The Authority looks to match its borrowing with the lifespan of assets purchased.

7.2.9 The Authority has used internal borrowing for the financing the capital programme for a number of years, i.e. rather than borrowing we have used internal cash flows as this has been more efficient and economical, particularly as investment returns have been at such low levels. This has resulted in an under borrowing position of £9.7m on 31 March 2020, and we estimate this strategy has resulted in annual budget savings in excess of £0.5m. Such a position is not sustainable in the longer term and needs to be balanced with how we utilise our reserves and balances and ensuring that our cash balances are adequate. The Authority borrowed £4.4m in August 2019, and for medium term planning purposes, we have included the impact of borrowing an additional £4m before the end of the 2020-21 financial year to support cashflow.

7.2.10 The capital financing budget currently includes provision for further prudential borrowing of £8.9m in respect of 2021-22 programme, and then £13.6m potentially to be borrowed over the following three years to 2024-25. We will be able to reduce this borrowing requirement through the use of the new capital reserve funds that we are setting aside.

7.2.11 Within the Revenue Budgets for 2020-21 to 2024-25 (included in the table in paragraph 6.6.1, under capital financing) are the costs of prudential borrowing in respect of the previous years' capital programmes i.e. 2021-22 will include the capital financing costs of any prudential borrowing required in respect of the 2020-21 capital programme.

8. Reserves strategy

8.1 Introduction and background

8.1.1 The 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.

8.1.2 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

8.1.3 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 **-** ‘Local Authority Reserves and Balances’. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

8.1.4 In May 2018, the Government published the new Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy forms part of our Medium Term Finance Plan.

8.2 Strategic context

8.2.1 There are a number of reasons why a Fire and Rescue Authority might hold reserves, these include to:

(a) mitigate potential future risks such as increased demand and costs
(b) help absorb the costs of future liabilities
(c) temporarily plug a funding gap should resources be reduced suddenly
(d) enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax and
(e) spread the cost of large scale projects which span a number of years.

8.2.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

8.2.3 **Long-term sustainability –**reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.

8.2.4 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

8.2.5 There are two different types of reserve, and these are:

(a) ***General balances*** – this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs

(b) ***Earmarked reserves*** – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then unused earmarked reserves will be returned to General Balances.

8.2.6 ***Provisions*** are also held in addition to reserves providing funding for a liability or loss that is known with some certainty that is expected to occur in the future, but the timing and amount is less certain.

8.3 Risk assessment to determine the adequacy of general balances

8.3.1 As a well-managed Authority, we strive to maintain as low a level of General Balances as possible, whilst still covering our financial risks. Being a single-purpose authority, we have no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, our General Balance may be slightly higher than for a multi-purpose authority.

8.3.2 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments, have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

8.3.3 The Authority has set a Financial Principle for General Balances to be at £2.5m or 5% of the annual revenue budget, whichever is the higher. The level of General Balances will be managed within this Principle, with any amount in excess of £2.5m or 5% being transferred to the earmarked transformational improvement reserves.

8.3.4 The Financial Principle is a useful control measure but is a rudimentary way of assessing the adequacy of General Balances. A more meaningful approach is to develop a risk assessment. The Authority considers both measures as part of its annual reserve strategy.

8.3.5 A risk assessment of the adequacy of general balances is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the coming financial year, 2021-22, has been prepared as part of the budget setting process and is shown in appendix 1. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of just under £3m. At the start of 2021-22 general balances are expected to be £2.84m, representing 95% of the potential impact, and therefore it will not be necessary to amend the amount based on the current risk assessment as the difference is not considered material.

8.4 Annual review of earmarked reserves

8.4.1 The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves. As part of the annual review of reserves, earmarked reserves are presented in broad categories and analysed as outlined below.

<u>Earmarked reserves – investment for improvement</u>

8.4.2 A significant amount of funding has been set aside in reserves to support the change activity of the Authority through the delivery of the Community Safety Plan. 'Investment for improvement' reserves have, and are being, used to invest in transformation projects and the development of our people which will support the modernisation of the Service. Where we have been able to make base budget savings we plan to release transformation improvement reserves to support capital investment (see 8.4.4 below).

8.4.3 These 'investment for improvement' reserves, which are subject to regular review, are detailed below:

Table: Investment for improvement

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
Transformational improvement	**7.517**	-0.700	**6.817**	-6.817	**0.000**
Youth intervention	**0.190**	-0.067	**0.123**	-0.123	**0.000**
Leadership & organisational development	**0.306**	-0.102	**0.204**	-0.204	**0.000**
Apprenticeships	**0.024**	-0.024	**0.000**	0.000	**0.000**
TOTAL	**8.037**	-0.893	**7.144**	-7.144	**0.000**

Earmarked reserves - capital replacement and development

8.4.4 Previously the Authority has been able to use some reserves to offset long term borrowing in supporting its capital investment plans. The planned savings in the revenue budget allow us to release £2.7m from our Transformational Improvement Reserve to support future capital investment. Following review, £319k can also be released from other reserves that are no longer required for their original purpose. Along with £100k that is included in the revenue budget as an ongoing contribution to capital reserves, we are able to create a capital reserve fund of just over £4m to support future capital investment and reduce borrowing costs. We will also look to add to this reserve where we are able to find additional revenue budget savings moving forward.

8.4.5 Planning for the Capital Programme is undertaken as part of the annual budget setting programme and so each year the Authority has the opportunity to review the funding options of the programme. The forecast use of capital replacement reserves will be determined by that programme. Given that it is prudent to maintain the long-term strategy to reduce reliance on external borrowing to fund capital expenditure, we will look to set aside further funds for capital replacement wherever possible.

Table: Capital replacement and development reserves

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
Planning Gain	**0.407**	0.000	**0.407**	-0.407	**0.000**
Capital Replacement	**0.600**	3.119	**3.719**	-3.719	**0.000**
TOTAL	**1.007**	3.119	**4.126**	-4.126	**0.000**

Earmarked reserves - specific projects

8.4.6 The Authority may establish earmarked reserves for items which have been identified through a business case, to address a specific risk or complete a specific project. These may form part of the planning cycle, either addressing a risk or maintaining the status quo rather than being potential improvement activities. Expenditure will normally be spread over several financial years but there may be instances where a longer-term risk has been identified and provided for which may exceed the MTFP period.

8.4.7 These one-off reserves will be reviewed annually and either utilised, maintained or enhanced. Any unspent funds remaining at the end of any specific projects may be transferred to an alternative reserve, such as investment for improvement or Capital Replacement Reserve.

Table: Specific projects reserves

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
Service control	**0.436**	0.000	**0.436**	0.000	**0.436**
ESMCP	**0.799**	-0.100	**0.699**	-0.699	**0.000**
Emergency Medical Response	**0.200**	-0.200	**0.000**	0.000	**0.000**
TOTAL	**1.435**	-0.300	**1.135**	-0.699	**0.436**

8.4.8 Explanation of specific project reserves:

(a) ***Service Control Reserve*** – the Authority is part of a tri-service initiative through our Networked Fire Service Partnership (NFSP) with Devon & Somerset FRS and Hampshire FRS for the provision of Control functions. This reserve is used to support our share of any new investment required by NFSP

(b) ***Emergency Services Mobile Communications Programme (ESMCP)*** – the Authority has committed to be part of the ESMCP national project which provides the technology and network to allow Emergency Services a dedicated method of communication whilst being more financially efficient than its predecessor. Whilst funding has been allocated on a regional basis there is a need to support the project beyond the funding (which has been allocated for discrete time periods) because of the South West region being the last to transition which is why the reserve was established. The national project is currently under scrutiny of the Public Accounts Committee and may be subject to change or cancellation. If cancelled, there is a risk that the current Airwave facility will cost the Authority more although at this stage that cannot be quantified

(c) ***Emergency Medical Response*** – this reserve was originally set up to help support the costs of trialling new approaches to emergency medical response but is no longer required and will be moved to support capital investment.

Earmarked reserves – other reserves

8.4.9 Some reserves are earmarked for supporting any shortfalls in future revenue budgets which are identified during the development of the Medium Term Financial Plan.

8.4.10 These earmarked reserves, which are subject to regular review, are detailed below: -

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
Ill-Health Retirement	**0.499**	-0.196	**0.303**	-0.303	**0.000**
Hydrants	**0.119**	-0.119	**0.000**	0.000	**0.000**
Insurance	**1.272**	-0.050	**1.222**	-0.200	**1.022**
Safeguarding	**0.013**	-0.013	**0.000**	0.000	**0.000**
Leasing Rental	**0.496**	-0.085	**0.411**	-0.340	**0.071**
TOTAL	**2.399**	-0.463	**1.936**	-0.843	**1.093**

<u>Unused grants reserves</u>

8.4.11 These reserves relate to grants which have been given to the Authority, which have either not been fully spent or have been received in advance of intended spend. Where a grant has been received in advance, the Authority's policy is to transfer the funding to an earmarked reserve for spending in future years. Specifically, timing differences have arisen on a number of grants relating to Prevention, funding for National Resilience, Fire Protection, Transformation and Emergency Services Mobile Communications Project.

8.4.12 Other 'smaller' grants are reviewed annually as part of the budget process to assess whether they are still needed. It is not anticipated that any of the current balances will be carried forward beyond the medium term financial plan.

Table: Unused grants reserves

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
Prevention	**0.263**	-0.106	**0.157**	-0.114	**0.043**
National resilience	**0.265**	-0.053	**0.212**	-0.212	**0.000**
Fire protection	**0.000**	0.259	**0.259**	-0.259	**0.000**
Transformation grant	**0.864**	-0.260	**0.604**	-0.604	**0.000**
Emergency Services Mobile Communication Project (ESMCP)	**0.280**	-0.093	**0.187**	-0.187	**0.000**
Other small grants	**0.348**	0.380	**0.728**	-0.728	**0.000**
TOTAL	**2.020**	0.127	**2.147**	-2.104	**0.043**

8.5 **Summary - Projected reserve balances**

Table: Summary - Projected reserve balances

	Balance 1 Apr 20 £m	Forecast spend 20-21 £m	Forecast Balance 31 Mar 21 £m	Forecast spend 21-22 to 24-25 £m	Forecast Balance 31 Mar 25 £m
General reserves	**2.792**	**0.052**	**2.844**	**0.190**	**3.034**
Earmarked reserves	**12.878**	**1.463**	**14.341**	-12.812	**1.529**
Unused grants reserves	**2.020**	**0.127**	**2.147**	-2.104	**0.043**
TOTAL	**17.690**	1.642	**19.332**	-14.726	**4.606**

Appendix 1 – General reserves risk assessment

Budget	Budget Provision 2021-22 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2021-22 £m	Commentary
Wholetime and On-call Pay	32.748	Increase in employer contribution rates for the Firefighters Pension Schemes (FPSs)	High	0.480	Our employer contributions now total more than £4.5m per year. Future costs are likely to increase, particularly when considering the impact of the McCloud Sargeant age discrimination case remedy on pensions. A contingency sum equivalent to a 3-percentage point increase has been allowed against this risk.
Wholetime and On-call Pay	32.748	Risk of industrial action / inability to respond to emergency incidents	High	0.200	This continues to be a high risk given the financial pressures on all public sector organisations, the likelihood of further cuts in funding and potential for service changes, public sector pay negotiations and changes to public sector pensions. Amount based on historic costs. A nominal sum is assessed for sustained industrial action and business continuity measures.
Pay	46.574	Under-estimate of pay awards by 1.0%	High	0.475	The revenue budget allows for pay awards of 1%, reduced from 2% previously. Given that there have already been several years of pay restraint and increased pressure on public sector pay increases, it would be prudent to recognise this as a high financial risk. £475k would cover the full year effect of a 1% variation across all staffing groups.

Budget	Budget Provision 2021-22 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2021-22 £m	Commentary
On-call Pay	8.554	Impact on the On-call pay budget of large scale incidents or other periods of high activity such as those due to spate weather conditions	High	0.430	These sorts of events can all lead to significant increases in operational activity. As a largely On-call "pay as you go" services, this represents a particular risk to the Service and allowance needs to be made for increased activity and costs by On-Call firefighters. The budget for On-call firefighting is approximately £8.5m, so £430k represents around a 5% variation.
External Funding - Government	-14.322	Future reductions in Government funding are worse than planned / forecast	Medium	0.285	The Medium Term Financial Plan (MTFP) assumes that our Government funding will reduce by 5% each year beyond 2021/22. There is a potential for higher reductions given the economic impact of the Covid-19 pandemic and the substantial spending made by Government. A 2% variation would equate to roughly £285k.
External Funding - Precepts	-42.933	Collection rates for council tax and business rates are worse than forecast	Medium	0.450	Financial risk around income from council tax and business rates from billing authorities, which were already becoming more volatile, and presenting new funding risks for major precepting authorities, have increased further as a result of the Covid-19 pandemic. Our taxbase (equivalent band D properties) which was approximately 555k, has reduced slightly due to increases in claims for local council tax support. A variation of 1% could result a loss of more than £450k in income, plus the likelihood of Collection Fund deficits.

Budget	Budget Provision 2021-22 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2021-22 £m	Commentary
On-call Pay	8.554	Increased take up of pension entitlement by On-call Duty System personnel	Medium	0.100	Our revenue budgets do not allow for an increase in pension uptake, but this risk is more likely to materialise now, as a result of "automatic enrolment" and increasing numbers.
Legal Fees	0.114	Uninsured risks and / or unfavourable outcomes from claims against the Authority - including health and safety risks, procurement challenges, employment issues, etc	Low	0.100	The Authority maintains comprehensive insurance arrangements, but these cannot cover all possible risks or potential legal claims. For instance, there are some uninsured risks not covered, such as equal pay, negligence or discrimination claims.
Major Incident - Bellwin	N/A	Contribution to major incident not covered by Bellwin	Low	0.115	In the event of further incidents occurring in Dorset or Wiltshire that would be subject to a Bellwin Scheme claim the Authority would be required to make meet the initial costs up to the threshold, a contribution equivalent to 0.2% of its revenue budget, equating to approximately £115k.
Non-pay	10.691	Failure to adequately provide for non-pay inflation	Low	0.100	Our budgets allow for a small element of general price inflation, as well as specific contractual inflation in certain circumstances, however in the main, budgets are cash limited with no inflationary increase. This is not sustainable in the longer term.

Budget	Budget Provision 2021-22 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2021-22 £m	Commentary
Total Costs	57.265	General contingency for unidentified items	Medium	0.250	Given the current level of budget cuts and forecast future reductions there is a risk that the Service would be unable to manage a significant one off cost not covered specifically above. This could, for example, be a requirement to undertake some major unplanned property works. The combined assessment is less than the two individual assessments on the basis that the larger revenue budget provision should provide more scope to deal with significant in-year variations.
General Balances Risk Assessment (£m)				**2.985**	
Budget 21-22 (£m)				**57.265**	
General Balances Risk Assessment/Budget as a percentage(%)				**5.21%**	