Item 17/15

Appendix A

Dorset & Wiltshire Fire and Rescue Authority

Medium Term Finance Plan 2018-19 to 2020-21

October 2017

Contents

1. Introduction

1.1 This Medium Term Finance Plan (MTFP) updates the previous Dorset & Wiltshire Fire and Rescue Authority's (DWFRAs) MTFP. It 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 (IRMP) 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. The Joint Autumn Statement and Spending Review announced in November 2015, outlined the funding strategy for the period 2016-17 to 2019-20. Following submission of the Authority's Efficiency Plan and Strategy in the Autumn of 2016 our future funding model for the announced spending review period was confirmed in the finance settlement for 2017-18. The impact of this announcement is discussed on pages 4 and 5, along with a profile of how DWFRA compares with other Fire and Rescue Authorities (page 10).

1.3 As Members will be aware it has been confirmed by our auditors that the financial arrangements for the Authority are sound and our scenarios concerning our future financial profile have received audit assurance.

1.4 In developing our financial plans for 2018-19 onwards we have identified a number of financial scenarios. We have ensured that our plans are reflective of the investment needs required to mitigate and manage our agreed 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.

1.5 Our medium term projections bring together all of this work and reflect how our aspirations from the Community Safety Plan translate into our revenue and capital budget requirements. The table on page 13 shows our budget projections up to 2020-21.

1.6 Our capital investment needs to 2020-21 are also shown in Section 6, page 16. This shows our draft capital investment requirements, how we plan to finance this investment and the impact on the revenue budget.

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

1.8 This is a dynamic document, integral to our financial management and will be updated in response to national, regional and local issues when these affect the Authority's financial position.

1.9 The purpose of the report is to enable the Fire Authority to consider and assess the MTFP including the assumptions on funding from the Government up to 2020-21.

(As of date of printing, indicative figures are available to 2019-20 only, based on the 2017-18 final settlement.)

2. Financial Context

2.1 National context

2.1.1 As part of the final local government settlements for 2017-18, the Secretary of State for the Department of Communities and Local Government (DCLG) confirmed the four-year settlement offer to Authorities covering the period 2016-17 to 2019-20.

2.1.2 The detail of the last settlement for fire authorities, comparing 2019-20 with 2015-16, showed proposals giving an average reduction in funding across all fire authorities (excluding London) of 19.6%. For combined Fire Authorities, such as DWFRA, the average reduction was 21.9%, with DWFRA's actual reduction being 26.8%, the fourth worst settlement of all combined Fire Authorities. This reduction includes a 61.8% reduction in revenue support grant funding as overall funding moves further towards full funding from local business rates.

2.2 Impact on Dorset & Wiltshire Fire and Rescue Authority

2.2.1 The impact on DWFRA of these national funding changes is shown in the table below. The Settlement Funding Assessment is the Governments assessment of how much funding is allocated to each Authority and is made up of two parts, ie.

- Baseline Funding: the amount the Government expects the Fire Authority to receive from local Business Rates (BR) retention and top up grant
- Revenue Support Grant (RSG), centrally funded grant; 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 February 2017)

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

2.2.2 Members can see from the table that the Government's Settlement Funding Assessment for Dorset & Wiltshire Fire and Rescue Authority is reduced by some £3.5m over the period of three years to 2019-20.

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

Table: Government Assessment of Core Spending Power

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

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

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

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

2.2.4 Work is continuing in central Government to review and potentially redesign the funding system. As a result, any future offer will be subject to outcomes of that work.

2.2.5 Within the public sector as a whole, with spending pressures increasing as demand increases (eg. elderly and child care) and costs increasing above inflation, the current national financial environment is also less certain. This is particularly the case due to the uncertainty around Britain leaving the European Union (EU). As a result, we expect that financial austerity will continue beyond 2019-20.

3. Service Context

3.1 Investment linked to strategic risks register, revised ministerial focus and firefighter safety

3.1.1 Members will be familiar with the content of the strategic risk register which is reviewed by the Strategic Leadership Team (SLT) on a monthly basis and by the Finance, Governance and Audit Committee at each meeting. The Medium Term Financial Plan (MTFP) necessarily needs to be reflective of the issues identified within our Strategic Risk Register. This ensures that sufficient resources are available to deliver the agreed programmes of work and actions that manage and mitigate these high level corporate risks.

3.1.2 In order to make sure that the principles and content of this MTFP achieve this objective, the Chief Fire Officer tasked the Strategic Leadership Team (SLT) to undertake a resourcing review across all departments during the first quarter of the 2017-18 financial year. The resourcing review also offered the opportunity to look at where we potentially needed to strengthen some areas of the Service to reflect challenges and opportunities that emerged through:

- the introduction of the Policing and Crime Act 2017
- ministerial expectations in terms of workforce reform (influenced by the Thomas Review)
- feedback from staff through the 'Eyes and Ears' survey

3.1.3 The resourcing review also allowed each Head of Department to look at their structures to make sure that they were fit for purpose for the new organisation, as these had been developed during 2014-15 in the build up to combination. This work was, at the time, only reflective of past practices and expectations. Set out in the table below are those strategic risk and the future risk controls which were strengthened as a result of the resourcing review and a brief description of how this was achieved.

Strategic Risk	Future Risk Controls	Areas strengthened through the resourcing review
Failure to have a robust and financially sustainable on-call duty system to meet the needs of the Service. Risk 0009	• Create and maintain effective recruitment processes for the On-call duty system. • Implement the on-call review project deliverables. • Reduce managerial burden for on-call staff and managers.	Investment in uniformed operational trainers to allow more flexible delivery to on-call staff and to enhance firefighter safety. Introduction of uniformed support officers to help with on-call firefighter recruitment; assessment and development of core skills; delivering realistic training and strengthening community engagement. Improved HR capacity and resilience to make sure effective recruitment and retention practices can be delivered. Investment in ICT resources to implement the Smarter Ways of Working programme to enable on-call staff to access systems remotely and improve firefighter safety through remote learning and access to systems.
Failure to secure a one team approach to the new Service. Risk 0001	• Deliver the outcomes from the Eyes and Ears staff survey.	Improved HR capacity and resilience to better develop and implement team specific plans to address issues raised through the Eyes and Ears survey.

	• Deliver the Smarter working programme. • Deliver the procedural alignment programme – single ways of working • Progress against the systems migration plan.	Improved capacity in key areas such as Assets, Finance and HR to ensure compliance with health and safety legislation and audit regulations.
Failure to have a competent and resilient workforce to meet the future needs of the Service. Risk 0004	• Completion of the firefighter recruitment programme. • Develop a talent management process linked to workforce and succession planning, development pathways and leadership development. • Develop and implement a Service wide apprenticeship programme to maximise on the apprenticeship levy. • Strengthen our approach to strategic workforce planning.	Improved staff development capacity to help ensure we are able to maximise firefighter safety and develop our staff to meet the needs of the new Service. Strengthened our approach to workforce planning and reform to encourage a more diverse and resilient workforce to meet current and future demand pressures. Rolling out fitness standards across the new Service to improve firefighter safety. Improved the support to staff to develop their skills to keep pace with the technology and the information systems being introduced into the new Service. Invested in operational trainers to comply with increased training requirements arising from national occupational guidance and to broaden the delivery of training for firefighters.

3.1.4 The resourcing review was also a key element in ensuring the Service Delivery Plan 2017-18 remained focussed on delivering the Authority's vision and priorities through the Key Lines of Enquiry (KLOE) and associated departmental plans.

4. Efficiency and Value for Money

4.1 The creation of the new Fire and Rescue Authority in April 2016 put value for money at the heart of our governance arrangements. To ensure we achieved this we stated that we would:

- review the way in which we formally deliver our services; sharing and adopting good practice and maximising our future efficiency, effectiveness and economy
- eliminate unnecessary bureaucracy and making the best use of technology
- rationalise the use of our estate through robust asset management including exploring use of shared premises
- ensure that procurement decisions were business led and focused on whole life costs

- seek more from our contracts and the quality of goods and services provided
- pursue greater economies of scale and synergy by maximising our partnership opportunities
- seek external funding and partnership opportunities in order to support delivery of our priorities

4.2 During the lifetime of this plan, we will further drive efficiency and value for money by:

- Continuing to reinforce the need for strong corporate governance
- harmonising non station based resourcing
- maximising technology and mobile working
- progressing the concept of One public estate
- ensuring our available operational resources are best aligned to community risks, whilst ensuring firefighter safety remains a priority

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

4.4 The Government confirmed the offer of the four-year settlement to 2019-20 in relation to providing details of efficiency plans that are in place.

5. Budget 2018-19 and Future Years' Forecasting

5.1 Finance Principles

5.1.1 The key finance principles and assumptions adopted in the first year of the new DWFRA remain fit for purpose. However, they have been updated to ensure that they remain reflective of both our operating environment and our agreed strategic risks. Projections and examples within this MTFP are reflective of these assumptions and principles. They are:

(a) Government funding reductions of 5.8% and 2.3% in 2018-19 and 2019-20 respectively, as indicated in the 2017-18 finance settlement

(b) further central Government funding reductions assumed at 5% per annum (reflective of average reductions during the previous settlement period)

(c) tax base increases of 1.0% per annum

(d) fire precept Band D council tax increases of 1.99% per annum

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

(f) surpluses on collection fund balances of £250k per annum

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

(h) any residual revenue budget gap will require funding from the use of balances

(i) use excess general balances of approximately £5m-£6m to fund part of the capital programme, thereby reducing the need to borrow

5.2 Funding

5.2.1 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 tax payers)

Government Support

5.2.2 The latest finance settlement announced on 20 February 2017 confirmed anticipated funding reductions of 5.8% in 2018-19 and 2.3% in 2019-20. Overall our Settlement Funding Assessment will have reduced from £19.436m (accumulated as two separate Authorities) in 2015-16 to £14.230m in 2019-20, representing a cash reduction of £5.206m or 27% over the period 2015-16 to 2019-20.

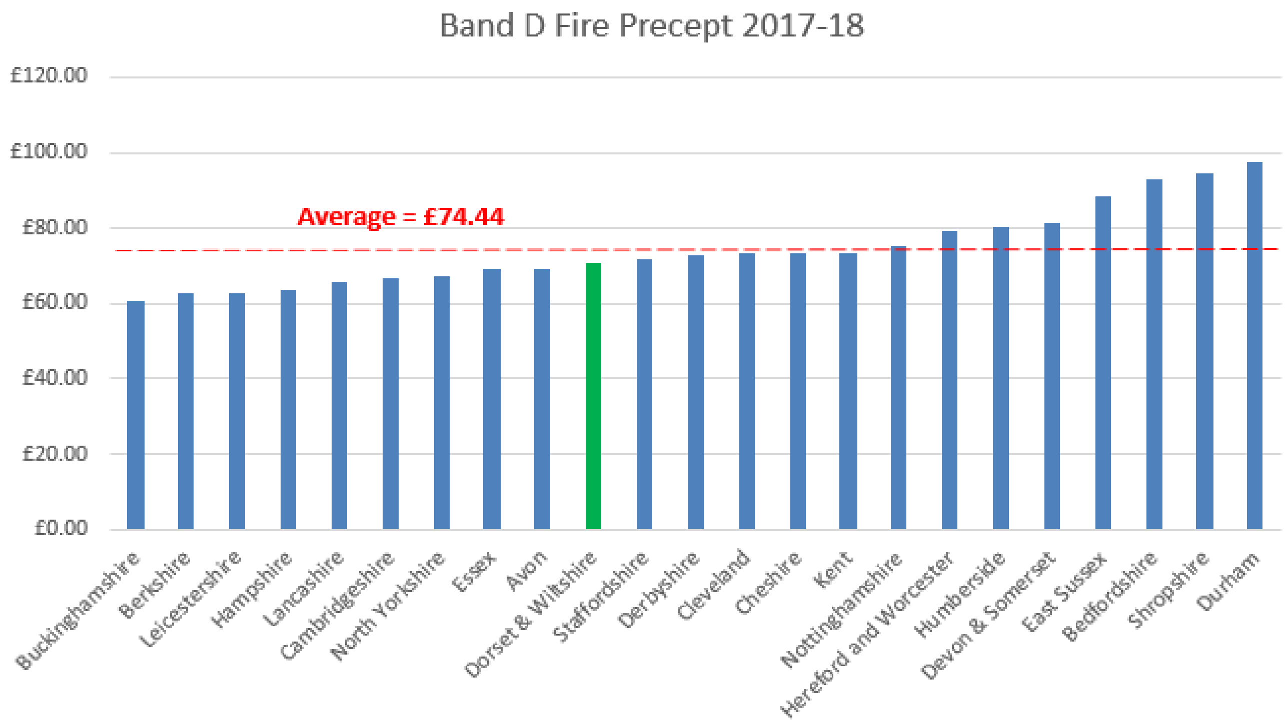
5.2.3 Although no Government announcement has been made regarding future funding beyond 2019-20, we anticipate that the austerity theme of the Government's fiscal policy will continue. As a result, we are assuming further reductions in Government Funding each year from 2020-21 onwards with each 1% reduction in funding worth £142k. Our assumption of a 5% reduction is therefore a £712k reduction in funding for 2020-21.

5.2.4 As Members will also be aware, responsibility for Fire within Government was transferred from the Department of Communities and Local Government (DCLG) to the Home Office in January 2017. As a result of this move, the funding model for Fire Authorities may change in the future. However, it is thought that this is unlikely to take place while negotiations relating to Britain leaving the European Union are taking place. As a consequence, no account has been taken of potential changes to future funding mechanisms within the MTFP.

Precepts

5.2.5 For 2017-18, the Dorset & Wiltshire Fire and Rescue Authority Band D fire precept was £70.59, compared to a national average for all Combined FRAs of £74.44 (see graph below).

Graph: Band D Fire Precept 2017-18 (all Combined Fire Authorities)



5.2.6 Precept Income is levied on the collecting authorities, and is based on a Band D council tax multiplied by the tax base ie. (the number of equivalent Band D dwellings in the area).

5.2.7 In establishing the indicative budget for 2018-19, funding from precepts is estimated based on a Band D fire precept of £71.99 (a 1.99% increase) and a tax base increase of 1%.

Collecting Authority	Taxbase 2018/19	Precept 2018/19 £
Bournemouth	62,377	4,490,507
Christchurch	19,820	1,426,859
East Dorset	37,413	2,693,393
North Dorset	26,169	1,883,921
Poole	56,930	4,098,366
Purbeck	19,243	1,385,276
Swindon	72,267	5,202,495
West Dorset	41,668	2,999,690

Weymouth & Portland	20,929	1,506,644
Wiltshire	179,583	12,928,190
TOTAL	**536,399**	**38,615,341**

5.2.8 For planning purposes in this MTFP we continue to assume annual increases in fire precept Band D council tax of 1.99% and tax base increases of 1% beyond 2018-19.

5.2.9 A 1% change in fire precept Band D equates to approximately £380k per annum. A 1% increase in tax base approximates to an additional £390k per annum in precept.

5.2.10 The increase of 1.99% has been used to remain below the referendum limit (established in 2012-13), which is notified each year by the Chancellor. The last funding settlement confirmed that the core referendum threshold would be maintained at the existing level of 2% for 2017-18, while district councils and lower quartile police and crime commissioners would have a referendum principle of 2% or £5 whichever is the higher.

5.2.11 Also within the last finance settlement, the Government allowed an adult social care council tax precept of 2% or 3% (Maximum 6% in the three-year period) in addition to the core referendum threshold. This allowed those councils with responsibility for adult social care to guarantee additional funding would be passported to provide elderly care services.

5.2.12 The consultation on the next finance settlement has outlined that these principles will continue to apply for 2018-19. It is therefore anticipated that referendum principles will remain in operation at the 2% level for all Fire and Rescue Authorities.

5.2.13 Given the assumptions for increases in tax base and planning assumptions on fire precept Band D increases of 1.99%, funding from Precepts is estimated as follows:

	2017-18	**2018-19**	**2019-20**	**2020-21**
	Actual	Estimated	Estimated	Estimated
Assumed Band D increase	1.99%	1.99%	1.99%	1.99%
Assumed taxbase increase	1.21%	1.00%	1.00%	1.00%
Taxbase	531,088	536,399	541,763	547,180
Fire Precept Band D	£70.59	£71.99	£73.42	£74.88
Precept (£m)	£37.489m	£38.615m	£39.776m	£40.973m

5.2.14 Traditionally the collecting authorities have, in the majority of cases, reported accumulated collection fund surpluses primarily due to better than expected collection rates. Deficits can also occur, so for planning purposes prudence suggests that a relatively small allowance should be assumed for collection fund surpluses eg. £250k per annum.

5.2.15 In summary, the table below shows the total funding assumed to 2020-21 based on finance principles and assumptions in para 5.1.1 above:

	2017-18	**2018-19**	**2019-20**	**2020-21**
	Actual	Estimated	Estimated	Estimated
Precepts	£37.489m	£38.615m	£39.776m	£40.973m
Collection Fund Surplus	£0.530m	£0.250m	£0.250m	£0.250m
Baseline Funding (business rates and top-up grant)	£9.763m	£10.077m	£10.435m	£9.913m
Revenue Support Gant	£5.704m	£4.493m	£3.796m	£3.606m
TOTAL	**£53.486m**	**£53.435m**	**£54.257m**	**£54.742m**

5.3 Pay Costs

5.3.1 Pay and pensions expenditure accounts for approximately 75%+ 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.

5.3.2 In successive Autumn Statements, the Chancellor has commented and announced plans for restraint on public sector pay, with a policy to restrict pay awards at an average of 1%. This is now being significantly challenged and there is pressure on the Government to remove the pay cap for public sector workers.

5.3.3 Our assumptions include provision for a 2% average pay award for all staff to 2019-20, where not already negotiated and agreed. The 2% assumption is considered prudent given the level of pay restraint that has been in place for a number of years and continuing inflationary pressure generally.

5.3.4 The table below summarises the estimated additional costs of 2% pay awards over the life of this plan.

Table: Impact of 2% pay awards

	2018-19	**2019-20**	**2020-21**
Cost of Pay Awards	£759k	£765k	£792k

5.3.5 Firefighters pay is still being reviewed for 2017-18, with an offer of 2% from July 2017 and a further increase of 3% on 1 April 2018 (although this has been offered under the assumption that this be funded by Government) having been rejected by the Fire Brigades Union. The proposed additional 3% pay offer on 1 April 2018 is likely to cost around £900k per annum. This is not included in the budgets as yet, as the offer was on the presumption that Government funding would follow. One example of how this could be achieved is if the council tax referendum limits were relaxed. If council tax rose by 4.5%-5% in 2018/19, rather than 2%, the additional income would cover the 3% pay increase from 1 April 2018 for firefighters.

5.3.6 The cost of pay awards is a significant risk factor for our budget. The cost of underestimating pay awards by 1% is approximately £350k-£400k for a full year. We have included provision for underestimating pay awards in our general reserves risk assessment, although this will only cover the in-year cost and will not account for the cumulative effect in subsequent years.

5.4 Other Inflationary Commitments

5.4.1 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 £175k each year.

5.5 Medium Term Forecast

5.5.1 The table below shows updated projections of the Authority's budget requirement from 2018-19 to 2020-21 based on financial principles and assumptions referred to earlier in the Plan, and with the following additional spending proposals:

- Increased costs of Business Rates from the 2017 valuation list
- Additional investment of £574k in 2017-18 and 2018-19 on our Retained On-call Duty staff, addressing issues of recruitment and retention
- Savings on Wholetime crewing efficiencies in 2017-18 of just under £500k, with further work being undertaken to deliver additional savings
- Net departmental transition cost adjustments and additional pension funding requirements aligned to managing strategic risks
- Additional uniformed pension costs re: reassessment of Government Actuary Department (GAD) discount factors
- One-off spending over the next few years, funded from earmarked reserves

Revenue Budget 2018-19 to 2020-21

	2018-19 £m	2019-20 £m	2020-21 £m
Revenue Budget			
- Employees	39.068	40.040	40.622
- Other Employees	2.856	2.868	2.868
- Premises	3.146	3.196	3.196
- Transport	1.568	1.568	1.468
- Supplies and Services	4.418	4.456	4.456
- Agency & Contracted Out	2.360	2.358	2.322

- Democratic Representation	0.113	0.113	0.113
- Capital Financing/Leasing	2.900	3.466	4.103
- Transfers to Reserves	-0.243	-0.027	0.100
- Income	-2.893	-2.952	-2.913
- Inflation	0.175	0.350	0.525
Service Budget Requirement	**53.468**	**55.436**	**56.860**

5.5.2 Current spending plans do not yet include the ongoing costs of the Emergency Service Mobile Communications Project (ESMCP), a national project designed to replace the current 'Airwave' system with significant technological improvements, which is due to be delivered in our South West region by the end of 2019. Associated one off project management and equipment costs are estimated at £1m and will be funded from an earmarked reserve.

5.5.3 Emergency Medical Response is also not yet included in our spending plans. Currently, co-responder provision by the Fire Service is being reviewed nationally, with the Ambulance Service model looking to change in respect of the Fire Service provision. This has the potential to result in further opportunities for the Fire Service around alternative medical response. Development work is anticipated and earmarked funds of £200k have been set aside.

5.5.4 Looking beyond 2018-19 the medium term position, based on fire precept increases of 1.99% as per the financial principles and assumptions, shows indicative funding deficits of £1.179m and £2.118m in 2019-20 and 2020-21 respectively:

	2018-19 £m	**2019-20 £m**	**2020-21 £m**
Net Budget Requirement	53.468	55.436	56.860
Total Funding	-53.435	54.257	54.742
Budget Gap (deficit)	**0.033**	**1.179**	**2.118**

5.5.5 To bridge the indicative budget deficits the Service will use its general balances, transformation reserves and other earmarked reserves, to support Service transformation and associated transition costs; and look to find further reductions in budgets and/or cost efficiencies through the Communities Programme.

5.5.6 Members will be familiar with elements of the Communities programme which will aim to bridge the financial gap in revenue funding by developing working practices that are more efficient while maintaining firefighter safety. The agreed principles for the Communities Programme are that:

- there will be no significant increase in risk to the community
- there will be no compromise to firefighter safety
- collaboration will be at the heart of all thinking

- effective consultation and engagement will be a key part of the programme
- we will look beyond existing terms and conditions
- we will be more innovative and less risk averse
- we will look broader than traditional FRS activities
- non-statutory response activities will need to be cost neutral
- we will mobilise sufficient resources to ensure safe systems of work

5.5.7 General balances (see section 7.2) include the current 2017-18 forecast underspending of £0.937m. This results mainly from difficulties in recruiting and retaining staff to the desired staffing levels, which is being addressed, and a number of unexpected one-off amounts. The impact of this provides some flexibility in use of balances to deliver future efficiency savings and enhance service provision.

5.5.8 Taking all of the details above into account the Service budget requirement for 2018-19 is anticipated to be £53.468m. Two example options for the level of fire precept for 2018-19 are shown in the table below, resulting in indicative budget variances. A 1% change in fire precept amounts to approximately £370k - £380k additional income each year.

Table: Fire Precept Exemplifications for 2018-19

	Option 1 2018-19 1.99%	**Option2 2018-19 4.5%**
Taxbase	536,399	536,399
Fire Precept Band D (£)	£71.99	£73.77
Fire Precept Income (£m)	38.615	39.570
Collection fund surplus/deficit(-)(£m)	0.250	0.250
RSG/BR & Top-Up Grant(£m)	14.570	14.570
Total Revenue Funding (£m)	**53.435**	**54.390**
Estimated Service Budget 2018-19 (excl. 3% firefighters pay award 1 April 2018)	53.468	53.468
Additional 3% firefighters pay award April 18	n/a	0.864
Estimated Service Budget 2018-19	**53.468**	**54.332**
Budget Surplus/deficit(-)	**-0.033**	**0.058**

5.5.9 Example Option 1 (fire precept increase at 1.99%) means contributions from reserves are required to balance the budget of £33k. Example Option 2 (fire precept increase at 4.5%) would only be possible if the referendum limit principles didn't apply. This would allow sufficient income to be raised to cover the additional 3% firefighters pay award from 1 April 2018 (see para 5.3.5).

5.5.10 Effectively the budget for 2018-19 can be balanced without the need for significant use of balances (based on our planning assumptions). Balancing the budget for 2018-19 provides opportunities for service development, and the ability to address some issues and concerns that could alleviate pressures on future revenue budgets, especially:

- Developing and delivering savings through the Communities Programme, looking at options for crewing reviews
- Continuing to invest in the improvement in availability and response of the Retained duty system (RDS) (On-call Duty System), addressing the sustainability of the On-call Duty System.

6. Capital Expenditure and Financing

6.1 Capital Expenditure Programme

6.1.1 The capital programme, covering the anticipated revised programme for 2017-18 and requirements through to 2020-21, is shown in the table below. The revised amounts shown for 2017-18 include projects carried forward from 2016-17 and anticipated in year changes to the programme.

6.1.2 The programme for 2017-18 also assumes the use of the capital replacement reserves (£3.991m) and use of balances through Direct Revenue Financing (£5m) to fund part of the programme. The impact of this is to save approximately £400k in the revenue capital financing charge.

6.1.3 The capital programme for 2018-19 totals £10.968m, the large proportion of which includes expenditure funded from grants and match funding (£3.750m) for the new Safety Centre at Wroughton.

	Revised Indicative Budget 2017-18 £m	**Indicative Budget 2018-19 £m**	**Indicative Budget 2019-20 £m**	**Indicative Budget 2020-21 £m**
Capital Expenditure				
Property/Estates	2.062	5.091	0.825	0.938
Vehicles	6.472	5.111	4.198	1.775
Equipment	0.306	0.171	0.750	0.750
ICT	1.385	0.595	0.210	0.550
TOTAL	**10.225**	**10.968**	**5.983**	**4.013**
Financed by				
Prudential borrowing	0.273	-7.218	-5.983	-4.013
Transformation Grant	-0.961	-1.750	0.000	0.000
Capital Receipts	0.000	-1.000	0.000	0.000
Direct Revenue Financing/Grants	-5.000	0.000	0.000	0.000
Capital Reserves	-3.991	-1.000	0.000	0.000
TOTAL	**-10.225**	**-10.968**	**-5.983**	**-4.013**

6.1.4 The 2018-19 capital programme also includes the replacement requirements for an aerial ladder platform (ALP) (£781k) and ten large fire appliances (ten @ £308k, £3.08m). Decisions are awaited to determine whether a further ALP will be required to be replaced beyond 2018-19. 2019-20 includes the replacement of a further nine large pumping appliances.

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

6.2 Financing the Capital Programme

6.2.1 The table in 6.1.3 above also shows the assumptions currently being made about financing the capital programme. Capital expenditure is generally funded by a number of sources, namely capital receipts, direct revenue contributions, specific capital grants and, under the capital accounting regime in respect of local authority capital accounting, through prudential borrowing.

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

6.2.3 Given our level of reserves and balances we have used surplus cash balances as a temporary measure to fund previous years' capital programmes. This has resulted in an under borrowing position of approximately £15m, as at 31 March 2017, ie. rather than borrowing we have used internal cash flow to fund the capital programmes as it has been more efficient and economical to do so.

6.2.4 In the short term this under borrowing has resulted in annual budget savings of around £525k per annum, based on an interest rate of 3.5%. Such a position is not sustainable in the longer term, particularly as our reserves and balances are utilised to support the medium term finance plan, eroding the level of cash balances we hold. For medium term planning purposes, we have included the impact of borrowing an additional £7m in October 2018 to reduce the level of under borrowing to £8m. This position will need to be reviewed further in the coming months.

6.2.5 Within the Revenue Budgets for 2017-18 to 2019-20 (included in Table at para 5.5.1, under capital financing) are the costs of prudential borrowing in respect of the previous years' capital programmes i.e. 2019-20 will include the capital financing costs of the prudential borrowing required of £7.218m from the 2018-19 capital programme.

6.2.6 Future capital requirements arising from the Communities Programme and in particular around assets ie. stations and vehicles, will potentially impact on 2018-19 and beyond. Therefore, it is anticipated that programmes identified in 2019-20 and beyond will be adjusted to reflect any new requirements following the outcome of the Communities Programme. In particular, there may be options around replacing large pumping appliances (see para 6.1.4 above re: replacement of a further nine large pumping appliances 2019-20).

6.2.7 Beyond 2018-19, the capital programme will be funded through prudential borrowing as all other available capital funding resources would have been exhausted. The long term affordability will need to be addressed over the next few years.

7. Reserves and Balances

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

7.2 General Balances and Reserves

7.2.1 General Balances were risk assessed at £2.5m, following a review against the strategic risk register and other financial risks (approximately 5% of the Authority's net budget requirement).

7.2.2 Taking into account applications and transfers expected over the next few years to 2020-21, available general balances are estimated to amount to just over £3.1m (based on 1.99% increases in fire precept each year) and higher than the £2.5m risk assessed reserves balance to be maintained.

General Balances and Reserves	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
General Balances at 1 April	10.125	5.125	6.029	4.851
Transfers to General Bals				0.416
Capital Funding	-5.000			
Add Predicted Underspending 2017-18		0.937		
Budget Deficit/Gap		-0.033	-1.178	-2.118
Available General Bals at 31 March	**5.125**	**6.029**	**4.851**	**3.149**

7.2.3 Available balances and reserves are eroding, and base budgets are running with an estimated annual deficit of £2.118m in 2020-21 if savings aren't found through reviewing Services.

7.3 Earmarked Reserves

7.3.1 Earmarked reserves are also held to provide funds to meet future known or predicted financial costs or liabilities. They help deal with specific risks that cannot be managed within the annual revenue budget or where significant fluctuations in budget or council tax would be required.

7.3.2 The table below shows a summary of the Authority's current earmarked reserves and indicative plans for their use over the next few years. These are expected to reduce from £12.536m to £1.971m by 2020-21.

7.3.3 Explanation of main reserves:

Ill health and injury pensions – since 2006 individual fire and rescue services have been responsible for the costs of ill health and injury pensions, including related additional lump sum payments that we may be required to pay. For a firefighter these payments can range between £40k and £120k, with higher amounts payable for more senior ranks.

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

Transformation Improvement – this is funding previously set aside to support further Service transformation programmes and to support risk mitigation measures set out in the strategic risk register.

Capital Replacement – set aside funds to support future capital expenditure and reduce the requirement to undertake long term borrowing. It is the intention to fully utilise this reserve in 2017-18.

Combined Service Control Centre contingency – funds set aside to finance the additional costs of setting up the joint command and control centre for Dorset & Wiltshire Fire and Rescue Authority, for example staff transition costs up to 2019-20, after which the remaining balance will be transferred to general reserves.

Safety Centre – as part of the bid for Transformation Funding the new Authority agreed to provide £1m of matched funding to support the development of the new safety centre in the north of the Authority area. This is expected to be used in 2018-19.

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

Summary of Earmarked Reserves:

Earmarked Reserves	Balance as at 01/04/17 £m	Expected use 2017-18 £m	Expected use 2018-19 £m	Expected use 2019-20 £m	Expected use 2020-21 £m £m	Transfer to General Balances £m	Balance as at 31/03/21 £m
Hydrants	0.119	-0.059	-0.060				0.000
Ill Health Retirement	0.705	-0.040	-0.113	-0.050	-0.050		0.452
Insurance	1.099						1.099
Transformation Improvement	2.313		-1.482	-0.662	-0.160		0.009
Capital Replacements	4.172	-4.172					0.000
Combined Control Contingency	0.558	-0.057	-0.057	-0.028		-0.416	0.000
Safeguarding	0.013	-0.013					0.000
Fitness Equipment	0.104	-0.104					0.000
Match Funding – Safety Centre	1.000		-1.000				0.000
Five Rivers Leasing	0.751	-0.085	-0.085	-0.085	-0.085		0.411
Leadership/Organisational Dev’t	0.306	-0.050	-0.100	-0.100	-0.056		0.000
Youth Intervention	0.100	-0.100					0.000
Apprenticeships	0.096	-0.096					0.000
Emergency Services Mobile Comms Programme (ESMCP)	1.000		-0.500	-0.500			0.000
Emergency Medical Response (EMR)	0.200		-0.100	-0.100			0.200
Total	**12.536**	**-4.776**	**-3.497**	**-1.575**	**-0.351**	**-0.416**	**1.971**