



## **Budget Strategy for 2017/2018 and Medium Term Financial Plan for 2017/21**

Approved by the Authority for consultation on 16 December 2016

<b>MEETING:</b>	<b>Fire Authority</b>
<b>MEETING DATE:</b>	<b>16 December 2016</b>
<b>REPORT OF:</b>	<b>Chief Fire Officer / Chief Executive The Treasurer</b>
<b>SUBJECT:</b>	<b>2017/18 Budget Strategy and Medium Term Financial Plan for the four year period 2017/18 to 2020/21</b>

**1. SUMMARY**

1.1. The purpose of this report is to provide Members with an update on the development of the 2017/18 budget and the Medium Term Financial Plan (MTFP) for the four year period 2017/18 to 2020/21. It contains a strategic overview of the context in which the budget options have been established and outlines the main assumptions that have been used to develop the budget plans.

1.2. This report also reviews the levels of earmarked and general reserves.

1.3. The key points to note are:

- The report models the impact of expected Government funding reductions in base formula grant. Before allowing for any increase in the level of Council Tax it is estimated that these reductions will result in an overall funding reduction of £2.6m over the next 4 years in cash terms.
- The report sets out the Fire Authority’s approach to meet the financial challenge. The starting point is one of comparatively low spending and yet consistently high performance. Through its “Investing for the Future Programme” the Fire Authority achieved the savings targets required within the previous Comprehensive Spending Review period 2011/12 to 2015/16. A further reduction of 21% in Government Grant for the spending review period 2016/17 to 2019/20 was announced last year. As a result further savings of £5m were required to be made over this period.
- The Fire Authority has developed a Reinvesting for the Future Programme to meet this challenge and this has been placed at the heart of the Integrated Risk Management Plan (IRMP) and contained within the

Medium Term Financial Plan (MTFP). This will lead to the delivery of the ongoing savings required.

- Media comments have suggested that an upcoming Best Value Inspection could cost the Authority up to £1m. The retention budget for 2017/18 contains £500k to offset part of this potential charge. The Austerity Reserve is predicted to hold £2m as at 31 March 2017 which could fund the balance.
- The Fire Authority agreed 'in principle' to a 2% increase in Council Tax for the period 2016/17 to 2019/20 to provide a firmer medium term financial plan on which to base the financial strategy and the budget for 2017/18 has been prepared on this basis.
- The report provides an update on the current Capital Programme.
- The Secretary of State has advised that the Government expect the Council Tax referendum threshold to be 2% for the period 2017/18 – 2019/20.
- The 2017/18 budget contains provision for the following key items:
  - a) An estimated reduction in formula funding assessment for 2017/18 of £1.7m equal to 9.4%.
  - b) Net inflationary pressures and unavoidable growth of £1m off-set by the one-off investing for the future contribution to capital of £1.5m in 2016/17.
  - c) Identified achievable cash savings of £2.0m.

## **2. RECOMMENDATIONS**

The Fire Authority is asked to:

- a) Approve the approach and the current assumptions being used to develop the 2017/18 budget. Note the financial issues contained within the report and agree to its release for consultation.
- b) To note the need to agree a budget after giving further consideration to the issues raised in this report, responses to consultation, result of representations and any further information that is forthcoming. A further report will be presented to members at the meeting on 10 February 2017.
- c) Maintain the level of working balance at £1.5m (approximately 3% of the proposed 2017/18 budget). To maintain the Austerity Reserve, estimated to be £2.0m, to facilitate changes necessary to balance forthcoming budgets. To note the projected level of reserves contained within Appendix 1.
- d) Note the current position in terms of the development of the MTFP as set out in paragraph 3.33 the high level of savings target contained within it and the identified financial risks.

### 3. **BACKGROUND**

#### **Current year 2016/17 budget position**

- 3.1. The latest budget monitoring report for 2016/17 forecasts that the revenue budget will be under spent by £0.2m. This underspend has been included in the forecast level of reserves shown in **Appendix 1**.

#### **Economic Predictions**

- 3.2. The current uncertainties in the national political landscape caused by the recent decision to leave the European Union, the change of key figures in the Government (including the Prime Minister and Chancellor of the Exchequer), the decision to abandon the plan to eliminate the deficit in public finances by 2020 and the potential changes in local governance and accountability of the fire and rescue service are all likely to have an impact on the medium term financial plan.
- 3.3. The key points arising from the Autumn Statement 2016 are:

#### **State of the Economy**

- 3.4. The Office of Budget Responsibility (OBR) growth forecasts:
- 2016 growth forecast upgraded to 2.1% (up from 2.0%) and downgraded to 1.4% in 2017 (down from 2.2%).
  - Forecast growth of 1.7% in 2018, 2.1% in 2019 and 2020 and 2% in 2021.
  - Government no longer seeking a budget surplus in 2019-20 - committed to returning public finances to balance "as soon as practicable".

#### **Public borrowing / deficit / spending**

- 3.5. Public borrowing, deficit and spending forecasts:
- Government finances forecast to be £122bn worse off in the period until 2021 than forecast in March's Budget.
  - Debt will rise from 84.2% of GDP last year to 87.3% this year, peaking at 90.2% in 2017-18.
  - The OBR forecasts borrowing of £68.2bn this year, then £59bn in 2017/18, £46.5bn in 2018/19, £21.9bn in 2019/20 and £20.7bn in 2020/21.
  - Public spending this year to be 40% of GDP - down from 45% in 2010.
  - Departmental spending plans set out in 2015 Spending Review to remain in place;

- Government will meet commitments to protect budgets for key public services, defence, overseas aid and the pension "triple lock" until the end of this Parliament.

### **Budget and Medium Term Financial Plan**

- 3.6. The latest MTFP was approved by the Fire Authority at its meeting on 5 February 2016.
- 3.7. As part of the Local Government Finance Settlement 2016/17 Local Authorities were offered a four-year funding deal covering the period 2016/17 to 2019/20. In order to qualify for the four-year funding deal Fire Authorities were required to submit robust efficiency plans to the Home Office by the deadline of 14 October 2016. The efficiency plan 2016/17 – 2019/20 for Avon was incorporated within its “Medium Term Financial Strategy 2016/17 to 2019/20” document which can be viewed at:

[https://www.avonfire.gov.uk/documents/category/48-finances.](https://www.avonfire.gov.uk/documents/category/48-finances)

- 3.8. The Home Office has not yet confirmed whether the Fire Authority qualifies for the four year funding deal. An update will be provided to Members at the meeting.
- 3.9. The Government also announced its intention to review the needs assessment formula and use it to determine the transition to 100% business rates retention. The outcomes of this review may have a significant impact on the medium term financial plan. Members will be kept informed when more information becomes available.

### **Provisional Local government Financial Settlement 2017/18**

- 3.10. The provisional Local Government Finance Settlement for 2017/18 has not yet been announced by the Government. The budget and MTFP have been prepared on the basis that the Fire Authority will qualify for the four year deal and that the reductions in the formula funding assessment will be in line with those previously identified for the period 2017/18 to 2019/20. For 2020/21 the assumption is that there will be a modest increase in the formula funding assessment of 1%. Details of the changes in the formula funding assessment that have been included within the budget and MTFP are shown below:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
% Government Funding Assessment Reduction	-9.35%	-4.38%	-1.87%	1.00%
Grant reduction	-1,741	-739	-301	158

- 3.11. An analysis of the funding received from Central Government for 2017/18 is shown in the table below:

<b>Summary in Changes in Formula Funding</b>			
	2016/17 £'m	2017/87 £'m	Variation %
Government Funding Assessment	18.629	16.888	-9.35%
<b>Less</b> Locally Retained Business rates assessment	-4.680	-4.772	
<b>Funding received from Central Government</b>	<b>13.949</b>	<b>12.116</b>	<b>-13.14%</b>

### **Council Tax Referendum limit**

- 3.12. The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to define a limit for the increase in Council Tax each year. If an authority wishes to raise its Council Tax above this limit then it would need to hold a referendum. The result of the referendum would be binding and the cost of holding a referendum has to be met by the Fire Authority.
- 3.13. For the new SR period 2016/17 to 2019/20 the Government has indicated that the base referendum limit will be 2%. This limit was further increased by 2% for local authorities responsible for delivering adult social care as announced by the Chancellor in the Autumn Statement.

## **4. DRAFT BUDGET**

- 4.1. The draft budget is based on the following financial assumptions:

<b>Key Assumptions - 2017/18</b>	
Item	
Reduction in Fire Formula Grant	-9.3%
Capital Grant allocation ( excluding capital bids) £'m	0.0
Capping limit	2.00%
Increase in tax base	1.6%
Collection fund surplus / (deficit) £'000	158
Increase in pay awards	1.0%
S31 grants will continue for USAR	Yes
General Inflation	1.50%

- 4.2. **Collection Fund Surplus \ Deficit** – The four Unitary Authorities in the Avon Area have been consulted on their likely collection fund positions at the year end. The current estimate is that there will be a net surplus of £158k for 2016/17. This reduces the amount needed to be raised from Council Tax or met by additional savings in 2017/18.

- 4.3. **Tax Base** – The Council Tax is calculated by dividing the Fire Authority's precept (the amount of money needed to fund the net budget requirement after allowing for formula grant and locally retained business rates) by the tax base (the number of Band D properties within an area). The Fire Authority's Tax Base for 2017/18 is projected to be 355,160, an increase of 1.6%.
- 4.4. **Other Grants** - It is anticipated that Urban Search and Rescue (USAR) and the Fire Link grant will continue to be paid as standalone grants in addition to formula grant.
- 4.5. **Capital Programme** - The revenue budget includes a contribution of £200k towards funding the 2017/18 Capital Programme. The revenue budget has sufficient funding to finance the capital programme as contained within paragraph 4.6.
- 4.6. The estimated funding available for 2016/17, before any increase in Council Tax and before the use of reserves for revenue, is shown in the following table:

<b>Funding Analysis</b>			
	2016/17 £'m	2017/18 £'m	Variation
Other Fees and Charges	0.346	0.381	10.1%
<b>Central Government</b>			
Formula Funding	18.629	16.888	-9.3%
Less Locally retained business rates	-4.680	-4.772	2.0%
Specific Government Grants	1.515	1.548	2.2%
<b>Total funding from Central Government</b>	<b>15.464</b>	<b>13.664</b>	<b>-11.6%</b>
<b>Local Tax Payers</b>			
Locally retained business rates	4.881	4.897	0.3%
Council Tax	23.741	24.605	3.6%
Collection Fund Surplus\ (Deficit)	0.223	0.158	-29.1%
<b>Total Local taxpayers</b>	<b>28.845</b>	<b>29.660</b>	<b>2.8%</b>
<b>Funding before use of reserves</b>	<b>44.655</b>	<b>43.705</b>	<b>-2.1%</b>
Use of Reserves	1.499	0.077	
<b>Total Revenue funding</b>	<b>46.154</b>	<b>43.782</b>	<b>-5.1%</b>

- 4.7. The development of the 2017/18 draft budget is shown in the table below and is based upon the latest approved establishment levels:

<b>Development of the 2017/18 Draft Budget</b>			
	<b>Gross Expenditure</b>	<b>Income</b>	<b>Net Expenditure</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Core Budget 2016/17</b>	44,654	-1,861	42,793
- add back use of reserves 2016/17	1,499	0	1,499
<b>Base Budget 2017/18</b>	<b>46,153</b>	<b>-1,861</b>	<b>44,292</b>
<b>Pay and Prices</b>			
- Pay awards	338	0	338
- Energy inflation	14	0	14
- Other inflation	141	-27	114
<b>Commitments</b>			
- Capital financing (IFTFP)	-1,378	0	-1,378
- Other	515	-41	474
<b>Identified Savings</b>			
- Employees	-1,223	0	-1,223
- Capital financing	-722	0	-722
- Other	-55	0	-55
<b>2016/17 Revenue Budget Requirement</b>	<b>43,783</b>	<b>-1,929</b>	<b>41,854</b>
<b>Identified Funding</b>			
- Locally Retained Business Rates			-4,897
- Central Government Support			-12,116
- Collection Fund (surplus) \ deficit			-158
- Reserves			-77
<b>Balance of Funding from Council Tax Payers</b>			<b>24,606</b>
<b>Band D Council Tax</b>			<b>£69.28</b>

### **Commitments \ Spending Pressures**

4.8. The main commitments and spending pressures identified are as follows:

- A number of employees within Control are approaching retirement age and have indicated that they will be leaving. To ensure that adequate cover is maintained the Service Management Board (SMB) agreed proposals to recruit 5 new employees from early 2017. The impact of this decision is that there will be a net increase in Control employee costs of £77k in 2017/18 (met from the control resilience reserve), with a corresponding reduction of £40k and £37k in the following 2 years as existing staff retire.



- In the 2015 summer budget the Government announced plans to introduce an apprenticeship levy. Employers with an annual pay bill of more than £3m will be required to spend 0.5% per cent of the total, subject to a threshold of £15k, on the levy. The levy will be introduced with effect from May 2017 and the on-going cost is estimated to be around £69k.
- The actuary has completed the triennial valuation of the Local Government Pension Scheme (LGPS). The impact of this valuation is that the employer's contribution rate will increase from the current level of 13.6% to 15.3% by 2019/20. Additionally, the deficit contribution in respect of past service cost will increase from the current level of £343k to £399k by 2020/21. The impact of these increases is estimated to be around £35k in 2017/18.
- Following the introduction of the Personal Development Review (PDR) process to all retained employees the SMB have agreed that staff will be able to claim for the additional time spent. It is estimated that this add an additional £15k to employee costs.
- All business premises in England and Wales have been subject to a valuation exercise carried out by the Valuation Office Agency and this will be used to calculate the business rate bills from April 2017. The outcome of this valuation exercise may result in a significant increase in the amount of business rates payable on the Fire Authority's premises. Following a revaluation Central Government normally introduces a transitional scheme to phase in the impact of significant variations. At this stage it has not been possible to calculate the likely impact but Members will be updated once this information is available.
- It is now assumed that there will be no future capital grant to assist with funding the Capital Programme. The revenue budget for 2017/18 has increased by £120k to finance additional borrowing of £1.077m under the prudential code regime. This increase is offset by the one off reduction of £1.5m included in last year's budget to fund the Investing for the Future Programme.
- £60k has been added to ill health retirement budget to reflect the increase in potential Ill-Health cases.
- A £105k (part year) has been added to the budget to reflect the service charge associated with the relocation to Police HQ at Portishead.

### **Savings**

4.9. The main identified savings are as follows:

- Employee savings resulting from the impact of the measures outlined within the Integrated Risk Management Plan (IRMP) and Medium Term Financial Strategy of £1.223m. This is based on an anticipated recruitment in the last quarter of 2017/18.

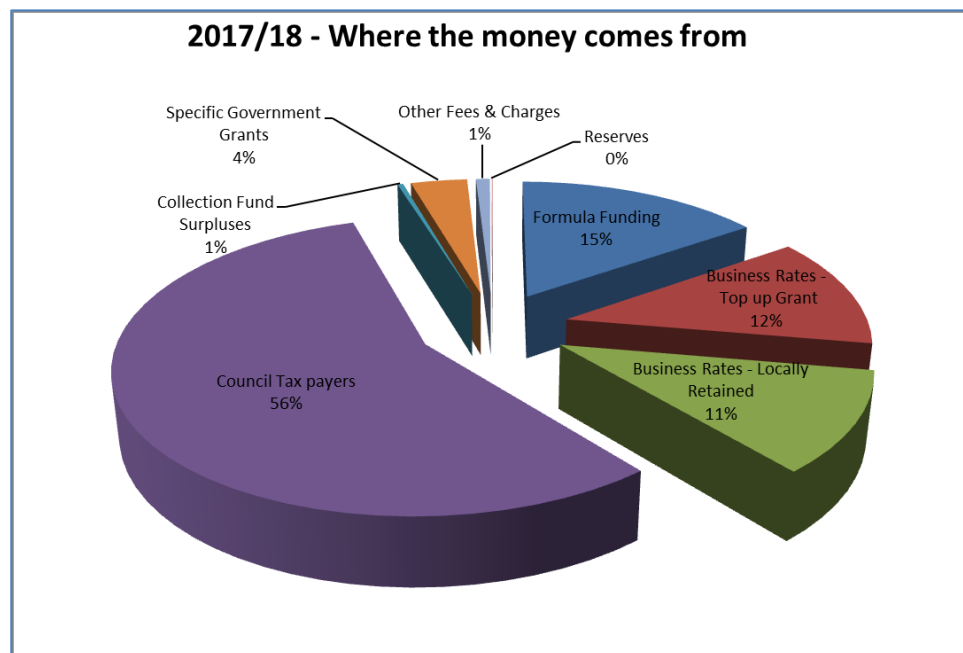
- A reduction in premises running costs as a result of the Investing for the Future Programme, involving a rationalisation of premises and collaboration with the Police on a new HQ of £55k.
- A £700k reduction in revenue contributions towards funding the Capital Programme.
- The impact of the Fire Authority's Treasury Management strategy of delaying borrowing and reducing debt £22k.

4.10. It should be noted that the following sources of funding are non-recurring sources of funding:

- £77k (0.2%) funding from reserves.
- £158k (0.4%) funding from the Unitary Authorities net collection fund surpluses.

### **Sources of Funding**

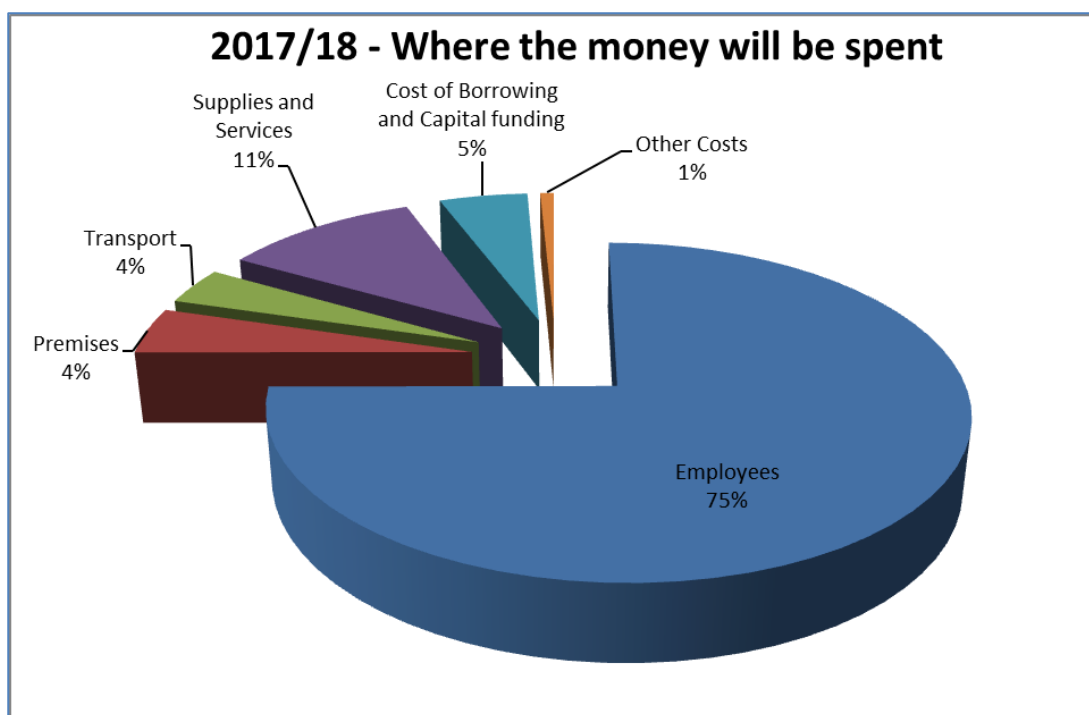
4.11. The sources of funding for the 2017/18 budget are expected to total £45.6m. An analysis is shown in the chart below:



4.12. Key assumptions – That there will not be a material change in the level of grants for Urban Search and Rescue (USAR) and Firelink payable from Central Government. No grant funding in respect of the ESMCP project has been included at this stage.

### **Expenditure**

4.13. A subjective analysis showing where the budget will be spent in 2017/18 is shown in the chart below:



- 4.14. Key assumptions – The Medium term Budget has provision to facilitate a number of recruitment schools over the 4 years. Recruitment will be phased to remain within approved establishment levels. Identified earmarked reserves will be utilised to fund one-off spending pressures. The use of auxiliary firefighters will be closely monitored.

#### Savings Analysis

- 4.15. An analysis of savings included in the 2017/18 draft budget and medium term financial plan are set out in the table below:

<b>Analysis of Savings 2017/18 - 2020/21</b>					
<b>Area</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Employees	-1,223	-372	-80	0	-1,675
Premises	-55	-35	0	0	-90
Transport	0	0	0	0	0
Supplies and Services	0	0	0	0	0
Other Costs	-722	-438	-102	0	-1,262
<b>Total Savings</b>	<b>-2,000</b>	<b>-845</b>	<b>-182</b>	<b>0</b>	<b>-3,027</b>
Use of Reserves	-77	-37	0	0	-114
<b>Total reductions</b>	<b>-2,077</b>	<b>-882</b>	<b>-182</b>	<b>0</b>	<b>-3,141</b>

- 4.16. The above savings primarily involve the reduction in staff numbers and it is estimated that this can be achieved without the need for redundancy, through natural attrition rates and managing the level and timing of recruitment.

### **Risk and Sensitivity analysis**

- 4.17. **Risk Management** - The Fire Authority's risk management is assisted by the process of budget preparation and monitoring already set out in this report. The Fire Authority also has a Corporate Risk Register which is under regular review. Risk Item 8 is concerned with Financial Capacity.
- 4.18. In terms of financial management a risk analysis has been undertaken which identifies the risks and appropriate mitigations and this is shown in **Appendix 2**.
- 4.19. **Sensitivity Analysis** – The following analysis has been undertaken to identify the potential impact of a change in the assumptions for a number of significant areas.

<b>Sensitivity Analysis</b>		
<b>Item / Risk</b>	<b>Variation of %</b>	<b>Estimated full year Cost / Saving £'000</b>
Pay awards		
- Uniformed	1%	211
- Other	1%	41
Pensions		
Uniformed employer contribution rate		
- 1992 scheme	1%	159
- 2006 scheme	1%	
- 2015 scheme	1%	31
Other employer contribution rate	1%	41
National Insurance Contributions	1%	160
Ill Health Retirement		
- Lower Tier (Crew Manger)	1 occurrence	64
- Higher Tier (Crew Manger)	1 occurrence	128
Council Tax Level	1%	241
Inflation	1%	63
Reduction in formula grant	1%	186

As can be seen there is potential for significant variations in expenditure to occur over the medium term. These issues have been identified and considered in the reserves adequacy review summarised in **Appendix 1** and incorporated into the medium term plan.

## Use of Reserves

- 4.20. The Fire Authority's reserves have been earmarked for identified specific issues. The Austerity Reserve can be used to facilitate changes that will result in reduced expenditure in the future for example improved systems, redundancy payments etc. which are linked to longer term savings. Longer term reserves will not be used to fund the gap between budget and income unless in exceptional circumstances. It is proposed that up to £500k of the Austerity Reserve is set aside to help fund the upcoming Best Value Inspection charge.

## **5. CAPITAL PROGRAMME**

- 5.1. A draft Capital Programme has been prepared as follows:

<b>Estimated Capital Programme 2017/18 to 2020/21 (excluding slippage)</b>				
<b>Investment Area</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Premises - General	500	500	500	500
Premises - Investing for the Future	0	0	0	0
Operational Equipment	98	98	98	98
BA Replacement	0	0	0	0
Fleet	1,410	1,410	1,410	1,410
IT	200	200	200	200
<b>Total</b>	<b>2,208</b>	<b>2,208</b>	<b>2,208</b>	<b>2,208</b>
<b>Funded by</b>				
Grant	8	8	8	8
Capital Receipts	0	0	0	0
Revenue Contribution to capital	200	200	200	200
Prudential Code	2,000	2,000	2,000	2,000
<b>Total</b>	<b>2,208</b>	<b>2,208</b>	<b>2,208</b>	<b>2,208</b>

- 5.2. It is now anticipated that no capital grant will be payable from the Government from 2018/19. The revenue budget has increased by £120k per annum to fund this.
- 5.3. Members have previously agreed that when the receipt from the HQ site is realised £3.4m will be allocated to a capital reserve to fund future capital projects and £3.5m would be utilised to repay debt or defer borrowing. Due to the uncertainty around the level and timing of the receipt the revenue savings associated with lowering borrowing are not recognised until 2018/19. Revised prudential borrowing figures will be presented to Members in the New Year.
- 5.4. The Revenue Budget allows for a revenue contribution of £0.2m towards the 2017/18 Capital Programme.
- 5.5. Any capital expenditure above the above programme will need to be financed from revenue contributions, capital receipts, reserves or prudential borrowing.

Any capital expenditure that is financed from prudential borrowing will incur interest and repayment costs

- 5.6. The budgets and MTFP have been based on a level of borrowing that is anticipated to keep the revenue cost of capital to below 6% of the net budget, one of the key prudential indicators.
- 5.7. At the moment there are no funds allocated for the Reinvesting for the Future Programme (RFTF) identified within the IRMP. The cost will need to be affordable and could be met from the capital reserve created by the disposal of the HQ site, otherwise there will be additional borrowing costs or revenue contributions that would require further savings. Officers are drawing up proposals and developing costings for presentation to Members in the New Year.

## **6. MEDIUM TERM FINANCIAL PLAN**

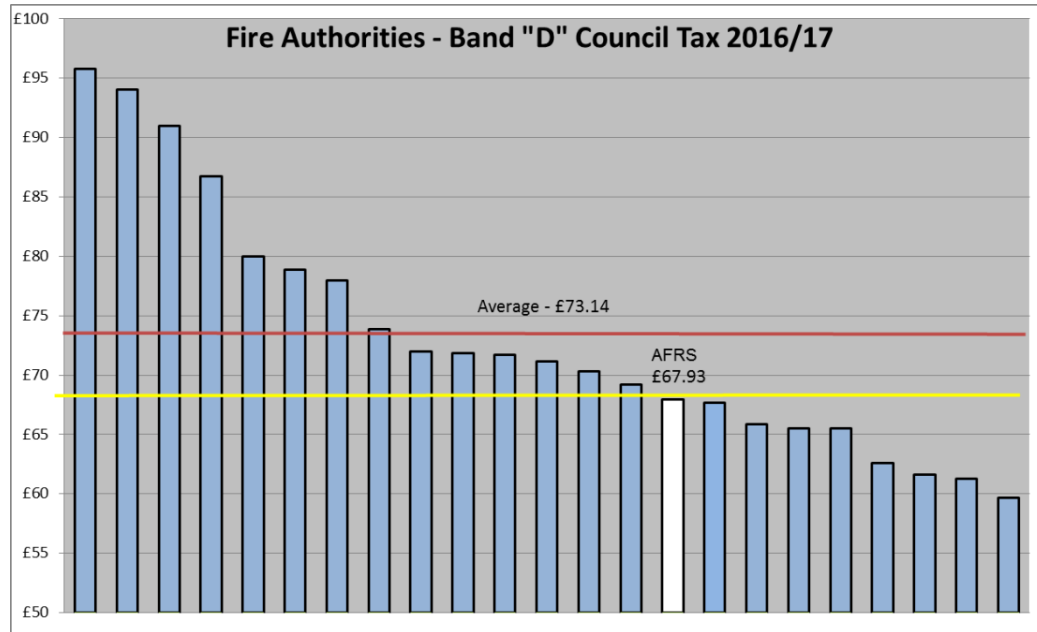
- 6.1. The budget before the use of reserves is expected to decrease from £44.3m in 2016/17 to £42.9m by the end of 2020/21. During this period Council Tax is expected to increase 2% per year from its current level of £67.93 (2016/17) to £73.54 in 2020/21. This would be only slightly higher than the average Council Tax of £73.14 set by Fire Authorities in 2016/17.

<b>Medium Term Financial Plan</b>				
	<b>Budget</b>			
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Council Tax Increase Target</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>
Base budget	44,293	41,853	41,653	42,049
Effect of pay and price increases, cost of capital	466	482	480	481
<b>Current base budget</b>	<b>44,759</b>	<b>42,335</b>	<b>42,133</b>	<b>42,530</b>
Add Pressures / growth	(905)	164	100	367
Less Identified savings	(2,000)	(845)	(183)	2
<b>Initial Budget</b>	<b>41,854</b>	<b>41,654</b>	<b>42,050</b>	<b>42,899</b>
Additional required savings	(1)	(1)	(1)	(2)
<b>Budget before use of reserves</b>	<b>41,853</b>	<b>41,653</b>	<b>42,049</b>	<b>42,897</b>
Reserves	(77)	(37)	0	0
<b>Net Budget</b>	<b>41,776</b>	<b>41,616</b>	<b>42,049</b>	<b>42,897</b>
Less Locally retained business rates	(4,897)	(5,014)	(5,098)	(5,116)
Government Support	(12,116)	(11,236)	(10,777)	(10,828)
Add \ Less effect of Collection Fund deficits \ (surpluses)	(158)	0	0	0
<b>Net amount chargeable to Council Tax Payers</b>	<b>24,605</b>	<b>25,366</b>	<b>26,174</b>	<b>26,953</b>
<b>Band D Council Tax</b>	<b>£69.28</b>	<b>£70.66</b>	<b>£72.07</b>	<b>£73.51</b>
<b>Budget Increase \ (decrease) (excl use of reserves)</b>	<b>(5.51%)</b>	<b>(0.48%)</b>	<b>0.95%</b>	<b>2.02%</b>
<b>Key Financial Assumptions</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Other Inflation	1.50%	2.00%	2.00%	2.00%
Use of Reserves	(77)	(37)	0	0
Estimated Council Tax base	355,160	358,991	363,174	366,659
Net Collection Fund Positions	(158)	0	0	0
Government Support	(9.35%)	(4.38%)	(1.87%)	1.00%
<b>Earmarked Reserves (Excl Working Balance)</b>				
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance 1 April	4,053	3,976	3,939	3,939
Utilised during year	(77)	(37)	0	0
<b>Balance 31 March</b>	<b>3,976</b>	<b>3,939</b>	<b>3,939</b>	<b>3,939</b>

- 6.2. The continued reduction in funding from Government provides a significant financial challenge to the Fire Authority. Whilst the financial challenge is a dominant driver for change, it remains important that the Fire Authority's future strategies continue to be service-led. This has been the basis upon which this Fire Authority has developed its financial planning arrangements over previous years.
- 6.3. The current IRMP has been updated to meet the needs of the budgetary situation and is currently out to consultation.

## 7. HOW DO WE COMPARE?

- 7.1. For the current year 2016/17 the Fire Authority has set the ninth lowest Band "D" Council Tax (£67.93) compared with the other twenty two combined fire authorities. Council Tax levels range from £95.76 to £59.70 with the average being £73.14.



## 8. PROVISIONS, RESERVES AND BALANCES

- 8.1. **Working Balance** – The Fire Authority has decided that a balance of £1.5m or 3.6% of net expenditure should be maintained
- 8.2. **Reserves - Appendix 1** to this report details the financial risk assessment which is used to support the estimated level of general and earmarked reserves. As shown reserves are held for identifiable purposes, they are not considered excessive, and there is no particular opportunity cost to holding them.
- 8.3. **The Draft Budget** - At this stage the draft plan for 2017/18 identifies a need to call upon reserves as identified in paragraph 3.23 above. No further draw on reserves over the MTFP is anticipated. Further work on the plan is ongoing and will be available in February. The level of savings over the medium term plan is challenging and any shortfall in one particular year will be met from reserves.

## 9. SECTION 25 REPORT

- 9.1. Members need to be aware that Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Fire Authority on the robustness of the estimates including the budget and the adequacy of the reserves for which the budget provides



9.2. This will be included in the report to the Fire Authority on 10 February 2017.

## **10. CONSULTATION**

10.1. As a precepting authority, the Fire Authority is required to consult over its budget proposals. The purpose of this is to gauge the level of public support for its overarching strategy to the budget so that this may be considered when drafting the final budget proposals. By law the Fire Authority is required to consult person or bodies appearing to it to be representative of persons subject to non-domestic rates about its proposals for expenditure (including capital expenditure) in the next financial year. In this respect, it is suggested that this report is made available to:

- Unitary Authorities
- Local MPs
- Business West
- The Fire Authority's website
- The Fire Authority's intranet
- At Community Safety Centres

## **11. CONSIDERATIONS**

### **11.1. Contribution to Key Policy Priorities**

A robust budget is needed to fund

### **11.2. Financial Implications**

The financial impact of the budget for 2017/18 and the MTFP on Council Taxpayers is assessed to ensure that proposals are both affordable and sustainable. Consideration will be given to the outcome of the budget consultation exercise in developing the final budget.

### **11.3. Legal Implications**

The Fire Authority must budget within its means.

### **11.4. Equality & Diversity Implications**

The budget supports a range of Equalities work and initiatives.

### **11.5. Corporate Risk Assessment**

There are many risks associated with budgets, resources and expenditures. These are set out within the report where necessary, Financial assumptions have been made on a prudent basis, a sensitivity analysis of the key items

has been included and **Appendix 2** contains a set of financial risks and mitigations.

11.6. Environmental/Sustainability Implications

The budget supports a range of Environmental and Health and Safety works and initiatives.

11.7. Health & Safety Implications

The budget supports a range of Health and Safety works and initiatives.

11.8. Crime & Disorder Implications

None.

12. **BACKGROUND PAPERS**

Working papers are held within the Finance Department

13. **APPENDICES**

1. Reserve Adequacy Analysis
2. Financial Risk Identification and Management

14. **REPORT CONTACT**

James Dack, Treasurer, extension 235.

## Reserves Adequacy Analysis

Reserve	Purpose	Likelihood	Impact	31 March 2016 £'000	MTFP 2016/17 £'000	31 March 2017 £'000
<b>Pension / Budget Pressure Reserve</b>						
PPE / ICP Replacement Reserve	To fund fluctuations in PPE costs following introduction of the Intergated Clothing project.	Medium	Medium	125	0	125
Control Resilience Reserve	To provide supplementary support for implementation of control resilience programme	Medium	Medium	400	0	400
Premises / H&S Reserve critical works	To fund critical Premises / H&S works	Medium	Medium	100	0	100
Pension Reserve	To fund fluctuations in ill health retirements	High	Medium	320	0	320
Legal Fees Reserve	Finance unexpected Legal Costs	Medium	Medium	100	0	100
Community Safety Reserve	To Fund commissioning services from the voluntary sector and safety campaigns			64	-64	0
Marketing & Communications Reserve	To support community safety advertising campaigns and initiatives.	Medium	Medium	28	0	28
Auxillary Reserve	To provide training and equipment for auxiliary staff	High	High	125	0	125
BA Reserve	To fund revised total care package	High	High	50	0	50
Training Reserve	To fun commitments to training			70	0	70
Investing for the Future	To fund additional costs associated with the Investing for the Future project	High	High	635	-635	0
Capital Financing	To support funding of the future Capital Programme as a result of reductions in Capital Grant and any variations in expenditure.	High	High	872	-266	606
Hydrants	To fund additional cost of repair works arising from increased inspections	High	Medium	100	0	100
Medical Intervention	To fund medical interventions to assist employees to return to work	Medium	Medium	40	0	40
Austerity Reserve	To support implementation of new procedures / ways of working	High	High	1,781	208	1,989
<b>Earmarked Reserves</b>				<b>4,810</b>	<b>-757</b>	<b>4,053</b>
<b>PFI Equalisation Fund</b>				<b>1,686</b>	<b>0</b>	<b>1,686</b>
<b>Total Earmarked Reserves</b>				<b>6,496</b>	<b>-757</b>	<b>5,739</b>
<b>Working Balance</b>				<b>1,500</b>	<b>0</b>	<b>1,500</b>
<b>Total Reserves</b>				<b>7,996</b>	<b>-757</b>	<b>7,239</b>

**Financial Risk Identification and Management**

<b>Financial Risk Identification and Management</b>	
<b>Item</b>	<b>Mitigation</b>
Higher than budgeted pay awards	Reserves and balances, vacancy and recruitment management
Increase in employer pension contributions	Reserves and Balances
Higher than budgeted ill health payments	Ill health reserve, increase in pension operating cost budget. Increase in fitness training and use of medical intervention Fund. Occupational Health
Legislation e.g. NI, Apprenticeship Levy	Early identification and prioritisation of budgets
Reduction in Government formula funding	Use of reserves, IRMP and MTFP
Localisation of Council Tax Support - Impact on Council Tax base not off-set by Government Grant	Unitary Authority Council Tax discount schemes, Reserves and balances
Business Rate Retention scheme	Government safety net, Reserves and balances, MTFP, timely modelling.
Council Tax Collection rates	Reserves and balances , MTFP
Increased contribution to JTC sinking fund	Accounting treatment, utilisation of JTC, regular monitoring of the fund position.
USAR funding incorporated into Revenue Support Grant	Consultation, lobbying
Costs associated with maintaining control resilience, changes to control infrastructure.	Reserves, use of regional funding, control staffing
Costs associated with asset management exceed capital funding. Changes to capital grant allocation mechanism	Reserves, prudential borrowing, robust bidding processes
Lack of Government Capital Funding	Additional Prudential borrowing now built into the budget
Identified savings not achieved	Reserves and Balances. Budget working group and SMB monitoring
Major / sustained incident	Bellwin Scheme, reserves
ICT demands	Investment in resilience, reserves