

|                      |   |
|----------------------|---|
| <b>MEETING:</b>      | <b>Fire Authority</b>   |
| <b>MEETING DATE:</b> | <b>1 December 2017</b>  |
| <b>REPORT OF:</b>    | <b>Interim Chief Fire Officer / Chief Executive<br/>The Interim Treasurer</b> |
| <b>SUBJECT:</b>      | <b>Draft Budget 2018/19</b>   |

**1. SUMMARY**

- 1.1. The purpose of this report is to provide Members with an update on the development of the 2018/19 budget and the Medium Term Financial Plan (MTFP) for the four year period 2018/19 to 2021/22. 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:
  - **Government formula funding** - The report models the impact of expected Government funding reductions in base formula grant. The Fire Authority agreed to accept the Government’s offer of a four year settlement for the period 2016/17 to 2019/20. As part of this settlement there will be further reductions in formula grant of £1.3m over the next two years 2018/19 and 2019/20.
  - **Medium Term Financial Plan** – Since the current Medium Term Financial Plan was approved by Members in February 2017 there have been a number of changes to the key assumptions, particularly around pay awards and inflation, which have resulted in unbudgeted spending pressures over the four year medium term financial plan of £1.8m which will need to be addressed.
  - **Local Government Finance Settlement 2018/19** – The draft Local Government Finance Settlement for 2018/19 is not anticipated to be announced until mid-December 2017. The Fire Authority’s response to the Government’s technical consultation on the 2018/19 Finance Settlement suggested that the referendum limit should allow Fire and

Rescue Services the discretion to increase the Council Tax for 2018/19 by 2% or £5 whichever is the higher.

- **Council Tax** – As part of the efficiency plans submitted to Central Government in return for the four year settlement 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. Members will need to consider the Government’s referendum limit for 2018/19 and the need to address unbudgeted spending pressures.
- **Capital Programme** – The draft Capital Programme does not include any cost associated with the Re-investing for the Future Programme. These costs will be added to the Programme once the costs for the individual projects have been approved by Members.

## 2. **RECOMMENDATIONS**

The Fire Authority is asked to:

- a) Approve the approach and the current assumptions being used to develop the 2018/19 budget. Note the financial issues contained within the report and agree to its release for consultation.
- b) Note the need to agree a budget and set the Council Tax for 2018/19 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 9 February 2018.
- c) Maintain the level of working balance at £1.5m (approximately 3% of the proposed 2018/19 budget).
- d) Note the projected level of reserves contained within Appendix 1 and the relatively low level of Usable Revenue reserves compared to other Fire and Rescue Authorities.
- e) Note the current position in terms of the development of the MTFP as set out in paragraph 4.26 the high level of savings target contained within it and the identified financial risks.

## 3. **BACKGROUND**

### **Existing Budget 2017/18 and Medium Term Financial Plan 2018/19 to 2020/21**

- 3.1. The current budget for 2017/18 and the MTFP 2018/19 to 2020/21 was approved by Members at their meeting on 10 February 2017. Since this time there have been a number of changes to the key assumptions, particularly around pay awards and inflation, which have resulted in unbudgeted spending pressures over the four year medium term financial plan of £1.8m which will need to be addressed.

3.2. The main changes to the key assumptions are shown in the table below:

|                                       |            | Original MTFP Assumptions | Revised MTFP Assumptions |
|---------------------------------------|------------|---------------------------|--------------------------|
| Uniformed Pay Award                   | 17/18      | 1%                        | 2%                       |
|                                       | 18/19      | 1%                        | 3%                       |
|                                       | 19/20      | 1%                        | 2%                       |
|                                       | 20/21      | 1%                        | 2%                       |
|                                       | 21/22      | 1%                        | 2%                       |
| Non-uniform Pay Award                 | 18/19      | 1%                        | 2%                       |
|                                       | 19/20      | 1%                        | 2%                       |
|                                       | 20/21      | 1%                        | 2%                       |
|                                       | 21/22      | 1%                        | 2%                       |
| Firefighters Pension Scheme Valuation | from 19/20 | 0%                        | 3%                       |
| General Inflation                     | All years  | 1.50%                     | 3%                       |

### **Economic Predictions**

- 3.3. The current uncertainties in the economic outlook following the decision to leave the European Union are likely to have an impact on funding available for public services.
- 3.4. The economy is now expected to grow more slowly for the next five years averaging annual growth of 1.4%.
- 3.5. General inflation is currently running at 3.9%

### **Budget 2018/19 and Medium Term Financial Plan 2019/20 to 2021/22**

- 3.6. The latest MTFP was approved by the Fire Authority at its meeting on 10 February 2017.
- 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 and Rescue Authorities were required to submit robust efficiency plans to the Home Office. The efficiency plan 2016/17 – 2019/20 for the Fire Authority 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-finance>.

### **Government formula funding**

- 3.8. The Fire Authority agreed to accept the Government’s offer of a four year settlement for the period 2016/17 to 2019/20. As part of this settlement there will be further reductions in formula grant of £1.3m over the next two years 2018/19 and 2019/20.

- 3.9. Funding allocations beyond 2019/20 are not clear due to the pause in the proposed 100% business rate retention and the fair funding review. The position is likely to be further complicated by the transfer of the Fire and Rescue Service to the Home Office from the Department of Communities and Local Government. At this stage it has been estimated that from 2020/21 the amount of funding, currently provided by the formula funding mechanism, will increase by a modest 1% which is a real terms reduction after inflation is taken into account.

### **Provisional Local Government Financial Settlement 2018/19**

- 3.10. The provisional Local Government Finance Settlement for 2018/19 is not expected to be announced by the Government until mid-December. At this stage the budget and MTFP have been prepared on the basis that the formula funding assessment will be in line with those previously identified for the period 2018/19 to 2019/20. For the next two years 2020/21 to 2021/22 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:

|   | 2018/19<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2021/22<br>£'000 |
|---|------------------|------------------|------------------|------------------|
| % Government Funding Assessment Reduction | -4.21%           | -1.62%           | 1.00%            | 1.00%            |
| Grant reduction                           | -712             | -262             | 159              | 161              |

An analysis of the funding received from Central Government for 2018/19 is shown in the table below:

| <b>Summary in Changes in Formula Funding</b>           |                |                |                |
|--|----------------|----------------|----------------|
|  | 2017/18<br>£'m | 2018/19<br>£'m | Variation<br>% |
| Government Funding Assessment                          | 16.895         | 16.184         | -4.21%         |
| <b>Less</b> Locally Retained Business rates assessment | -4.438         | -4.581         | 3.22%          |
| <b>Funding received from Central Government</b>        | <b>12.457</b>  | <b>11.603</b>  | <b>-6.86%</b>  |

### **Council Tax Referendum limit**

- 3.11. 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.

- 3.12. For the new spending review period 2016/17 to 2019/20 the Government has previously indicated that the base referendum limit will be 2% for Fire and Rescue Authorities.
- 3.13. The Fire Authority's response to the 2018/19 Local Government Finance Settlement: Technical Consultation is attached at **Appendix 1**. The key points from the response were:
- Generally opposed to Council Tax referendum principles as bureaucratic and undemocratic – elected members are best placed to determine what would be an acceptable increase in Council Tax.
  - If Council Tax referendum principles are to continue then Fire & Rescue Authorities should be given additional flexibilities around the increase in Council Tax for 2018/19 in line with those afforded to Shire District Councils – flexibility to increase council tax by less than 2% or up to and including £5, whichever is the higher
  - Flexibility to increase council tax by less than 2% or up to and including £5, whichever is the higher supported by National Fire Chiefs Council (NFCC)

#### **4. DRAFT BUDGET**

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

| <b>Key Assumptions - 2018/19</b>                       |       |
|--|-------|
| <b>Item</b>  |       |
| Reduction in Fire Formula Grant                        | -4.2% |
| Capital Grant allocation ( excluding capital bids) £'m | 0.0   |
| Capping limit  | 2.00% |
| Increase in tax base                                   | 1.9%  |
| Collection fund surplus / (deficit) £'000              | -121  |
| Increase in pay awards                                 | 3.0%  |
| S31 grants will continue for USAR                      | Yes   |
| General Inflation                                      | 3.00% |

- 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. Currently three authorities have responded and their current estimates are that there will be a net deficit of £121,000 for 2017/18. This increases the amount needed to be raised from Council Tax or met by additional savings in 2018/19.
- 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 2018/19 is projected to be 363,195, an increase of 2.0%.

- 4.4. **Other Grants** - It is anticipated that Urban Search and Rescue (USAR) and the Fire Link grants will continue to be paid as standalone grants in addition to formula grant. Earlier this year it was agreed that the responsibility for the payment of the maintenance charges for the USAR vehicles etc. would transfer from the Home Office to individual Fire and Rescue Authorities. Additional Government grant estimated to be £181,000 in 2018/19 will be paid to cover these costs.
- 4.5. **Capital Programme** - The revenue budget includes a contribution of £200,000 towards funding the 2018/19 Capital Programme.
- 4.6. The estimated funding available for 2018/19, before any increase in Council Tax and before the use of reserves for revenue, is shown in the following table:

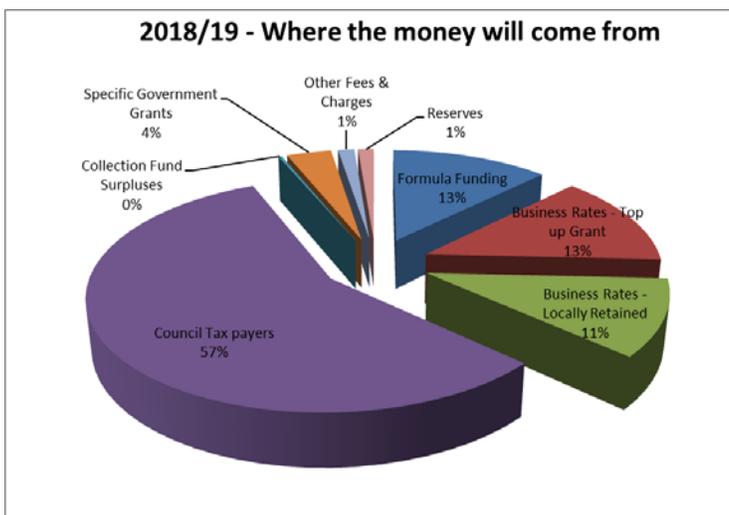
| <b>Funding Analysis</b>                      |               |               |              |
|--|---------------|---------------|--------------|
|  | 2017/18       | 2018/19       | Variation    |
|  | £'m           | £'m           |              |
| Other Fees and Charges                       | 0.354         | 0.588         | 66.1%        |
| <b>Central Government</b>                    |               |               |              |
| Formula Funding                              | 16.895        | 16.184        | -4.2%        |
| Less Locally retained business rates         | -4.438        | -4.581        | 3.2%         |
| Specific Government Grants                   | 1.691         | 1.609         | -4.8%        |
| <b>Total funding from Central Government</b> | <b>14.148</b> | <b>13.212</b> | <b>-6.6%</b> |
| <b>Local Tax Payers</b>                      |               |               |              |
| Locally retained business rates              | 4.557         | 4.936         | 8.3%         |
| Council Tax                                  | 24.668        | 25.663        | 4.0%         |
| Collection Fund Surplus\ (Deficit)           | 0.385         | -0.121        | -131.4%      |
| <b>Total Local taxpayers</b>                 | <b>29.610</b> | <b>30.478</b> | <b>2.9%</b>  |
| <b>Funding before use of reserves</b>        | <b>44.112</b> | <b>44.278</b> | <b>0.4%</b>  |
| Use of Reserves                              | 1.055         | 0.567         |              |
| <b>Total Revenue funding</b>                 | <b>45.167</b> | <b>44.845</b> | <b>-0.7%</b> |

- 4.7. The development of the 2018/19 draft budget is shown in the table below and is based upon the latest approved establishment levels:

| <b>Development of the 2018/19 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 2017/18</b>                        | 44,112                   | -2,045        | 42,067                 |
| - add back use of reserves 2017/18                | 1,055                    | 0             | 1,055                  |
| <b>Base Budget 2018/19</b>                        | <b>45,167</b>            | <b>-2,045</b> | <b>43,122</b>          |
| <b>Pay and Prices</b>                             |                          |               |                        |
| - Pay awards                                      | 1,284                    | 0             | 1,284                  |
| - Energy inflation                                | 11                       | 0             | 11                     |
| - Other inflation                                 | 294                      | -62           | 232                    |
| <b>Commitments</b>                                |                          |               |                        |
| - Capital financing (IFTFP)                       | 118                      | 0             | 118                    |
| - Other   | -67                      | -90           | -157                   |
| <b>Identified Savings</b>                         |                          |               |                        |
| - Employees                                       | -591                     | 0             | -591                   |
| - Capital financing                               | -205                     | 0             | -205                   |
| - Other   | -127                     | 0             | -127                   |
| <b>2018/19 Revenue Budget Requirement</b>         | <b>45,884</b>            | <b>-2,197</b> | <b>43,687</b>          |
| <b>Identified Funding</b>                         |                          |               |                        |
| - Locally Retained Business Rates                 |                          |               | -4,936                 |
| - Central Government Support                      |                          |               | -11,603                |
| - Collection Fund (surplus) \ deficit             |                          |               | 121                    |
| - Identified Use of Use of Reserves               |                          |               | -567                   |
| - Use of Reserves & unidentified savings          |                          |               | -1,038                 |
| <b>Balance of Funding from Council Tax Payers</b> |                          |               | <b>25,664</b>          |
| <b>Band D Council Tax</b>                         |                          |               | <b>£70.66</b>          |

### Sources of Funding

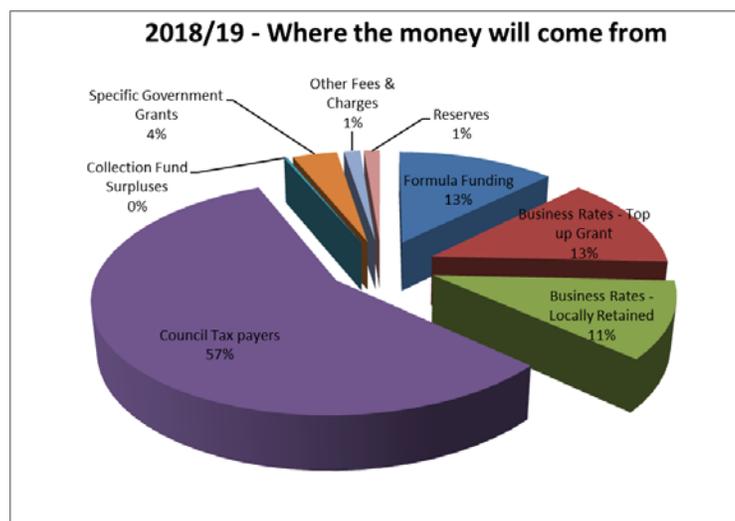
4.8. The sources of funding for the 2018/19 budget are expected to total £45.6m. An analysis is shown in the chart below:



- 4.9. **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.

### Expenditure

- 4.10. A subjective analysis showing where the budget will be spent in 2018/19 is shown in the chart below:



- 4.11. **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

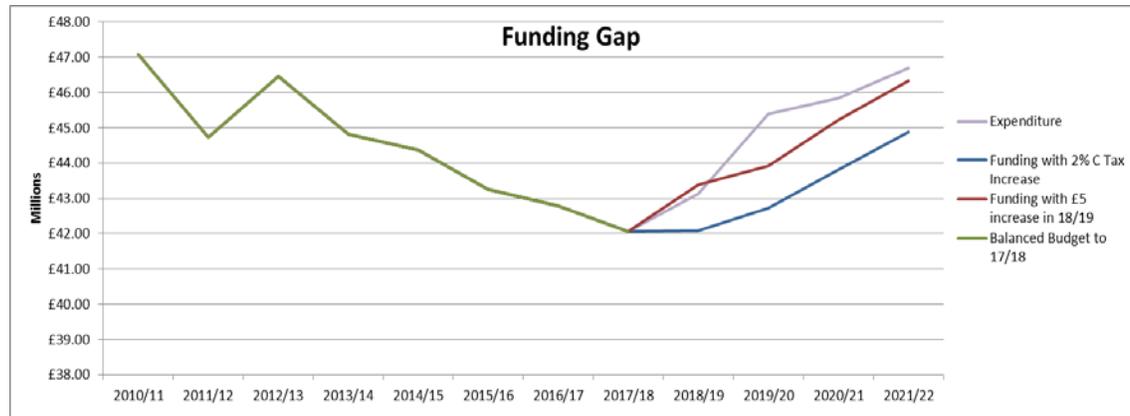
- 4.12. An analysis of savings included in the 2018/19 draft budget and the MTFP are set out in the table below:

| <b>Analysis of Savings 2018/19 - 2021/22</b> |                |                |                |                |               |
|--|----------------|----------------|----------------|----------------|---------------|
| <b>Area</b>                                  | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> | <b>Total</b>  |
|  | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>  |
| Employees                                    | -591           | 0              | 0              | 0              | -591          |
| Premises                                     | -35            | 0              | 0              | 0              | -35           |
| Transport                                    | 0              | 0              | 0              | 0              | 0             |
| Supplies and Services                        | -7             | 0              | 0              | 0              | -7            |
| Other Costs                                  | -290           | 0              | 0              | 0              | -290          |
| <b>Total Savings</b>                         | <b>-1,961</b>  | <b>-781</b>    | <b>0</b>       | <b>0</b>       | <b>-2,742</b> |
| Use of Reserves                              | -567           | -500           | 0              | 0              | -1,067        |
| <b>Total reductions</b>                      | <b>-2,528</b>  | <b>-1,281</b>  | <b>0</b>       | <b>0</b>       | <b>-3,809</b> |

- 4.13. The number of firefighters leaving the organisation in 2017/18 was higher than originally anticipated which has meant that the required savings target for employees in 2018/19 has already been achieved. The number of wholetime firefighters is now in line with the agreed establishment of 479.

### Funding Gap

- 4.14. The changes to the original assumptions used in the MTFP identified above has resulted in a funding gap over the medium term financial plan as shown in the table below:



- 4.15. If the Government allow Fire and Rescue Authorities the flexibility to increase council tax by less than 2% or up to and including £5, whichever is the higher then the level of unidentified savings will be reduced to £36,000 by 2021/22.

### Risk and Sensitivity analysis

- 4.16. **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.
- 4.17. 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**.
- 4.18. **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%                    | 203  |
| - Other                              | 1%                    | 45   |
| Pensions                             |                       |  |
| Uniformed employer contribution rate |                       |  |
| - 1992 scheme                        | 1%                    | 159  |
| - 2006 scheme                        | 1%                    |  |
| - 2015 scheme                        | 1%                    | 31   |
| Other employer contribution rate     | 1%                    | 45   |
| National Insurance Contributions     | 1%                    | 176  |
| Ill Health Retirement                |                       |  |
| - Lower Tier (Crew Manger)           | 1 occurrence          | 64   |
| - Higher Tier (Crew Manger)          | 1 occurrence          | 128  |
| Council Tax Level                    | 1%                    | 257  |
| Inflation                            | 1%                    | 74   |
| Reduction in formula grant           | 1%                    | 162  |

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 3** and incorporated into the medium term plan.

### **Use of Reserves**

- 4.19. 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.

### **CAPITAL PROGRAMME**

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

| <b>Estimated Capital Programme 2018/19 to 2021/22 (excluding slippage)</b> |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| <b>Investment Area</b>   | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|  | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| Premises - General   | 500            | 500            | 500            | 500            |
| Premises - Investing for the   | 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>   |
| Funded by  |                |                |                |                |
| Grant  | 8              | 8              | 8              | 8              |
| Capital Receipts   | 0              | 0              | 0              | 0              |
| Revenue Contribution to cap  | 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>   |

- 4.21. Work is on-going with budget holders and any adjustments will be reported to Members at the meeting on 9 February 2018.
- 4.22. The Revenue Budget and MTFP allows for a revenue contribution of £200,000 towards the Capital Programme.
- 4.23. 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
- 4.24. 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.
- 4.25. At the moment there are no funds allocated for the Reinvesting for the Future Programme. 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.

### **MEDIUM TERM FINANCIAL PLAN**

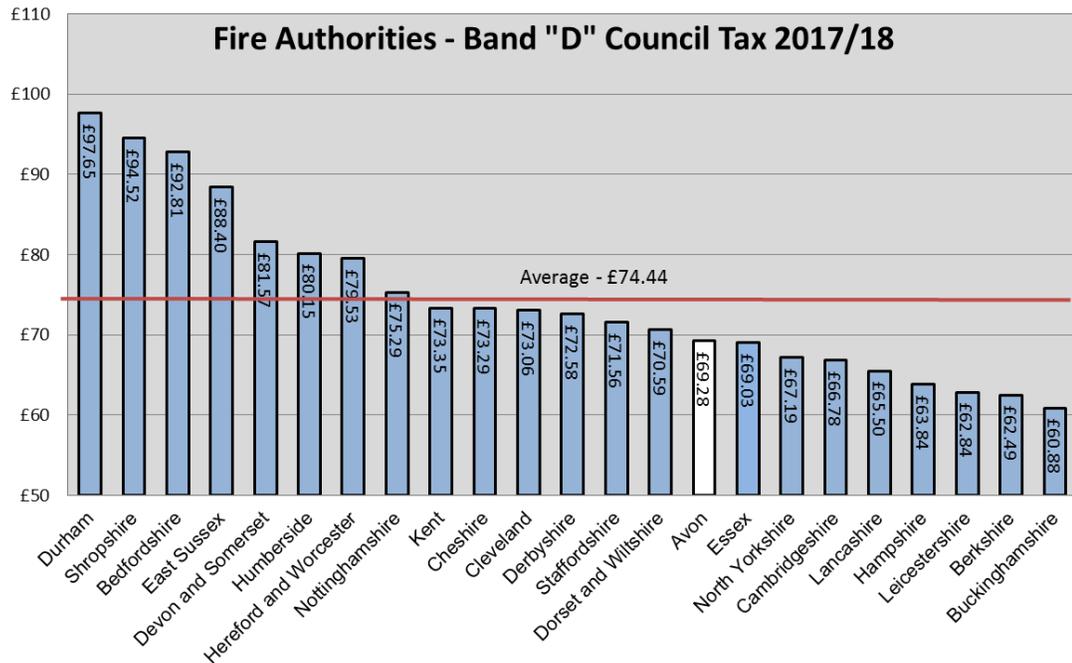
- 4.26. The budget before the use of reserves is expected to increase from £42.6m in 2018/19 to £44.9m by the end of 2021/22. There are additional spending pressures of £1.8m that need to be addressed.

| <b>Medium Term Financial Plan</b>                           |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | Budget         |                |                |                |
|   | 2018/19        | 2019/20        | 2020/21        | 2021/22        |
|   | £'000          | £'000          | £'000          | £'000          |
| <b>Council Tax Increase Target</b>                          | <b>2.00%</b>   | <b>2.00%</b>   | <b>2.00%</b>   | <b>2.00%</b>   |
| Base budget   | 43,122         | 42,648         | 43,232         | 43,815         |
| Effect of pay and price increases, cost of capital          | 1,527          | 781            | 943            | 951            |
| <b>Current base budget</b>                                  | <b>44,649</b>  | <b>43,429</b>  | <b>44,175</b>  | <b>44,766</b>  |
| Add Pressures / growth                                      | (40)           | 591            | (360)          | 106            |
| Less Identified savings                                     | (923)          | 0              | 0              | 3              |
| <b>Initial Budget</b>                                       | <b>43,686</b>  | <b>44,020</b>  | <b>43,815</b>  | <b>44,875</b>  |
| Additional required savings                                 | (1,038)        | (788)          | 0              | 0              |
| <b>Budget before use of reserves</b>                        | <b>42,648</b>  | <b>43,232</b>  | <b>43,815</b>  | <b>44,875</b>  |
| Reserves  | (567)          | (500)          | 0              | 0              |
| <b>Net Budget</b>   | <b>42,081</b>  | <b>42,732</b>  | <b>43,815</b>  | <b>44,875</b>  |
| Less Locally retained business rates                        | (4,936)        | (4,972)        | (4,989)        | (5,007)        |
| Government Support  | (11,603)       | (11,178)       | (11,290)       | (11,403)       |
| Add \ Less effect of Collection Fund deficits \ (surpluses) | 121            | 0              | 0              | 0              |
| <b>Net amount chargeable to Council Tax Payers</b>          | <b>25,663</b>  | <b>26,582</b>  | <b>27,536</b>  | <b>28,465</b>  |
| <b>Band D Council Tax</b>                                   | <b>£70.66</b>  | <b>£72.07</b>  | <b>£73.51</b>  | <b>£74.98</b>  |
| <b>Budget Increase \ (decrease) (excl use of reserves)</b>  | <b>(1.10%)</b> | <b>1.37%</b>   | <b>1.35%</b>   | <b>2.42%</b>   |
| <b>Key Financial Assumptions</b>                            | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|   | £'000          | £'000          | £'000          | £'000          |
| Other Inflation   | 3.00%          | 3.00%          | 3.00%          | 3.00%          |
| Use of Reserves   | (567)          | (500)          | 0              | 0              |
| Estimated Council Tax base                                  | 363,195        | 368,833        | 374,593        | 379,638        |
| Net Collection Fund Positions                               | 121            | 0              | 0              | 0              |
| Government Support  | (4.21%)        | (1.62%)        | 1.00%          | 1.00%          |
| <b>Earmarked Reserves (Excl Working Balance)</b>            |                |                |                |                |
|   | 2018/19        | 2019/20        | 2020/21        | 2021/22        |
|   | £'000          | £'000          | £'000          | £'000          |
| Balance 1 April   | 4,965          | 4,398          | 3,898          | 3,898          |
| Utilised during year  | (567)          | (500)          | 0              | 0              |
| <b>Balance 31 March</b>                                     | <b>4,398</b>   | <b>3,898</b>   | <b>3,898</b>   | <b>3,898</b>   |

- 4.27. 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.

### **HOW DO WE COMPARE?**

- 4.28. For the current year 2017/18 the Fire Authority has set the ninth lowest Band "D" Council Tax (£69.28) compared with the other 22 Combined Fire Authorities (CFAs). Council Tax levels range from £97.65 to £60.88 with the average being £74.44.



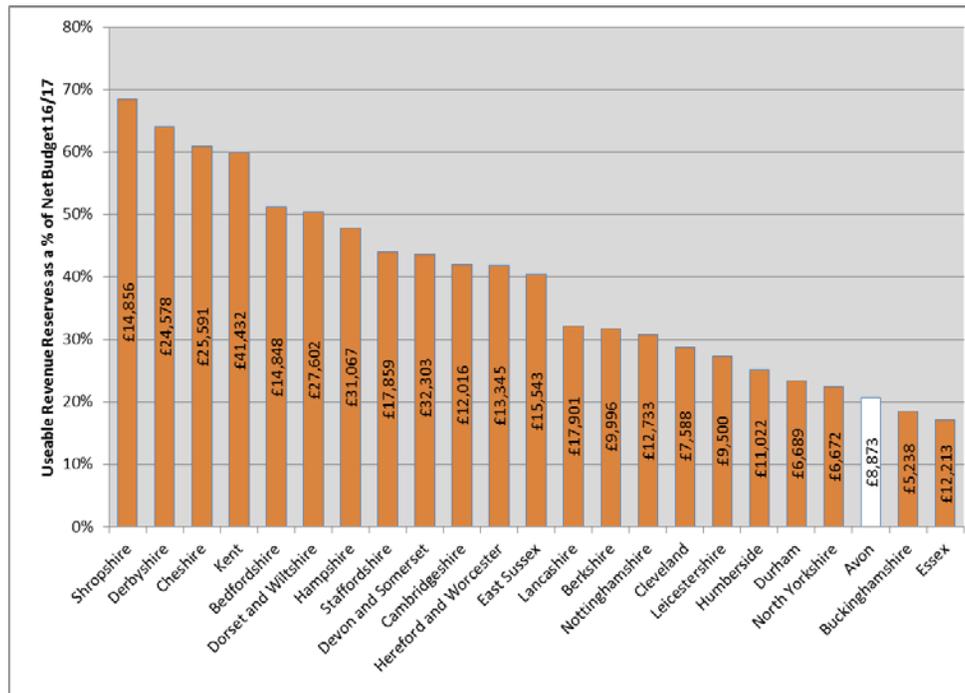
## **PROVISIONS, RESERVES AND BALANCES**

### **Working Balance**

- 4.29. The Fire Authority has decided that a balance of £1.5m or 3.6% of net expenditure should be maintained.

### **Reserves**

- 4.30. Details of the reserves and the financial risk assessment which is used to support the estimated level of general and earmarked reserves is shown in **Appendix 2**. Reserves are held for identifiable purposes, they are not considered excessive, and there is no particular opportunity cost to holding them.
- 4.31. A comparison of the level of usable reserves, as at 31 March 2017, as a percentage of the 2016/17 revenue budget of the 22 CFAs is shown in the table below:



4.32. **The Draft Budget** - At this stage the draft plan for 2018/19 identifies a need to call upon reserves as identified in paragraph 4.7 above. Additionally it identifies additional spending pressures which need to be adequately addressed. A further draw on reserves over the MTFP period may be required to address these spending pressures. Further work on the plan is ongoing and will be available in February 2018. The level of savings over the MTFP is challenging and any shortfall in one particular year will be met from reserves.

## **SECTION 25 REPORT**

4.33. 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. This will be included in the report to the Fire Authority on 9 February 2018.

## **CONSULTATION**

4.34. 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

## 5. CONSIDERATIONS

### 5.1. Contribution to Key Policy Priorities

A robust budget process is needed to ensure that expenditure does not exceed available funding.

### 5.2. Financial Implications

The financial impact of the budget for 2018/19 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.

### 5.3. Legal Implications

The Fire Authority must budget within its means.

### 5.4. Equality & Diversity Implications

The budget supports a range of equalities work and initiatives.

### 5.5. 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.

### 5.6. Environmental/Sustainability Implications

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

### 5.7. Health & Safety Implications

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

### 5.8. Crime & Disorder Implications

None.

**6. BACKGROUND PAPERS**

Working papers are held within the Finance Department

**7. APPENDICES**

1. The Fire Authority's response to the 2018/19 Local Government Finance Settlement: Technical Consultation
2. Financial Risk Identification and Management
3. Reserve Adequacy Analysis

**8. REPORT CONTACT**

Martyn Wallberg, Interim Treasurer and Finance Manager, extension 266.

**AVON FIRE AUTHORITY - RESPONSE TO THE 2018/19 LOCAL GOVERNMENT FINANCE SETTLEMENT: TECHNICAL CONSULTATION**

**Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?**

Avon Fire Authority accepted the Government's four-year offer as set out in 2016-17 which has greatly assisted financial planning over the medium term and agrees that certainty over funding provided by the multi-year settlement should continue. The current four-year offer extends to 2019-20 and Avon Fire Authority would welcome a degree of certainty beyond 2020 to enable such forward planning to continue.

It is important to recognise that fire and rescue services expenditure is based upon risk and resilience and whilst funding reductions have been managed to date further funding cuts will invariably increase the risk to our communities.

There have recently been a number of major incidents across the UK which has placed an increased demand on all emergency services. The UK national threat level has been increased to critical on two occasions this year and it is unlikely that this risk will decrease for the foreseeable future. The Grenfell tragedy also serves as a stark example of a significant fire and the risks to the safety of our communities. The public inquiry into Grenfell is ongoing but there are concerns nationally that without investment in the UK Fire and Rescue Service the number of local, regional and national incidents will increase and subsequently put the safety of communities at an increased risk.

Risk within the environment has changed over recent years and Fire and Rescue Services have been impacted by providing the flood response mechanism for the country. A statutory responsibility for DEFRA which is discharged to Fire and Rescue Services without additional funding

**Question 2: Do you agree with the New Homes Bonus allocations mechanism set out above?**

No comment.

**Question 3: Do you agree that the approach should be based on data collected by the Planning Inspectorate? If you disagree, what other data could be used?**

No comment.

**Question 4: Do you agree with the proposed appeal/challenge procedure for the dataset collated by Planning Inspectorate? If you disagree, what alternative procedure should be put in place?**

No comment.

**Question 5: Are there alternative mechanisms that could be employed to reflect the quality of decision making on planning applications which should be put in place?**

No comment.

**Question 6: Which of the two mechanisms referenced above do you think would be more effective at ensuring the Bonus was focussed on those developments that the local authority has approved?**

No comment.

**Question 7: Do you think that that the same adjustments as elsewhere should apply in areas covered by National Park Authorities, the Broads Authority and development corporations?**

No comment.

**Question 8: Do you think that county councils should be included in the calculation of any adjustments to the New Homes Bonus allocations?**

No comment.

**Question 9: Do you have views on council tax referendum principles for 2018-19 for principal local authorities?**

Avon Fire Authority is generally opposed to the application of council tax referendum principles as they are bureaucratic and undemocratic. It is considered that locally elected members are best placed to determine what would be an acceptable increase in council tax for the local communities that they represent.

The actual costs associated with holding a referendum effectively means that this is not a viable option. To hold a referendum is estimated to cost between £1m and £2m depending on timing and other factors, i.e. other Local Authority requirements. These costs alone would require an increase in council tax of between 4% and 8%.

The referendum principle also appears to have been applied inconsistently across principal authorities which makes it difficult to understand how this principle is being applied fairly and equitably. For example it would appear that shire district councils are being allowed an increase of 2% or £5 whichever is the higher which is a more favourable treatment than all other principal authorities. This inconsistent treatment is further compounded by the fact that local precepting authorities appear to have no restraint imposed on them at all, yet, a significant proportion set a higher precept than nearly all stand-alone fire and rescue authorities.

The core principle of less than 2% as set out in the consultation is currently around half of the 3.9% Retail Price Index (September 2017) and therefore represents a further real terms cut.

If the council tax referendum principles are to continue, then Avon Fire Authority consider that these should be applied fairly and equitably. On this basis it is considered that all Fire and Rescue Services should be given additional flexibilities around the increase in council tax for 2018-19 in line with those afforded to Shire District Councils ie the flexibility to increase council tax by less than 2% or up to and including £5, whichever is the higher. Further supporting evidence for this flexibility is contained within Question 10.

**Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?**

As indicated in question 9 above Avon Fire Authority is generally opposed to the application of council tax referendum principles. It considers that locally elected members are best placed to determine what would be an acceptable increase in council tax for the local communities that they represent and that this decision making process should not be restricted by the introduction of referendum principles by Central Government.

If the council tax referendum principles are to continue then they should be applied fairly and equitably. Avon Fire Authority considers all Fire and Rescue Services should be given additional flexibilities around the increase in council tax for 2018-19 in line with those afforded to Shire District Councils ie the flexibility to increase council tax by less than 2% or up to and including £5, whichever is the higher.

The evidence in support of this additional flexibility for fire and rescue services is as follows:

- Although there has been a long term downward trend in the number of incidents attended by Fire and Rescue Services, Government statistics show that there has been a small increase in the last two years. Between 2015/16 and 2016/17 the total incidents attended nationally increased by 6%, which included an increase in non-fire incidents of 14%. Indeed, 2016/17 was the first year that Fire and Rescue Services attended more non-fire incidents than fires, showing a trend for non-fire incidents which we expect to continue. This is due to a number of factors including the excellent protection and prevention work carried out across the country which continues to help to reduce the number of fires and fire and rescue services expanding the role they undertake, particularly in relation to medical response and assisting other agencies.
- It was also estimated within the Review of Fire and Rescue Service response times (2009), Department for Communities and Local Government, that the increased response times would cause an £85m increase in "Other Buildings' fire damage.
- Fire and rescue authorities need to be funded based on risk, not just demand. Recent terrorist incidents and large scale fires such as the Grenfell fire demonstrate that authorities need to be able to respond to a range of incidents. During the current year the UK national threat level has been raised to critical on two occasions and it is unlikely that this risk will decrease for the foreseeable future. As a result we are already seeing Government led initiatives such as preparation for Marauding Terrorist Firearms Attack (MTFA) impacting on fire services, with allocated one off funding not necessarily covering all of the increases in operating costs associated with maintaining firefighter safety. It is also likely that a number of recommendations will come from the Grenfell enquiry that will place additional financial burdens on fire and rescue authorities. As yet these are unknown, but our professional judgement is that we anticipate the scope and scale of our fire safety work increasing, particularly in relation to increased inspection programmes and building regulation consultation.
- Capital grant funding of £70m was previously provided to fire and rescue authorities but this was removed after 2014-15. The amount received by Avon Fire Authority was £1.1m which equates to around 2.6% of the revenue budget. The removal of this funding is not reflected in the government's analysis of core spending power which is used to measure the impact of funding reductions on authorities. This capital grant

was used to fund essential property, fleet, equipment and IT infrastructure. This funding has now got to be funded from the revenue budget which has increased spending pressures.

- The current level of inflation is creating increased pressure on budgets. As of September 2017, the Retail Price Index (RPI [All Items]) shows that prices have increased by 3.9% over the past twelve months. This is almost double the proposed 2% referendum limit.
- Avon Fire Authority has budgeted for a 1% increase in pay awards per annum over the next four years in line with the Government's public sector pay cap. The latest offer to firefighters is 2% for 2017-18 and a further 3% in April 2018 (subject to funding being available). The impact of the offer above the original budget assumption of a 1% increase will add additional budget pressures equivalent to a 3.6% increase in Council Tax. Any lifting of the public sector pay cap is also likely to result in an increase in pay awards for other non-uniformed staff above the budgeted 1% increase.
- Fire and Rescue Services provide emergency cover 24 hours per day, 365 days per year. The average cost to council tax payers for stand-alone fire and rescue services in 2017-18 was £74.44 per annum or 20 pence per day. A £5.00 per annum increase would add 1.4 pence per day.

**Question 11: What factors should be taken into account in determining an Alternative Notional Amount for Combined Authority mayors?**

No comment.

**Question 12: Do you agree with the proposed approach to correcting the reduction in relevant county councils' income from the Adult Social Care precept?**

No comment.

**Question 13: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.**

No comment.

**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  |

### Reserves Adequacy Analysis

| Reserve                                  | Purpose   | Likelihood | Impact | 31 March<br>2017<br>£'000 | MTFP<br>2017/18<br>£'000 | 31 March<br>2018<br>£'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                       | -72                      | 328                       |
| 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 cmmittments to commissioning services from the voluntary sector and safety campaigns                                    | High       | Medium | 49                        | -49                      | 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  |            |        | 90                        | -20                      | 70                        |
| Capital Financing                        | To support funding of the future Capital Progamme as a result of reductions in Capital Grant and any variations in expenditure. | High       | High   | 628                       | -20                      | 608                       |
| Training Procurement Reserve             | To review the procurement of training and production of unified procurement package to reduce costs                             | High       | High   | 40                        | -40                      | 0                         |
| Operational Fitness Reserve              | To develop and implement fitness assessment and delivery programme including the recruitment of a Physical training instructor  | High       | High   | 70                        | -35                      | 35                        |
| Document Management System Reserve       | To implement Corporate wide document and email management system to improve administration and information security             | High       | High   | 60                        | -60                      | 0                         |
| HQ relocation Reserve                    | To fund necessary works at Avon & Somerset Police Headquarters to facilitate the relocation of headquarters to Portishead.      | High       | High   | 914                       | -914                     | 0                         |
| Equality & Inclusivity Reserve           | To fund independent review to inform the organisation's strategic direction to reflect issues of culture and inclusivity        | High       | High   | 50                        | -50                      | 0                         |
| ESCMP Reserve                            | Government Grant received in respect of ESCMP works to commence 2017/18   | High       | High   | 236                       | -236                     | 0                         |
| Best Value Improvement Reserve           | To provide funding for Best Value Improvement Programme   | High       | High   | -                         | 1,500                    | 1,500                     |
| <b>Hydrants</b>                          | To fund additional cost of repair works arising from increased inspections  | High       | Medium | 100                       | 0                        | 100                       |
| <b>Medical Intervention</b>              | To fund medical interventions to assist employees to return to work   | Medium     | Medium | 40                        | 0                        | 40                        |
| <b>Austerity Reserve</b>                 | To support implementation of new procedures / ways of working   | High       | High   | 2,186                     | -1,500                   | 686                       |
| <b>Earmarked Reserves</b>                |   |            |        | <b>5,711</b>              | <b>-1,496</b>            | <b>4,215</b>              |
| <b>PFI Equalisation Fund</b>             |   |            |        | <b>1,662</b>              | <b>0</b>                 | <b>1,662</b>              |
| <b>Total Earmarked Reserves</b>          |   |            |        | <b>7,373</b>              | <b>-1,496</b>            | <b>5,877</b>              |
| <b>Working Balance</b>                   |   |            |        | <b>1,500</b>              | <b>0</b>                 | <b>1,500</b>              |
| <b>Total Reserves</b>                    |   |            |        | <b>8,873</b>              | <b>-1,496</b>            | <b>7,377</b>              |