

MEETING:	Fire Authority
MEETING DATE:	20 December 2018
REPORT OF:	Chief Fire Officer / Chief Executive Temporary Interim Treasurer
SUBJECT:	Draft Budget 2019/20

1. SUMMARY

- 1.1. The purpose of this report is to provide Members with an update on the development of the 2019/20 budget and the Medium Term Financial Plan (MTFP) for the four year period 2019/20 to 2022/23. 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. The report sets out two options:
 - **Option 1** – An increase in Council Tax for 2019/20 of 2.99% (from £71.35 in 2018/19 to £73.48 in 2019/20 for a Band D Property) in line with the Governments latest announced referendum limit.
 - **Option 2** – An increase in Council Tax for 2019/20 of 1.99% (from £71.35 in 2018/19 to £72.76 in 2019/20 for a Band D Property) in line with the Governments previously announced referendum limit agreed by Members in principle.
- 1.3. This report also reviews the levels of earmarked and general reserves.
- 1.4. 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 £396,000 in 2019/20.
 - **Medium Term Financial Plan** – Since the current MTFP was approved by Members in February 2018 there have been a number of changes to the key assumptions, particularly around employer pension costs, pay awards, and

inflation, which have resulted in unbudgeted spending pressures over the four year MTFP of £2.6m which will need to be addressed.

- **Local Government Finance Settlement 2019/20** – The Provisional Local Government Finance Settlement for 2019/20 was announced on 13 December 2018. The announcement confirmed that for 2019/20 the Fire Authority will see a 2.45% reduction in its formula grant settlement figure over 2018/19, which is in line with expectations. The announcement also confirmed that the referendum limit allows Fire and Rescue Authorities (FRAs) the discretion to increase the Council Tax for 2019/20 by less than 3%.
- **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 MTFP on which to base the financial strategy. Members will need to consider the Government's referendum limit for 2019/20 and the need to address unbudgeted spending pressures.

2. RECOMMENDATIONS

The Fire Authority is asked to:

- a) Approve the approach and the current assumptions being used to develop the 2019/20 budget and 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 2019/20 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 13 February 2019.
- c) Maintain the level of working balance at £1.5m (approximately 3% of the proposed 2019/20 budget).
- d) Note the projected level of reserves contained within Appendix 2 and the relatively low level of Usable Revenue Reserves compared to other FRAs.
- e) Note the current position in terms of the development of the MTFP as set out in paragraph 3.40 the forecast level of savings target contained within it and the identified financial risks.

3. BACKGROUND

Existing Budget 2018/19 and Medium Term Financial Plan 2018/19 to 2020/21

- 3.1. The current budget for 2018/19 and the MTFP 2018/19 to 2021/22 were approved by Members at their meeting on 9 February 2018. 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 MTFP of £2.6m 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%	2%
	19/20	1%	3%
	20/21	1%	2%
	21/22	1%	2%
Non-uniform Pay Award	17/18	1%	2%
	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%	2%

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. General inflation is currently running at 2.2%

Budget 2019/20 and Medium Term Financial Plan 2019/20 to 2022/23

3.5. The latest MTFP was approved by the Fire Authority at its meeting on 9 February 2018.

3.6. 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 FRAs 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-finances>.

Government formula funding

3.7. As part of this settlement there will be further reductions in formula grant of £396,000 in 2019/20 over 2018/19.

3.8. Funding allocations beyond 2019/20 are not clear due to the pause in the proposed 100% Business Rate Retention and the Fair Funding Review. In addition, the Government has announced that a Spending Review will be carried out in 2019 which will inform future spending targets for public sector bodies. At this stage it has been assumed that from 2020/21 the amount of funding, currently provided by the formula funding mechanism, will remain static, which represents a real terms reduction after inflation is taken into account.

Provisional Local Government Financial Settlement 2019/20

- 3.9. The provisional Local Government Finance Settlement for 2019/20 was announced on 13 December 2018. This announcement confirmed the formula grant settlement figure for the Fire Authority to be £15.766m in 2019/20, representing a reduction of £396,000 over 2018/19 (-2.4%). This figure is in line with expectations as reported in the four year settlement and included in the MTFP.
- 3.10. It is difficult to make accurate assumptions relating to grant settlements beyond 2019/20. The Government is planning its next Spending Review to be completed during 2019 which will inform spending targets for Government Departments beyond 2019/20. For planning purposes it would be extremely helpful for local government bodies to receive a multi-year settlement similar to the four-year settlement period we are currently in. However, it is possible that the Government reverts to a single year settlement for 2020/21 particularly given the added complexities of moving from the current 50% Business Rates Retention system to a 100% system.
- 3.11. For planning purposes an assumption has been made that funding settlements for 2020/21 to 2022/23 will remain static at 2019/20 figures. This represents a change from our previous assumption that 2020/21 would see an increase in our funding settlement figure of 1%. A 1% reduction in funding settlement for this Authority represents a cash reduction of £158,000.
- 3.12. Details of the changes in the formula funding assessment that have been included within the budget and MTFP are shown below:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
% Government Funding Assessment Reduction	-2.45%	0.0%	0.0%	0.0%
Grant reduction	-396	-	-	-

An analysis of the funding received from Central Government for 2019/20 is shown in the table below:

Summary in Changes in Formula Funding			
	2018/19 £'m	2019/20 £'m	Variation %
Government Funding Assessment	16.162	15.766	-2.45%
Less Locally Retained Business rates assessment	-4.609	-4.695	1.87%
Funding received from Central Government	11.553	11.071	-4.17%

Council Tax Referendum limit

- 3.13. 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.
- 3.14. 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 FRAs.
- 3.15. The Government published a technical consultation document in July 2018 “The 2019-20 Local Government Finance Settlement” which, amongst other things, proposed council tax referendum principles to be applied in 2019/20 for different classes of local bodies. For FRAs the limit to be applied is 3%.
- 3.16. Whilst no Fire Authority response was made to this consultation due to staff absence in previous years the Fire Authority has submitted a comprehensive response. The key points from the 2017 response which can equally be applied to the most recent consultation 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 FRAs should be given additional flexibilities around the increase in Council Tax 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).

Draft Budget

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

Key Assumptions - 2019/20	
Item	
Reduction in Fire Formula Grant	-2.4%
Capital Grant allocation (excluding capital bids) £'m	0.0
Capping limit	3.00%
Increase in tax base	2.1%
Collection fund surplus / (deficit) £'000	245
Increase in pay awards – Firefighters	3.0%
Support staff	2.0%
S31 grants will continue for USAR	Yes
General Inflation	2.00%

3.18. **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 surplus of £245,000 for 2019/20. This reduces the amount needed to be raised from Council Tax or met by additional savings in 2019/20.

3.19. **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 2019/20 is projected to be 368,419, an increase of 2.1%.

3.20. **Other Grants**

(a) Urban Search and Rescue (USAR) and FireLink

It is anticipated that Urban Search and Rescue (USAR) and the FireLink 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 FRAs. Additional Government grant estimated to be £184,850 in 2019/20 will be paid to cover these costs.

(b) Firefighters Pensions Scheme – additional employer's contributions

The HM Treasury announced changes to the discount rate for unfunded public sector pensions (including fire) on 6 September 2018. This, combined with the earlier announcement at Budget 2016, has the effect of increasing the employer contributions (to include ill-health costs) from 17.6% to 30.2% from April 2019.

The Government Actuary's Department has estimated that the additional cost to Fire as a result will be around £107m per annum. However, HM Treasury has indicated that additional funding will be provided to public sector bodies in 2019/20 in order to mitigate most of this increase, with the sector paying only the additional costs announced at Budget 2016 (a reduction in the discount rate from 3% to 2.8%). This means that Fire will pay only £10m of the additional costs in 2019/20, with the remaining £97m being provided via a grant under s.31 of the Local Government Act 2003.

The 2019/20 base budget therefore includes a s.31 grant figure of £2.035m to cover 90% of the additional pension cost to the Fire Authority in 2019/20. It should be emphasised that there is no commitment beyond 2019/20, only that the issue will need to be considered alongside the Spending Review in 2019. Consequently, the MTFP forecasts have made the assumption that this grant will cease from 2020/21.

3.21. **Capital Programme** - The revenue budget includes a contribution of £200,000 towards funding the 2019/20 Capital Programme.

3.22. The estimated funding available for 2019/20 (based on Option 1 an increase in Council Tax of 2.99%) is shown in the following table:

Funding Analysis			
	2018/19	2019/20	Variation
	£'m	£'m	
Other Fees and Charges	0.449	0.661	47.2%
Central Government			
Formula Funding	16.162	15.766	-2.5%
Less Locally retained business rates	-4.609	-4.695	1.9%
Specific Government Grants	1.875	3.952	110.8%
Total funding from Central Government	13.428	15.023	11.9%
Local Tax Payers			
Locally retained business rates	4.658	4.546	-2.4%
Council Tax	25.742	27.073	5.2%
Collection Fund Surplus\ (Deficit)	-0.225	0.245	-208.9%
Total Local taxpayers	30.175	31.864	2.4%
Funding before use of reserves	44.052	47.548	-2.6%
Use of Reserves	0.813	0.405	
Total Revenue funding	44.865	47.953	6.9%

3.23. The development of the 2019/20 draft budget (based on Option 1) is shown in the table below, and is based upon the latest approved establishment levels:

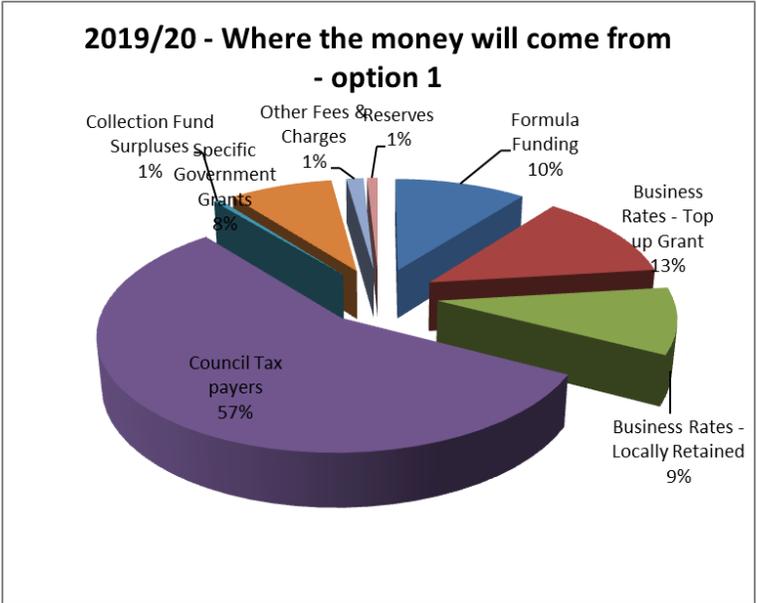
Development of the 2019/20 Draft Budget			
	Gross Expenditure	Income	Net Expenditure
	£'000	£'000	£'000
Core Budget 2018/19	44,168	-2,324	41,844
- add back use of reserves 2018/19	813	0	813
Base Budget 2018/19	44,981	-2,324	42,657
Pay and Prices			
- Pay awards	869	0	869
- Energy inflation	11	0	11
- Other inflation	193	-47	146
Commitments			
- Capital financing (IFTP)	-303	0	-303
- Other	3,087	-2,241	846
Identified Savings			
- Employees	-151	0	-151
- Capital financing	0	0	0
- Other	-378	0	-378
2019/20 Revenue Budget Requirement	48,309	-4,612	43,697
Identified Funding			
- Locally Retained Business Rates			-4,546
- Central Government Support			-11,072
- Collection Fund (surplus) \ deficit			-245
- Identified Use of Reserves			-406
- Use of Reserves & unidentified savings			-356
Balance of Funding from Council Tax Payers			27,072
Band D Council Tax			£73.48

3.24. As indicated, the above table has been drafted on the basis of Option 1, an increase in Council Tax of 2.99%. Should the decision be taken to agree Option 2, an increase in Council Tax of 1.99%, then this would increase the

requirement to identify further savings in 2019/20 by an amount of £262,000, from £356,000 to £618,000.

Sources of Funding

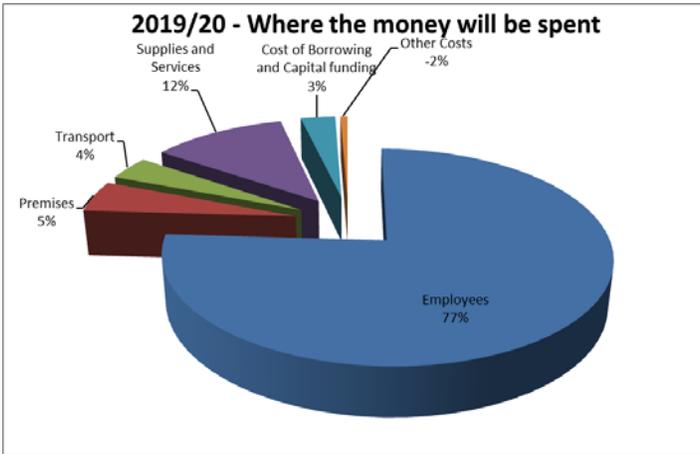
3.25. The sources of funding for the 2019/20 budget are expected to total £47.9m. An analysis is shown in the chart below:



3.26. **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

3.27. A subjective analysis showing where the budget will be spent in 2019/20 is shown in the chart below:



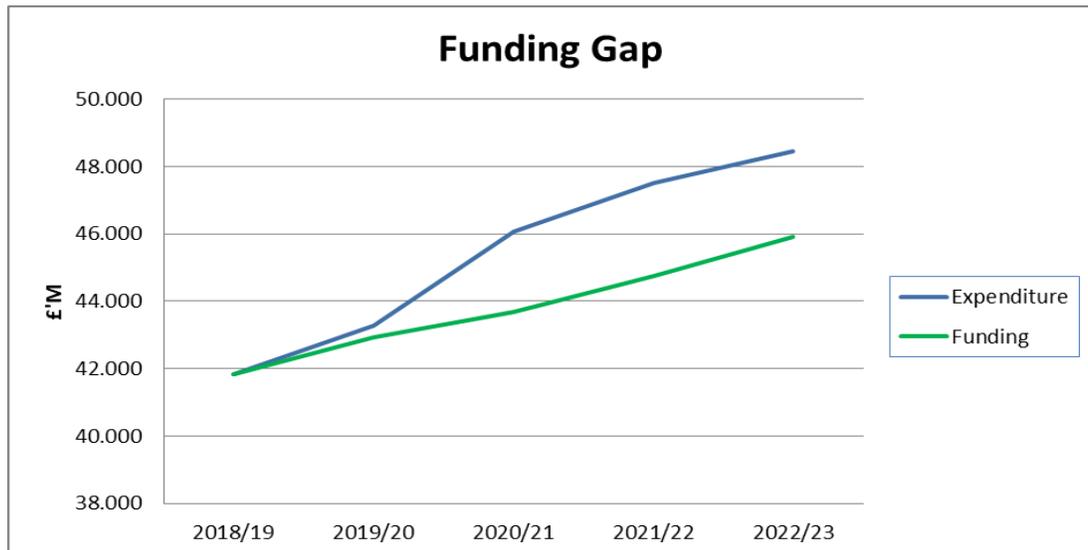
Savings Analysis

- 3.28. An analysis of savings included in the 2019/20 draft budget and the MTFP are set out in the table below:

Analysis of Savings 2019/20 - 2022/23					
Area	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Employees	-151	0	0	0	-151
Premises	-209	0	0	0	-209
Transport	0	0	0	0	0
Supplies and Services	-170	-17	-6	-6	-199
Other Costs	1	-145	0	0	-144
Unidentified savings	-356	-2,017	-396	219	-2,550
Savings on Expenditure	-885	-2,179	-402	213	-3,253
Income	0	0	0	0	0
Total Net Savings	-885	-2,179	-402	213	-3,253

Funding Gap

- 3.29. The changes to the original assumptions used in the MTFP identified above has resulted in a forecast funding gap of £2.6m over the MTFP as shown in the graph below.
- 3.30. The major factor for this forecast funding gap is from the assumption that the s.31 government grant of £2.035m payable in 2019/20 to fund 90% of the additional employer's pension costs, as reported above, will cease from 2020/21. We are advised by the Home Office that issue of future funding for this additional cost will be considered alongside the HM Treasury Spending Review during 2019.



- 3.31. Should the decision be made by the Fire Authority to agree to Option 2 (increase in Council Tax of 1.99%), then the forecast funding gap would increase from £2.6m to £2.8m.

Risk and Sensitivity analysis

- 3.32. **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.
- 3.33. In terms of financial management a risk analysis has been undertaken which identifies the risks and appropriate mitigations and this is shown in **Appendix 1**.
- 3.34. **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:

Sensitivity Analysis		
Item / Risk	Variation of %	Estimated full year Cost / Saving £'000
Pay awards		
- Uniformed	1%	224
- Other	1%	52
Pensions		
Uniformed employer contribution rate		
- 1992 scheme (& RDS Modified Scheme)	1%	45
- 2006 scheme	1%	3
- 2015 scheme	1%	130
Other employer contribution rate	1%	52
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%	263
Inflation	1%	43
Reduction in formula grant	1%	158

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 2** and incorporated into the medium term plan.

Use of Reserves

- 3.35. 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

- 3.36. Work is currently underway with spending departments in developing a revised Capital Programme for 2019/20 to 2022/23, to be reported to the budget setting meeting in February 2019 alongside the revenue budget report.
- 3.37. The Revenue Budget and MTFP allow for a revenue contribution of £200,000 towards the Capital Programme, and contains sufficient budget to meet capital finance charges emanating from previously agreed programmes.
- 3.38. Any capital expenditure above this budget 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
- 3.39. 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.

Medium Term Financial Plan

- 3.40. The budget before the use of reserves is expected to increase from £43.3m in 2019/20 to £45.9m by the end of 2022/23. There are additional spending pressures of £2.6m that need to be addressed.

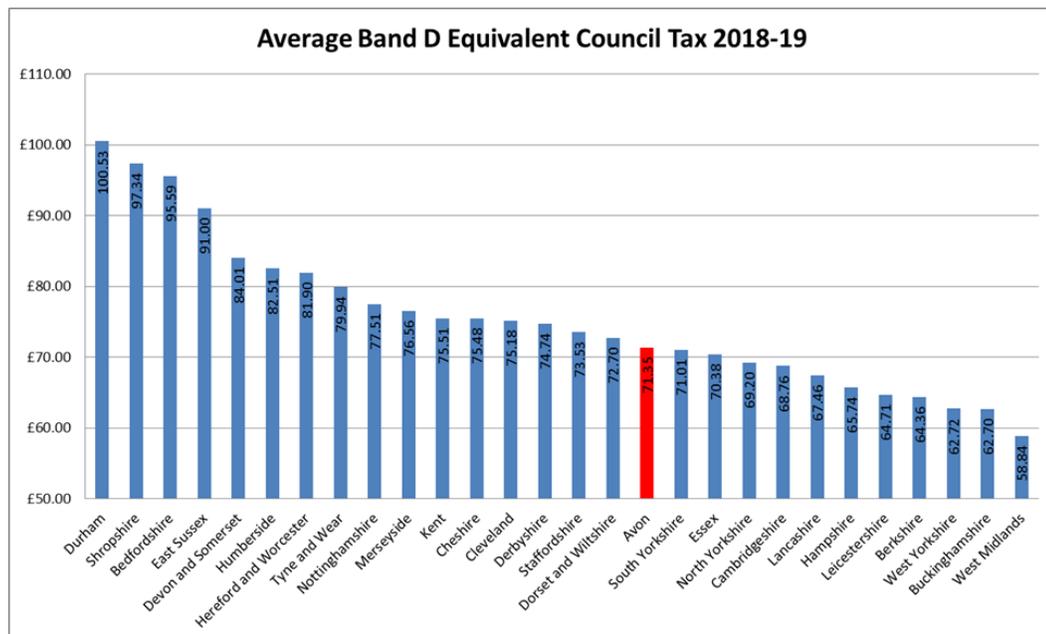
Medium Term Financial Plan - Option 1 (Council Tax Increase of 2.99%)				
	Budget			
	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Council Tax Increase Target	2.99%	1.99%	1.99%	1.99%
Base budget	42,656	43,340	43,696	44,743
Effect of pay and price increases, cost of capital	1,026	927	904	924
Current base budget	43,682	44,267	44,600	45,667
Add Pressures / growth	542	1,608	545	8
Less Identified savings	(528)	(162)	(6)	(6)
Initial Budget	43,696	45,713	45,139	45,669
Additional required savings	(356)	(2,017)	(396)	219
Budget before use of reserves	43,340	43,696	44,743	45,888
Reserves	(406)	0	0	0
Net Budget	42,934	43,696	44,743	45,888
Less Locally retained business rates	(4,546)	(4,592)	(4,638)	(4,685)
Government Support	(11,072)	(11,072)	(11,072)	(11,072)
Add \ Less effect of Collection Fund deficits \ (surpluses)	(245)	0	0	0
Net amount chargeable to Council Tax Payers	27,073	28,034	29,037	30,137
Band D Council Tax	£73.48	£74.95	£76.44	£77.97
Budget Increase \ (decrease) (excl use of reserves)	1.60%	0.82%	2.40%	2.56%
Key Financial Assumptions	2019/20	2020/21	2021/22	2016/17
	£'000	£'000	£'000	£'000
Other Inflation	2.00%	2.00%	2.00%	2.00%
Use of Reserves	(405)	0	0	0
Estimated Council Tax base	368,420	374,056	379,848	386,506
Net Collection Fund Positions	(245)	0	0	0
Government Support	(2.45%)	0.00%	0.00%	0.00%
Earmarked Reserves (Excl Working Balance)	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Balance 1 April	4,267	3,861	3,861	3,861
Utilised during year	(406)	0	0	0
Balance 31 March	3,861	3,861	3,861	3,861

Medium Term Financial Plan - Option 2 (Council Increase of 1.99%)				
	Budget			
	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Council Tax Increase Target	1.99%	1.99%	1.99%	1.99%
Base budget	42,656	43,075	43,419	42,727
Effect of pay and price increases, cost of capital	1,026	927	904	924
Current base budget	43,682	44,002	44,323	43,651
Add Pressures / growth	542	1,608	545	8
Less Identified savings	(528)	(162)	(1,783)	(6)
Initial Budget	43,696	45,448	43,085	43,653
Additional required savings	(621)	(2,029)	(358)	207
Budget before use of reserves	43,075	43,419	42,727	43,860
Reserves	(406)	0	0	0
Net Budget	42,669	43,419	42,727	43,860
Less Locally retained business rates	(4,546)	(4,592)	(4,638)	(4,685)
Government Support	(11,072)	(11,072)	(11,072)	(11,072)
Add \ Less effect of Collection Fund deficits \ (surpluses)	(245)	0	0	0
Net amount chargeable to Council Tax Payers	26,808	27,757	28,748	29,836
Band D Council Tax	£72.76	£74.21	£75.68	£77.19
Budget Increase \ (decrease) (excl use of reserves)	0.98%	0.80%	(1.59%)	2.65%
Key Financial Assumptions	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Other Inflation	2.00%	2.00%	2.00%	2.00%
Use of Reserves	(405)	0	0	0
Estimated Council Tax base	368,420	374,056	379,848	386,506
Net Collection Fund Positions	245	0	0	0
Government Support	(2.45%)	0.00%	0.00%	0.00%
Earmarked Reserves (Excl Working Balance)				
	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
Balance 1 April	4,267	3,861	3,861	3,861
Utilised during year	(406)	0	0	0
Balance 31 March	3,861	3,861	3,861	3,862

- 3.41. The continued reduction in funding from Government provides a 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?

- 3.42. For the current year 2018/19 the Fire Authority has set the 12th lowest Band "D" Council Tax (£71.35) compared with other Fire Authorities. Council Tax levels range from £100.53 to £58.84 with the average being £75.40.



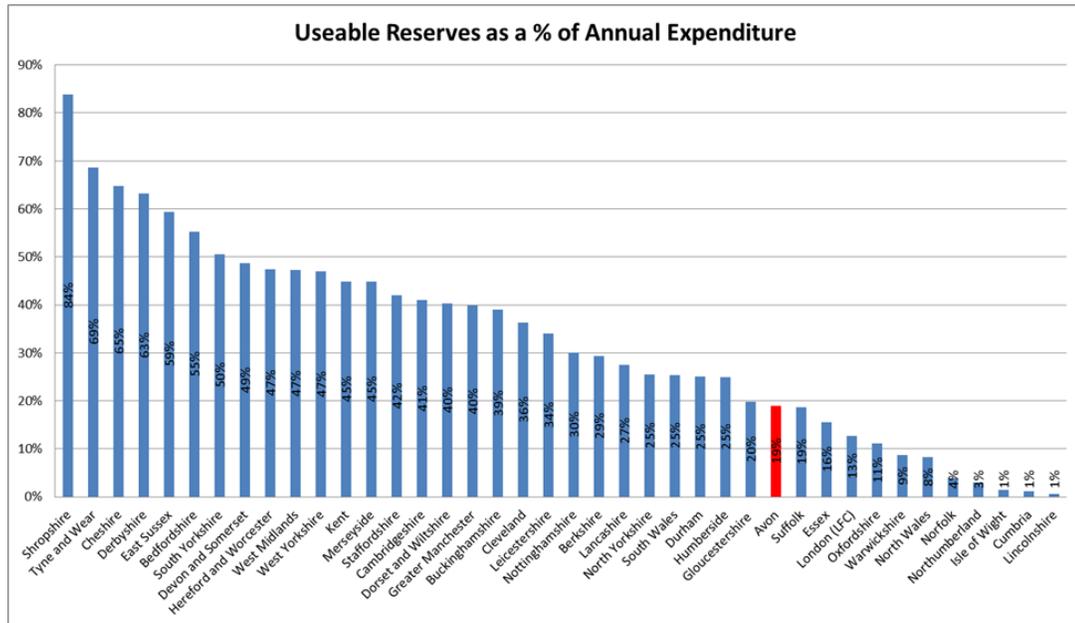
Provisions, Reserves And Balances

Working Balance

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

Reserves

- 3.44. 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.
- 3.45. A comparison of the level of usable reserves, as at 31 March 2019, as a percentage of the 2018/19 revenue budget is shown in the table below:



3.46. **The Draft Budget** - At this stage the draft plan for 2019/20 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 2019. The level of savings over the MTFP is challenging and any shortfall in one particular year will be met from reserves.

Section 25 Report

3.47. Members need to be aware that s.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 13 February 2019.

Consultation

3.48. 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

4. CONSIDERATIONS

4.1. Contribution to Key Policy Priorities

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

4.2. Financial Implications

The financial impact of the budget for 2019/2020 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.

4.3. Legal Implications

The Fire Authority must budget within its means.

4.4. Equality & Diversity Implications

The budget supports a range of equalities work and initiatives.

4.5. 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.

4.6. Environmental/Sustainability Implications

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

4.7. Health & Safety Implications

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

4.8. Crime & Disorder Implications

None

5. BACKGROUND PAPERS

Working papers are held within the Finance Department

6. APPENDICES

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

7. REPORT CONTACT

Kevin Woodward, Interim Temporary Treasurer.

Financial Risk Identification and Management

Financial Risk Identification and Management	
Item	Mitigation
Higher than budgeted pay awards	Reserves and balances, vacancy and recruitment management
Increase in employer pension contributions	Reserves and Balances and changes in Government funding
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 2018 £'000
Pension / Budget Pressure Reserve				
PPE / ICP Replacement Reserve	To fund fluctuations in PPE costs following introduction of the Integated Clothing project.	Medium	Medium	25
Control Resilience Reserve	To provide supplementary support for implementation of control resilience programme	Medium	Medium	328
Premises / H&S Reserve critical works	To fund critical Premises / H&S works	Medium	Medium	200
Pension Reserve	To fund fluctuations in ill health retirements	High	Medium	320
Legal Fees Reserve	Finance unexpected Legal Costs	Medium	Medium	100
Community Safety Reserve	To fund commitments to commissioning services from the voluntary sector and safety campaigns	High	Medium	34
Marketing & Communications Reserve	To support community safety advertising campaigns and initiatives.	Medium	Medium	28
Auxillary Reserve	To provide training and equipment for auxiliary staff	High	High	75
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	608
Operational Fitness Reserve	To develop and implement fitness assessment and delivery programme including the recruitment of a Physical training instructor	High	High	70
Document Management System Reserve	To implement Corporate wide document and email management system to improve administration and information security	High	High	60
ESMCP Reserve	Government grant to fund the new Emergency Services Mobile Communications Programme	High	High	462
Procurement Reserve				40
Equality and Inclusivity Reserve	To fund independent review to inform the organisation's strategic direction to reflect issues of culture and inclusivity	High	High	74
Improvement Programme	To provide funding for the improvement programme	High	High	1,500
Airbus SC Response Software				6
Strategic Development Software				10
Hydrants	To fund additional cost of repair works arising from increased inspections	High	Medium	100
Medical Intervention	To fund medical interventions to assist employees to return to work	Medium	Medium	40
Invest to Save Reserve	To support implementation of new procedures / ways of working	High	High	1,000
PFI Equalisation Fund				1,613
Total Earmarked Reserves				6,693
Working Balance				1,500
Total Reserves				8,193