Appendix 4

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Financial Strategy

2018/19 – 2021/22

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1. Introduction

This is Bedfordshire Fire and Rescue Authority's (BFRA) Medium-Term Financial Strategy (MTFS). It is a four year strategy which covers the financial years 2018/19 to 2021/22 and seeks to build upon the work undertaken in developing previous MTFS. It contains the Authority's agreed plans for both revenue and capital expenditure and the planned sources of funding to support that expenditure. It also explains the Authority's supporting strategies for matters such as council tax levels, efficiency savings, the use of reserves/reserves strategy and capital funding.

In addition, the plan also seeks to provide the strategic context for these financial plans, linking them to the national and local context and the Authority's corporate objectives and medium-term strategic priorities.

BFRA has been a precepting body since 2004/05 and is required by the Local Government Finance Act 1992, as amended by the Local Government Act 2003, to set a budget requirement and levy a tax on local council taxpayers each year. The Authority is also required to maintain adequate reserves to cope with unforeseen commitments.

In common with many other authorities, each year since becoming a precepting authority, BFRA has experienced a pressurised financial situation which has necessitated robust and effective medium-term financial planning and the taking of some difficult decisions, in order to present acceptable and affordable budgets.

This year has seen the continuation of the harsh economic climate. However, BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves.

The Authority has a planning process which aligns its financial planning with its strategic and integrated risk management planning processes, the key outcomes of which are captured in the Authority's Community Risk Management Plan (CRMP). The financial implications of the CRMP are thus fully integrated into the annual budget plan and MTFS. Both the CRMP and MTFS cover a rolling four year timescale and are revised on an annual basis. This MTFS has therefore been developed to ensure that resources are adequate and appropriately directed to deliver the aims, objectives and key priorities of the Authority.

The Authority's corporate risk management process, which identifies key organisational risks and puts into place controls to manage these risks, also plays a major role in determining the outcomes of the planning process. This includes an annual assessment of the potential financial impact of such risks, which in turn is used in determining the most appropriate level of financial reserves for the Authority.

2. National Context

Service planning, and therefore financial planning, must take place with due regard to the national policy context for the fire and rescue service and economic and public expenditure plans.

Emergency services play an essential part in serving our communities and keeping them safe. Whilst the police, fire and rescue and NHS ambulance services all have distinct frontline roles, it is clear that close collaboration between them can provide real benefits for the public and help each service better meet the demands and challenges they face.

The Prime Minister's announcement on 5 January 2016 that responsibility for fire and rescue policy had transferred from the Department for Communities and Local Government to the Home Office again demonstrates the Government's commitment to closer collaboration between police and fire and rescue services.

In a number of Fire and Rescue Authorities, moves are being taken for the Police and Crime Commissioner to take on the governance responsibility of the Fire and Rescue Service. This has already taken place in Essex and we are due to hear the outcome of the six business cases that are having an independent assessment.

There has also been a newly created National Fire Chiefs Council (NFCC). The NFCC and the role of Chair commenced in April 2017. The NFCC is made up of senior representatives from all fire and rescue services across the UK.
The new Council will provide clear, professional advice to government (including devolved administrations) and the wider sector on matters such as professional standards, operational guidance, research and sharing best practice, while supporting the whole of the UK FRS.

As part of the reform agenda, a Fire and Rescue inspectorate has been created, with the Authority's review due in the first tranche of inspections in summer 2018.

The Authority is implementing where appropriate, the recommendations from the Thomas Review.

The following sections cover in broad outline the national context within which the budget and other aspects of MTFS have been framed.

2.1. National Statutory and Policy Context:

The Fire and Rescue Services Act 2004 represented the most comprehensive reform of the statutory framework for the service for more than fifty years and brought about far reaching changes to the way in which individual fire and rescue authorities plan and deliver their services. Amongst the most fundamental of these was the replacement of the previous prescriptive standards of fire cover with a framework for local integrated risk management planning, a duty to engage in preventative community safety work and the provision for a National Framework (revised in July 2012) to provide clarity for Fire and Rescue Services on the

Government's expectations. There is currently a consultation being held on the revised National Framework, with a closing date of 14thFebruary 2018.

In addition, a range of Statutory Instruments have been introduced over recent years, which between them impose new duties on the Service, including the requirement to respond to emergencies other than fire, such as road traffic collisions, chemical, biological, radiological and nuclear (CBRN) incidents, serious flooding and major search and rescue incidents. The new responsibilities are not limited to response, but also extend to the need for the fire and rescue service to play a key role in civil contingency planning.

The Government's policy direction and approach towards localism, transparency, accountability and the Big Society agendas have already led to some far-reaching changes for the fire and rescue service nationally. These changes have included:

- Cessation of the Comprehensive Area Assessment regime.
- Abolition of the Audit Commission.
- Closure of Regional Government Offices.
- Abolition of Fire and Rescue Regional Management Boards.
- Cessation of the national Regional Fire Control Centres project.
- Abolition of the fire and rescue national procurement agency, Firebuy.
- Direction, as part of the Comprehensive Spending Review for 2011/12 onwards, that Fire and Rescue Authorities should focus their measures to achieve the savings required over this period upon:

    - Flexible staffing arrangements;
    - Improved sickness management;
    - Pay restraint and recruitment freezes;
    - Shared services/back office functions;
    - Improved procurement;
    - Sharing Chief Officers and other senior staff;
    - Voluntary amalgamations between fire and rescue authorities.

- The passing of the Localism Act 2011 which included a power of general competence for fire authorities, power for fire authorities to charge for attendance at false alarms caused by defective automatic fire alarm systems and a range of other provisions concerning transparency, accountability and community empowerment which also impacted on fire authorities.

Sir Ken Knight conducted a review of the Fire and Rescue Service that was published in May 2013. In summary the report details a number of key recommendations around efficiency, deployment, collaboration, shared governance models and thinking about the future. Areas for further consideration include reconfiguration of Services to better match the response to the risk and demand, development and sharing of innovative crewing and staffing models, increasing the use of on-call firefighters, greater collaboration between blue light services and challenging the inconsistent expenditure patterns between services.

Reform

The previous Home Secretary (now Prime Minister) outlined her visions for fire and rescue services in May 2016. This was a “radical ambitious” package of reforms. This approach was then supported by the new Home Secretary and the then Minister for Policing and Fire, Brandon Lewis.

The reform agenda is made up of three distinct pillars. These are:

1. Efficiency and Collaboration

   The aim is to drive deeper collaboration between fire and rescue and other local services – including through the statutory duty in the Policing and Crime Act – and support CFOA/NFCC and the sector deliver commercial transformation, including procuring more collaboratively, efficiently and effectively.

2. Accountability and Transparency

   The aim to enable the public to fully hold their service to accounts by replacing opaque governance and inspection arrangements and publishing more comparable performance indicators.

3. Workforce Reform

   The recommendations are the sector and Government to deliver and are based around five broad themes:

   - The working environment including diversity of workforce
   - Documented conditions of service
   - Industrial relations
   - Retained duty system and
   - Management

On a more local level; the Service continues to work with a range of statutory and non statutory partners in pursuit of joint initiatives that will make our communities safer and healthier. Of particular interest is the appointment of Police and Crime Commissioners and the impact that this will have on our joint working with the Police and others within the criminal justice system. With shrinking budgets and a Government desire to ‘do more for less’ the expectations of all partner organisations on each other will increase. As a Service we must ensure we remain best placed to meet this challenge. The Authority actively seeks joint working arrangements to best meet the need of the community. It is likely that following Parliamentary approval, the Police and Crime Commissioner for Bedfordshire will become a voting member of the FRA. The Authority awaits the guidance on this process from the Home Office.

2.2 **National Financial Context:**

The provisional local government finance settlement was announced by the Secretary of State Communities and Local Government, Sajid Javid MP, in an oral statement to the House of Commons on Tuesday 19th December 2017.

The headlines below provide a brief summary of the key points:

Headlines

- Increased council tax referendum principle from 2% to 3% for 2018-19 and **2019-20** for all Fire Authorities, Shire Counties, Single Tier Unitaries, Metropolitan Districts and London Boroughs. The maximum £5 increase was maintained for district councils
- Announcement of the Government's 'aim' **to localise 75% of business rates** from 2020-21 and implementation of the **new needs assessment (the FRA receives 1%)**
- **Consultation** in the Spring on 'fair and affordable options' **to tackle negative RSG** in 2019-20 (applies to come counties with fire responsibility but no stand-alone fire authorities)
- In addition to those already announced; **ten new 100% business rates retention pilots** have been accepted for 2018-19
- **No Transition Grant in 2018-19**
- **A national increase in the 2018-19 core spending power of 1.5%** compared to 2017-18. NFCC members (including counties and unitaries with fire) see an increase in Spending Power of 2.5%, with stand-alone fire authorities seeing an average increase of 3.2%
- **RSG no longer a comparable measure of funding:** those authorities taking part in 100% Business Rates Retention pilots will not receive RSG as the funding will be reflected in an increased baseline funding level
- Increase in the **Rural Service Delivery Grant for 2018-19 to £65M** in line with 2017-18 and 2019-20. However, piloting authorities forgo this grant
- **£946M** paid in **New Homes Bonus**. Further **reduction in the number of payment years** from 5 years in 2017-18 to 4 years in 2018-19. NHB will continue to be paid on housing growth above 0.4% (0.4% in 2017-18). (Applicable to counties and unitaries with fire responsibility)
- Continuation of capital receipts flexibilities for a further 3 years

Council Tax Referendum Principles

- **3% council tax referendum trigger for fire authorities, counties, unitaries, London Boroughs and GLA (up from 2%)**
- **Continuation of the Adult Social Care (ASC) precept** at 2% with the flexibility to increase the precept by 1% to 3% in 2018-19 provided that increases do not exceed 6% between 2017-18 and 2019-20
- For shire districts 3% council tax referendum trigger or £5, whichever is higher (up from 2%)
- Police precepts can be increased by up to £12. This equates to between 5.34% and 12.20% for English PCCs. This compares to allowing a £5 increase for those in the lowest quartile of PCCs and a 2% threshold otherwise in 2017-18.

3. Local Context

3.1 **The Authority's Area:**

Bedfordshire occupies a geographically central position within the UK. It has exceptional links to London with the presence of key transport infrastructure including the M1 and A1 roads, three major rail routes and London Luton Airport. Bedfordshire has a population of over 640,000[1] people, with a workforce of over 250,000[2]. It has one of the most diverse populations in the country, over a relatively small geographical area.

The county is, in land use terms, largely rural and agricultural, including major areas of outstanding natural beauty. Most people (over 70%) live in its larger towns including the two major towns of Luton and Bedford but also in a number of smaller market towns. These towns lie within often picturesque rural settings which also includes many villages that add to the area's diversity of places to live, work and play.

Over recent years the local economy, like many throughout the UK, has moved from traditional manufacturing and heavy industry to one based more upon the service industry. These industries include logistics and air transport, higher education, research and development, tourism and hospitality, creative and cultural businesses, construction, and business services.

Bedfordshire has two successful universities; the post-graduate Cranfield University, and the under-graduate University of Bedfordshire, together with strongly performing further education colleges based in Bedford, Luton and Dunstable. There are a number of significant and internationally linked research locations at these universities and also at Colworth Science Park, Cranfield Technology Park and the Millbrook Vehicle Proving Ground.

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[1] *Source: ONS Mid-Year estimates July 2014.*
[2] Business Register & Employment Survey, Office for national Statistics Full & Part Time Employment

There are on-going major transport infrastructure improvements and developments to the road system within the county and continued growth at London Luton Airport; a key deliverer in the business passenger market and handling circa 10 million passengers a year in total.

Town centre redevelopment is underway in many of the county's towns, and in particular in Luton and Bedford.

There are also iconic visitor attractions in the county, such as Woburn Safari Park, Whipsnade Zoo and Center Parc's fifth UK village at Woburn.

From April 2009 local government within the county has been through three unitary authorities - Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. The Bedfordshire Fire and Rescue Authority (BFRA) comprises elected Members from each of these unitary authorities, whose numbers are proportional to the populations they represent: 3 Members from Bedford Borough Council, 5 Members from Central Bedfordshire Council and 4 Members from Luton Borough Council.

3.2. **The Authority's Strategic Priorities Objectives:**

The achievement of the Authority's objectives and targets within a rapidly changing and complex environment requires a robust strategic and business planning process which must in turn guide the development of the medium-term revenue and capital expenditure plans, targeting financial resources to support day-to-day activities as well as planned investment.

Such effective business planning is also essential in order to embed a Service-wide culture of providing the best quality service through the most efficient means and ensure that efficiency measures can be used to free up existing resources, enabling them to be redirected to new and emerging priorities.

BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves. In the recent years the Authority has:

- Changed the shift system at all of our wholetime fire stations.
- Changed the shift system at 1 of our 2 day crewed fire stations.
- Restructured our management teams and reduced the number officers.

In accordance with its corporate planning policies and procedures, the Service undertakes a strategic assessment twice per year that assists in identifying the strategic issues facing the Service both in the short and longer term and to ensure that the Service is best positioned to continue to achieve its strategic objectives. The production of the Service's Community Risk Management Plan (CRMP) is facilitated by the Strategic Assessment and considers a wide range of factors and issues, many of which are complex and played out over a longer timeframe, whilst others are less complex but more volatile requiring close monitoring.

The outcomes of the strategic assessment also guide the development of more detailed plans across the Service and in particular the programme of strategic improvement projects for the forthcoming year and medium-term beyond and play a vital role in guiding and prioritising proposals for expenditure in the annual budget setting and medium-term financial planning process.

The Service planning processes and current medium-term strategic assessment has led to the development of three key strategic objectives and associated priorities that we will pursue in order to achieve these objectives (Note: these are not ranked in order of importance) and our Vision that is *'To provide an excellent service for the communities of Bedfordshire'.*

Our Strategic Objectives

Strategic Objective 1: To respond effectively, manage risks and reduce the number of emergency incidents that we attend.

We will provide 'Civic Leadership' in delivering our services by:

- Matching operational response resources to risk;
- Responding to medical emergencies in the community, delivering life-saving support working alongside the Ambulance Service; Focussing on policy, procedures and processes that underpin Fire-fighter and community safety;
- A continued focus on operational excellence and safety through the provision of high quality procedures and equipment;
- Demonstrating proactive leadership within the community and amongst our partners in delivering a wide but risk-focused portfolio of services, where our brand and capabilities make us best placed to act (such as young people, sport focused initiatives, the elderly, social cohesion etc); and,
- Enhanced strategic partnerships with other Services and agencies in the public, private and voluntary sectors in pursuit of achieving shared local priorities.

And:

We will enhance our customer focus through:

- Use of customer insight techniques (customer segmentation, customer journey mapping etc);
- Enhanced consultation with and involvement of communities;
- Improved use of risk and socio-demographic data to identify our 'at risk' groups and emerging issues such as an ageing population and the impact of mental health/dementia etc;
- Use of social marketing techniques, including the effective use of social media, to change behaviours in regard to staying safe; and
- Using an 'embedded' approach to diversity in relation to our customers and the community.

Strategic Objective 2: To ensure high standards of corporate governance and continued service improvement.

We will ensure a rigorous, business-like approach through:

- Robust financial scenario planning to meet the continued programme of austerity measures;
- Improved strategic planning and quality control systems including robust business cases for strategic expenditure;
- Improved performance measurement, reporting and management and enhanced audit and developed Quality Assurance processes;
- Maximise opportunities from external challenges and influences to deliver improvements across the Service;
- Continuous review of structures to meet the needs of the community to deliver efficient and effective services;
- Rigorous evaluation of outcomes;
- Process improvements to achieve efficiencies;
- Collaboration and where appropriate shared services to achieve resilience and efficiencies; and
- A focus on sustainability in all our business processes.

And:

Using Transformational Information and Communication Technology (ICT) by:

- Further enhancement and development of ICT systems to support our service delivery functions;
- Improved Management Information System applications;
- Continuing to develop ICT systems to share data and information with partners and make such data and information more accessible whilst ensuring the continued security of our systems; and
- Utilising technology to maximise business outcomes.

Strategic Objective 3: To develop our employees and create a safe, fair and caring workplace for our staff.

We will have the right people with the right skills by:

- Having a continued focus on operational excellence through safety and training;
- Reviewing our approach to leadership to determine the critical capabilities required of leaders to deliver the Service's future strategies;
- Having a continuing ethical and moral leadership approach;
- Developing an expanded skills-base and flexible workforce that will provide public value and a wider range of service delivery outcomes;
- Continue delivering a programme of investment in training and equipment across the Service;
- The use of effective change management processes.
- Using an 'embedded' approach to diversity in relation to our staff;
- Maintaining robust individual performance management systems aligned to service strategy;

- Utilising knowledge, skills and competence;
- Succession planning;
- Supporting innovation.

3.3. **Government Funding Settlement:**

The Government’s provisional settlement was announced on 14 December 2017. The Authority is yet to receive the final settlement figures at the time of writing this report which is due to be published in time for circulation prior to the Fire and Rescue Authority meeting on 8 February 2018. The final funding announcement was in early February in 2017 for the Authority’s 2017/18 settlement. This provisional settlement figures are detailed below in Table 1.

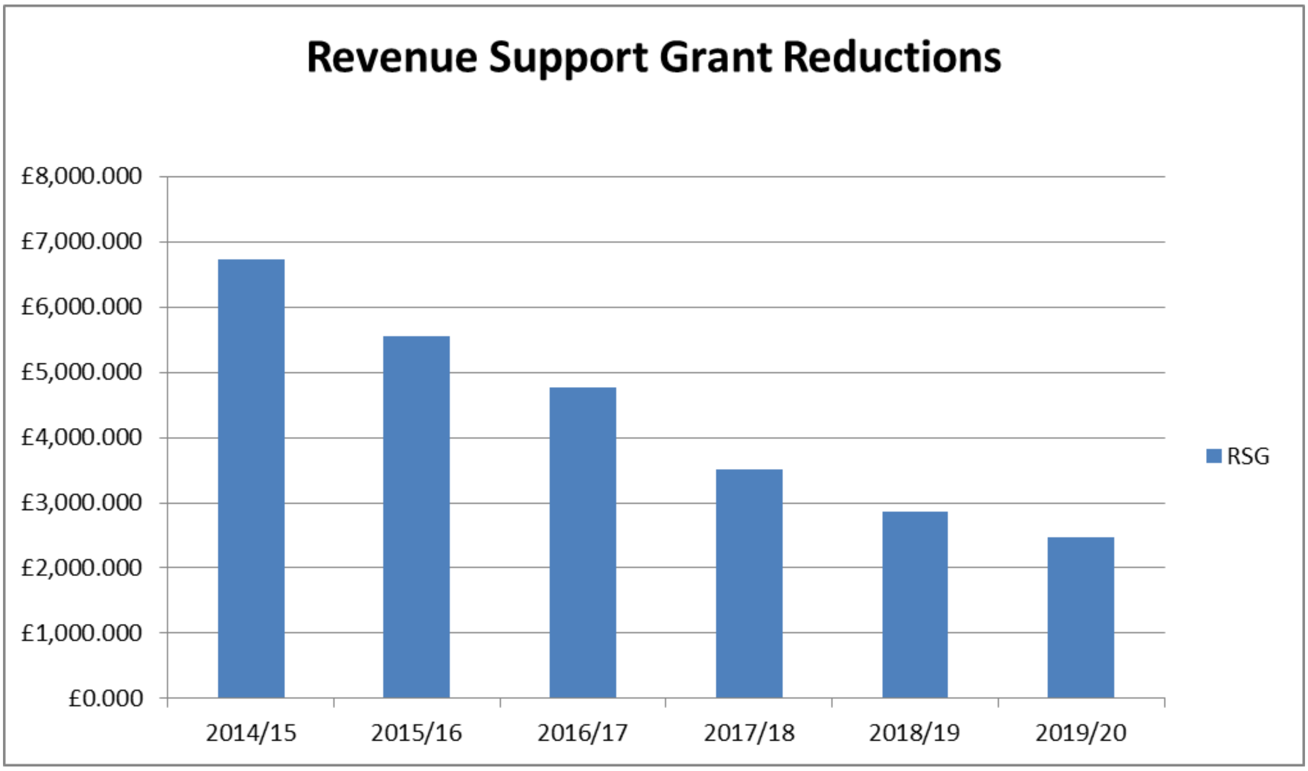
Table 1: Government Grant Revenue Funding

	2017/18 £m	**2018/19 £m**	**% change**
Revenue Support Grant (RSG)	3.509	2.856	(18.6%)
Business Rates baseline funding	5.549	5.716	3.0%
Settlement Funding Assessment	**9.058**	**8.572**	**(5.37%)**

As detailed above, the funding reduction between 2017/18 and 2018/19 is 5.37% over both grant and business rates income.

The chart below details the Revenue Support Grant income reductions since 2014/15. These reductions have been visible in the Medium Term Revenue Plan and have course led to increased savings and efficiencies.

Chart 1: Revenue Support Grant reductions from 2014/15 to 2019/20



The Authority's Business Rates baseline funding level has been assessed at £5.716m by the DCLG for 2018/19 and a business rate baseline estimated at £2.022m (the Government's estimate of the Authority's 1% share of locally collected business rates). As our business rate baseline is lower than the baseline funding level, we are therefore a 'top up' authority and will receive the payment of £3.694m from central government (to get back to the £5.716m baseline funding level). All fire and rescue services are top up authorities. The total funding of £8.572m shown above for 2018/19 will be split between £2.856m Revenue Support Grant funding and £5.716m Business Rates. The £2.022m was the estimate by the DCLG, this has now been confirmed by the local authorities at £2.136m, therefore £114k more than the Government had assumed. The split of this between local authorities is shown below in Table 2.

Table 2: Local Business Rates income.

Authority	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Bedford	615	641	654	667
Luton	660	674	687	701
Central Beds	861	934	994	1,039
Total	2,136	2,249	2,335	2,407

The above figures are fed into the MTRP. As are the Section 31 Business Rates Grants of £166,000 in total from the three Unitary Authorities.

As previously reported, the Authority in future years will be subject to fluctuations of the Business Rates collected in Bedfordshire. If business rates income increases, the Authority will receive a share of this, if it decreases the Authority will be impacted by this. There are mechanisms in place within the funding scheme that offer protection, called safety nets, should an authority be considerably adversely impacted.

The Chancellor has previously announced that by 2020, authorities will be funded by Business Rates and Council Tax, the Revenue Support Grant (RSG) will cease. Authorities are yet to be advised how this will work and when it will be eventually implemented. We are yet to see if Fire and Rescue Authorities will have a change in funding to grant and council tax only, which would be in line with Police Authority funding.

The detailed split of the Authority's total funding and local council tax is shown in Table 3 below:

Table 3: Detailed income split

	2017/18 £m	**2018/19 £m**	**Change £m**
Budget Requirement (£m)	28.716	29.416	0.700
Funded by:			
Precept Requirement (£m)	18.994	19.972	0.978
Central and Local Gov Funding (£m)	9.120	8.709	(0.411)
Section 31 Business Rates grant	0.224	0.174	(0.050)
Collection Fund surplus/(deficit)	0.378	0.291	(0.087)
Use of reserve (Collection Fund)	0	0.270	0.270
Funding Total (£m)	28.716	29.416	0.700
Tax Base (Band D equiv. properties)	204,653	208,933	4,280
Band 'D' Council Tax	£92.81	£95.59	£2.78

The above income lines are further explained below:

- The Government Grant funding for 2018/19 is as per the provisional settlement figures provided by the DCLG, with the exception of the local business rates. For business rates, as noted below, the more up to date local authority information is used.

- The Precept Requirement is the total of council tax income to the Authority.

- The local business rates for 2018/19 are the figures provided by the three local authorities, as reported in their NNDR 1 returns which were due to be submitted to the DCLG by 31 January 2017. The years 2018/19 to 2021/22 have been increased by using the DCLG's figures for the top up grant and the unitary authority figures for the local share. The Section 31 grant included in the table above are for the following reliefs; Multiplier Cap, Small Business Rate Relief and financially minor reliefs.

- The Business Rate top up is the figure calculated and provided by the DCLG. This is fixed until the next revaluation. A revaluation has just taken place with new impacts for the 2018/19 budget, due from the Valuation Office Agency (VOA) recalculations.

- Council Tax Taxbase, is the Band D equivalent number of properties. For the fifth year there is a lower figure than in 2012/13 and prior years due to the changes in the benefits system, which has reduced the taxbases. This reduced council tax income was offset by the Council Tax Support funding that was separately identifiable in 2013/14 but from 2014/15 has been included in the general Government funding calculations.

3.4 **Damping:**

In allocating grant, the Government utilises a device known as ‘floor damping’ to ensure that no fire and rescue authority receives below a prescribed minimum adjustment to the level of grant in comparison to the previous year (the ‘floor’). To achieve this, the grant for some other authorities is reduced (‘damping’) and the money used to increase the grant to those authorities needing it to ensure that they receive the ‘floor’.

This Authority has been adversely affected by the ‘floor damping’ process, with ‘damping’ reductions of £227,222 in 2012/13 and £332,745 in 2013/14 incorporated into its grant settlements. For 2014/15 onwards the impact of damping is not as visible as it has previously been and is now included with the RSG figures.

3.5. **Other Revenue Grants:**

In addition to the formula funding, the Government provides specific revenue grants. For the two grants listed below, these are forecast to total £200,000 in 2018/19.

- *Firelink* - This is for the wide area radio system in England, Wales and Scotland for the fire and rescue service.

- *New Dimensions* - This is a grant to cover local costs associated with hosting and maintaining skills associated with national resilience vehicles. As recently reported to the FRA, this grant has reduced from 2017/18.

The total and split of the 2018/19 funding is yet to be received from the DCLG.

As well as the above, a grans is also received on an ad hoc for the Firearms team.

3.6. **Fire Capital Grant Allocation:**

The Authority’s Capital Programme to date has been mainly funded by Government Grant and loans.

In the 2012/13 financial year, the Authority received £1.058m of Fire Capital Grant. The 2013/14 and 2014/15 financial years were subject to a bidding round. The Authority did not receive any funding for bids but, did receive an allocation from the residual monies post successful bids, which was £0.832m in each year.

For 2015/16, there was again a bidding round for £75m revenue and capital. The prior capital funding of £70m per annum was reduced to £40m and £35m was top sliced from revenue funding to create the £75m funding pot.

The Authority was successful in one individual bid for a Retained Duty System review including new communications hardware £308,000 and two joint bids. The joint bids are with eight other Fire and Rescue Services to set up a Mutual Company to cover a protection programme (instead of traditional insurance) at £220,000 in total and £1.4m with two other Fire and Rescue Services for IT Service Transformational Efficiency Programme (STEP) developments.

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. From 2018/19 there will be a base budget revenue contribution of £1.3m per annum. This is with the assumption that capital grants are not forthcoming. It has been confirmed that there will not be a capital funding bidding round for 2018/19, which is consistent from 2016/17 and 2017/18 too.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Capital Strategy Team has also reviewed and assessed the bids made, approving the schemes that are attached at Appendix 3 as the 2018/19 Capital Programme.

Key items of note in the proposed 2018/19 Capital Programme of £1.253m are:

- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT.
- Investment in the modernisation of our buildings.

4. <u>The Medium-Term Revenue Plan</u>

4.1. Overview and Key Features of the Revenue Budget Strategy:

The Medium-Term Revenue Plan (MTRP), attached at Appendix 1 of the 2018/19 budget report, sets out the Authority's revenue budget strategy for the next four years and the predicted impact on council tax. It captures all of the revenue budget implications of the forecasts and assumptions set out throughout this document, including the impact of the capital budget on revenue.

A key feature of the Authority's overall revenue budget strategy is the decision to set a budget for 2018/19 which involves a 2.99% increase in council tax on 2017/18 levels. This 2.99% council tax increase is combined with strategies for council tax, efficiency savings and the use of reserves, which together are aimed at delivering significant and sustainable savings over the four year period and beyond, whilst supporting continuing improvements in the quality of service in line with the Authority's strategic priorities.

The council tax strategy, based on current assumptions and estimates, involves increases at 2.99% for 2018/19 and 2019/20, with 1.99% for 2020/21 and 2021/22. The 2.99% increases are currently built into the MTRP based on need. This is supported by a strategy for efficiency savings and the utilisation of the 'transformational reserve' in 2018/19 onwards. The support provided to the revenue budget by the planned use of the reserves in the years 2018/19 to 2021/22 is aimed at smoothing the impact of formula grant reductions.

4.2 Components of the Medium-Term Revenue Plan:

The following sections give a brief explanation of each of the main components of the MTRP:

4.2.1 *Base Budget*

The net revenue budget for running the Service in 2017/18 was £29.284m. After adjusting for an amount of £568,000, which was a contribution from reserves to balance the budget, this decreased the budget requirement to £28.716m.

For the 2018/19 budget, the net revenue budget is £29.676m, with a budgeted use of £277,000 from the Transformational reserve decreasing the budget requirement to £29.416m.

4.2.2 *Impact of Pensions Funding Changes*

From 2006/07 arrangements were introduced which saw the majority of firefighters pension costs being paid for from the pension account (that is separate from the BFRA's budget), which is funded by a combination of employers' and employees' contributions with Government paying the balance. The level of the employers' contributions is set by the Government Actuary Department and applies uniformly across all Authorities. The BFRA is still responsible for injury retirements and the initial contribution towards ill-health retirements.

The employer pension contributions percentage will increase for non operational employee from April 2017, however, in the initial years this is offset by a reduction to the lump sum contribution. The employer firefighter contributions are forecast to increase from April 2019.

4.2.3 *Forecast Variations*

This component of the budget includes a variety of estimated or predicted impacts. The items for increases on insurance premiums and investment interest decrease/increase are self-explanatory and the figures given represent estimates based on information currently available. The Revenue Implications of the Capital Programme represent the cost of capital borrowing (minimum revenue provision, loan, interest repayments, running costs) on the revenue budget.

The item on non-uniform incremental drift relates to increases in pay for non-uniformed staff as a result of increased 'time served' which results in their moving up the 'spinal column points' within their salary scales.

Of particular importance are the items on efficiency savings. As noted at the start of this Section, the Authority's efficiency savings strategy is a core component of the MTRP. The efficiency savings for each of the four years are shown as two types: Transformational Efficiencies/Savings which relate to far-reaching organisational changes, normally associated with significant strategic projects; and Budget Manager Process Efficiency Savings which relate to incremental cost reductions and improvements in ways of working for which all senior managers are set annual targets across all non pay-related budgets. Further details of the Authority's efficiency savings strategy are given in Section 4.3 below.

Of course it is important to remember that actual spending will be under significant pressure . Already we are already aware of the increase in National insurance contributions for employers from April 2016 and the new apprenticeship levy from April 2017.

4.2.4 *Inflation*

Staff Pay: Direct employee costs amount to circa £23.4m or 80% of the revenue budget and as a result the annual pay awards in the latter years of this current budget setting process have a significant impact on future expenditure levels. Specifically for 2018/19, there is an increase in pay forecast at 2% for non-uniformed officers and an estimated 4% for uniformed officers from July 2018 until July 2019 and 2% from July 2019. For uniformed officers, this pay award may be linked with a review on conditions of service.

This budget will fund wholetime and retained operational staff, emergency fire control operators and full-time and part-time support staff pay awards. All of the Authority's pay awards are determined by national negotiating bodies and, other than through the Employers' representatives on the negotiating team, the BFRA has no direct influence on the outcome and, therefore, the use of estimates for budget projections is required. There will be significant pressure around pay awards.
Prices Inflation: This includes all non-pay items, from indirect employee costs such as recruitment, insurance, occupational health and health and safety related provision and operational training, through to premises, transport, supplies and services. Non-pay inflation of 2% for general supplies and services has been incorporated into the MTRP for 2018/19. This is lower than current RPI and CPI, but deemed manageable. There is a separate line for an inflation provision for gas, electricity, water and diesel.

4.2.5 *Budget Pressures*

This line of the MTRP refers to proposed items of new or additional expenditure brought forward by managers during the process of budget setting, which have been approved for taking forward into the budget. These are known as 'FMS 3' projects (after the number of the business case template used for submission) and all have been subject to rigorous scrutiny. Within the process for 2018/19, these pressures have also been kept to a minimum through the extensive efforts of managers to identify efficiency savings in order to meet the costs of many of the service improvements to be implemented over the coming year.

4.2.6 *Estimated Net Revenue Expenditure*

This line of the plan shows the sum total of each of the above expenditure elements and thus represents the total budgeted revenue spending on the Service.

4.2.7 *Contributions to/from General Reserves*

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. Details of the amounts and nature of Reserves which the Authority has decided to hold are given in Section 4.4.

4.2.8 *General and Earmarked Reserves, below*

This line of the MTRP shows how the Authority plans to use the Transformational Reserves, as per the strategy, in years 2018/19 to 2021/22. This strategy is supported by the Authority's efficiency savings plans and the proposed council tax strategy over the four years of the MTRP and is aimed at smoothing the impact of the estimated reductions in formula grant in 2018/19 to 2021/22, thereby allowing adequate time for longer-term efficiency savings measures to deliver sustained reductions to base budget requirements, whilst maintaining levels of service delivery.

4.2.9 *Collection Fund*

For 2012/13 and the years before, a collection fund deficit arose for a local authority (a billing authority) when the actual amount of council tax collected by the Authority is less than the amount calculated based upon the number of properties (tax base) and level of council tax set. This can arise due to a number of reasons including an over-estimation of the tax base and non-payment by householders. Conversely, a collection fund surplus can arise when the amount of council tax collected exceeds the calculated amount due to an under-estimation of the council tax base. From 2013/14, there is also now a surplus or deficit on the business rates collected too.

For 2018/19, the respective estimated Collection Fund position of each of its constituent authorities (Bedford, Central Bedfordshire and Luton) has resulted in a net collection fund surplus of £291,000 for this Authority. This means that the Authority's net funding from council tax for this year only is effectively increased by that amount. This is detailed on an individual authority basis in Table 4 below.

Table 4: 2017/18 Collection Fund estimated outturn

Authority	Council Tax £'000 (surplus)/deficit	Business Rates £'000 (surplus)/deficit	Net £'000 (surplus)/deficit
Bedford	(122)	17	(105)
Luton	(214)	12	(202)
Central Beds	(3)	19	16
Total	**(339)**	**48**	**(291)**

For a combined fire authority, any collection fund deficit or surplus will represent the combined 'net' result of its share of each of its constituent authorities' estimated year-end Collection Fund position.

To cater for such variations, Authorities maintain a Collection Fund Reserve to or from which contributions from/to the revenue budget are made in the year following the variation. Should there be an overall deficit in a future year, the Fire and Rescue Authority has allocated a reserve to support this.

4.2.10 *Budget Requirement and Increase*

This element shows the estimated net revenue budget requirement for each of the years of the Plan, together with net and percentage increase on previous years. It is the result of adjusting the total estimated net revenue expenditure figure to take account of the contributions to/from the General and Collection Fund Reserves.

It is helpful to break down the budget requirement by service function (as defined within the Service Reporting Code of Practice) since this illustrates relative change in resourcing of separate areas to reflect the Authority's strategic priorities and plans. This breakdown is provided in Table 5 below which shows the net revenue expenditure by Service function for each year of the medium-term strategy.

Further detail on the nature of these Transformational Efficiencies is given under Section 4.3 Efficiency Savings Strategy, below.

Table 5: Revenue Budget Expenditure 2018/19 – 2021/22 by Service Function					
	Strategic Objective	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Community Safety	1	1,400	1,380	1,380	1,380
Firefighting and Rescue	1 & 2	14,640	15,423	15,797	15,877
Emergency Response Support	1 & 2	2,686	3,359	2,609	2,609
Training and Development	2	1,569	1,537	1,537	1,537
Human Resources	2 & 3	1,169	1,169	1,169	1,169
Corporate Support	2 & 3	5,842	5,990	6,178	6,450
IT and Communications	2 & 3	1,692	1,754	1,704	1,704
Strategic Management	3	857	953	953	953
Transformational Efficiency Savings		(178)	(150)	(244)	(375)
Net Revenue Expenditure		**29,676**	**31,415**	**31,083**	**31,304**
Contribution to/(from) Reserves		(260)	(1,837)	(902)	(390)
Budget Requirement		**29,416**	**29,578**	**30,182**	**30,914**

4.2.11 *Financed By*

This element of the Plan shows the detail of the separate sources of revenue funding required to meet the estimated budget requirement for each year of the Plan, ie from where the Authority’s revenue income comes.
The detailed split of funding is shown earlier in the MTFS in Table 3.

4.2.12 *Calculation of Band D Council Tax and Percentage Increase*

The tax base used in the MTRP projections represents the number of Band D equivalent properties in the three constituent local authorities that BFRA precepts upon (ie Bedford, Central Bedfordshire and Luton). The tax base for 2018/19 has been set at 208,933 Band D equivalent properties, based on the information that has been supplied by these authorities. The split per authority is shown in Table 6 below. This is an increase of 2.09% compared to the 204,653 taxbase in 2017/18. The increase is due to various factors including the levelling out of benefits, exemptions and discounts and incentivised new housing developments.

The estimated increases of future years council taxbases are included within the MTRP.

Also shown is the percentage increase in council tax projected for each year of the MTRP. As explained previously, these equate to 2.99% for 2018/19 and 2019/20, with 1.99% then to 2021/22.

Table 6: Taxbase – Band D Equivalents

Authority/Year	2018/19	2019/20	2020/21	2021/22
Bedford	58,521	59,691	60,885	62,103
Luton	50,461	50,861	51,261	51,661
Central Beds	99,951	101,801	103,684	105,602
Totals	**208,933**	**212,353**	**215,830**	**219,366**

4.3 Efficiency Savings Strategy

An efficiency saving occurs when the cost of an activity is reduced, but its quality and effectiveness remains the same or improves. BFRA continues to focus on becoming more efficient - finding new ways to deliver highest quality services at lowest possible cost.

The Authority's MTRP for 2018/19 to 2021/22 shows the level of budgeted efficiency/ savings planned for each of the four years, which form an integral part of the overall revenue budget strategy. In addition, the Authority's efficiency savings/initiatives during 2017/18 are on track to deliver an underspend which will be used, subject to the approval of the FRA, to contribute to the Transformation Reserve.

Significant areas where the Authority is already achieving such efficiency savings as a result of initiatives previously implemented include:

- Staffing costs:
  - following restructures and reviews of working systems across several departments,
  - through better matching levels of cover provided to station needs.
- Costs of overtime and temporary appointments, through reduced sickness levels and improved absence management.
- Managing sustained reductions in the number of ill-health retirements.
- Costs of goods and services through collaborating with other authorities and re-negotiating contracts with suppliers.
- The running costs of our vehicle fleet through redesign of operational and support vehicles.
- Costs of premises hire for large events, through making use of our community fire station facilities.

As well as making further savings in many of the above areas, the Authority's plans for 2018/19 and beyond include making significant efficiency savings through:

- Further operational cover reviews
- Removal of the Management Information System (MIS)
- Procurement savings from new contracts for PPE, Waste and printers/copiers
- Collaboration savings
- Income generation

4.4. **General and Earmarked Reserves:**

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. The Treasurer has the duty to report on the adequacy of reserves (under section 25 of the Local Government Act 2003), particularly when the authority is considering setting its budget requirement.

The required level of reserves for the period 2018/19 is consistent with previous years. The external auditors have also commented favourably on the current financial position of the authority, in terms of reserves and financial strategy.

General Reserves are a working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing and as a contingency to cushion the impact of unexpected events or emergencies. The Authority's General Reserves are detailed in Appendix 1, the Reserves Strategy.

Earmarked Reserves, in accordance with the Local Authority Accounting Panel (LAAP) Bulletin 77, can be set up where there are known or predicted requirements. As is common with most other Fire and Rescue Authorities and public sector bodies, BFRA has set up a number of earmarked reserves which have been separated out from General Reserves. These are also detailed in Appendix 1, the Reserves Strategy.

At the time of writing, the forecast year end underspend for 2017/18 is circa £0.470m. The General Reserve of £2.6m, at 9% of net revenue expenditure, is in line with the current overall average Combined Fire Authority average amount at 9%. This is based on reserves figures at 1st April 2017 available via CIPFA Statistics. As the S151 Officer I am comfortable with the level or reserves and do not deem it too low or high.

In addition, the Authority has separate ear-marked reserves for the Collection Fund and a separate Capital Receipts Reserve. Project carry forwards are also classed as ear-marked reserves at the year end stage.

The Transformational Earmarked Reserve that was specifically set up for budget setting purposes is estimated to total £4.408m at 31 March 2018. As detailed in the MTRP, it is forecast that this will be allocated to offset the budget gap in the years 2018/19 to 2021/22.

5. The Medium-Term Capital Programme

5.1 **The Capital Programme**

Maintaining and improving the BFRA's infrastructure requires considerable resources and, for asset management purposes, this is broken down into three categories of investment, for each of which a comprehensive Asset Management Plan is produced; namely:

- Land and Buildings
- Fleet and Operational Equipment
- Information and Communication Technologies (ICT)

For each category of investment a separate programme of projects exists which spans a four year period. Because of the nature of the types of projects included in the programmes it has been the practice for some time to phase plans over a medium-term timeframe in order to show the way some schemes run over several years.

In line with best practice the land and buildings programme is developed so as to meet ongoing maintenance demands as well as to support the development of land and buildings investment and its subsequent management.

The fleet and operational equipment programme reflects the need to maintain a comprehensive fleet of vehicles with acceptable asset lives, equipped to the correct standard to meet current and planned service delivery requirements.

The ICT programme contains projects designed to develop and maintain the communications and technological infrastructure, to support both operational and organisational needs.

Traditionally IT, vehicles and operational equipment have either been leased or funded from revenue and hence did not feature in the Capital Programme, but are the subject of revenue bids for funding. Following the introduction of the Prudential Code, work was undertaken to review the cost effectiveness of leasing compared with long-term borrowing and a number of previously leased items are now being included as part of the four year Capital Programme. Discussions regularly take place with our treasury and leasing advisers, Capita Treasury Solutions, to ascertain for our specific Authority at that point in time, what the optimal funding options are.

All proposed schemes are assessed against set criteria to establish the extent to which they support the strategic objectives and Authority's priorities.

The Authority has implemented an asset management process that ensures all its assets are procured, maintained and disposed of in an efficient and effective way to provide value for money to the council tax payer.

The buildings programme for 2018/19 onwards has been developed on the basis that at present there are no further plans to change the type or location of fire stations and therefore the bulk of investment in premises is directed towards enhancement and the provision of new facilities for training and enhanced national resilience. However, it is an area that may change due to joint working/collaboration.

Historically, vehicles and equipment for frontline response and community fire safety have followed certain levels of specification and requirements. Following a comprehensive review of the emergency response fleet, a number of innovative changes are being made to the current fleet. These changes will deliver a fleet of vehicles aligned to the emergency response required to be mobilised to the identified risk profile of Bedfordshire.

The Capital Programme for 2018/19 is fully funded by revenue contributions, with a contribution from the vehicles reserve of £134k.

The DCLG introduced a new bidding round for the 2013/14 and 2014/15 budget periods. This was agreed repeated for 2015/16 but not for 2017/18 onwards. This is detailed earlier in this MTFS.

It is unknown how fire and rescue authorities will be funded for capital expenditure in the next CSR period. It is hoped that the bidding process will cease and that a system like the previous one, where an allocated amount for the service will be distributed on a fixed and distributable amount per head of population. The Head of Finance/Treasurer was part of the Capital Working Group working with the DCLG on reviewing the future funding methods and to evidence to the Treasury what the requirements for the fire and rescue service as a whole is. It is hoped that this group will commence meeting again to discuss the future funding of capital requirements.

6. Other Considerations

6.1. **Key Budget Assumptions and Uncertainties:**

2018/19 Budget Process- Assumptions/Uncertainties

Current Assumptions:

- Green Book pay award 2% April 2018 onwards
- Grey Book up to 4% July 2018 onwards
- That the additional 1% to council tax will not continue after the two years announced (2018/19 and 2019/20).
- Taxbase in line with previous indications (amended where info supplied)
- Business rates in line with previous indications (amended where info supplied)
- No Capital Funding (bidding round not announced)
- That the CPSN contract is awarded to the current provider, if not, there is likely to be an additional £100k of expenditure.
- Fire Grant/Emergency Services Mobile Communications Programme (ESMCP) funded (see below) – ***Potential large funding risk here***
- Fire Fighters Pension Scheme Revaluation from 2016, that comes into effect from April 2019, has an estimated increase of 4% (current assumptions within the sector range between 2% and 4%)
- Revenue Support Grant (RSG) grant reductions in line with four year funding deal and continuing at this rate for RSG in 2020/21 and 2021/22
- Estimated Collection Fund surplus of £348k in 18/19, none thereafter (final confirmation in January 2018)
- New Dimensions Grant will continue
- No new funding for national resilience vehicles (planned purchases 2020/21)
- Marauding Terrorist Firearms Team (MTFA) funding continuing

- No additional posts following Business Improvement Team review
- No material impact from Job Evaluations following ICT Restructure

Uncertainties:

- Recruitment profile/establishment/retirements – associated recruitment/training costs
- New savings/efficiencies in the medium term to address the budget shortfall, subject to work and approval by FRA
- Collaboration (PCC, Ambulance, Police etc) – and associated costs/savings
- Medium term property strategy (One Public Estate bid, sharing etc)
- Contingent Liabilities/Assets included in the Statement of Accounts
- EU directives/legislative changes/Brexit impacts
- Fully funded by local business rates (no Revenue Support Grant) by 2020, or direct grant with no business rates (like the Police)
- Implications arising from Fire Brigades Union (FBU) discriminatory claims relating to transitional pension protection
- Strike expenditure potential
- Outcomes of review of Cloud options
- General Data Protection Requirements (GDPR)
- Pay Scale review – Green book (Hay review pay line)
- Interest and inflation rate fluctuations

6.2 **Equality Impact:**

The challenging economic environment in which the Service is operating means that it is sometimes necessary to make difficult and unpopular decisions. A number of the major changes included within the Authority's strategic priorities for the medium-term and thus supported by financial provision within this MTFS, particularly those associated with transformational efficiency savings, will be of this type. The Authority recognises that equality legislation does not prevent it from making these decisions but gives an opportunity to demonstrate its commitment to equality and diversity and to ensure such decisions are based on robust evidence and taken in accordance with the Public Sector Equality Duty.

The Authority, therefore, ensures that robust equality analysis is carried out, paying due regard to the impact on our community and staff, where policies, procedures and practices are changing. Decisions, where appropriate, will also be informed by the wider context to ensure particular groups are not unduly affected by the cumulative effects of different decisions. All decisions will be documented through equality impact assessment ensuring fairness, transparency and accountability. This information will be published in line with the requirements of the Public Sector Equality Duty.

6.3. **Data Quality:**

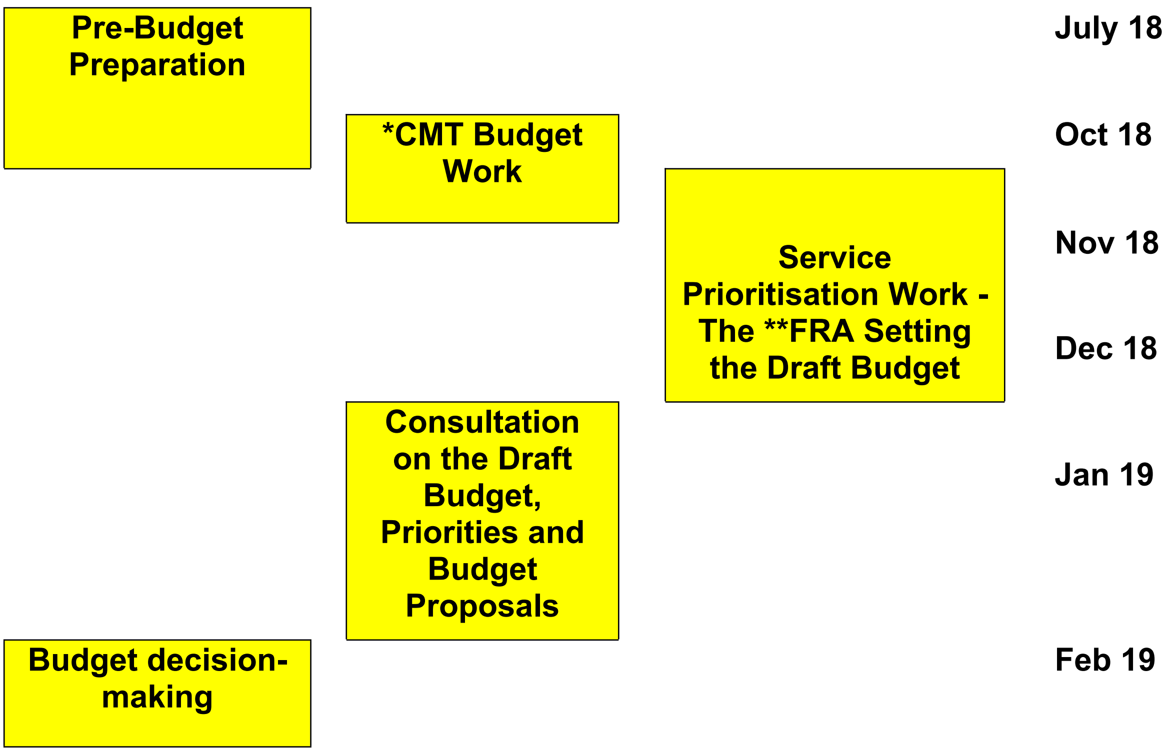
The Authority is committed to achieving and maintaining fit for purpose, quality data enabling sound decision making and informed planning. This is vitally important with key documents, such as this MTFS and the Authority seeks to continually improve the quality characteristics of such data with particular emphasis on accuracy, validity, reliability, timeliness, relevance and completeness.

Systems for assurance and validation of our data are in place, for example Performance Indicators are supported by data proformas which include descriptors, data sources, and change control. A data issues log is maintained that considers severity, impact and mitigation. The Authority's Business Improvement Programme incorporates process re-engineering to assure our data at the point of entry following the 'record once and use many times' principle, delivering new ways of working and business systems where appropriate.

6.4. Budget Setting Process for Future Years:

The summary diagram below shows the key stages that will be followed by the Authority in setting future year's budgets. In order to ensure proper process and timescales, it incorporates budget planning from July, setting a draft budget in December for consultation, followed by a final budget set in February.

Diagram 1: The budget setting timetable



*CMT= Corporate Management Team
**FRA= Fire and Rescue Authority

Reserves Strategy – Budget 2018/19 & MTFS 2018/19 to 2021/22

1 Background

1.1 Reserves are an essential part of good financial management. They help the Authority to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Authority to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.

1.2 In setting the budget, the Authority decides what it will spend and how much income it needs from limited fees/charges and the council tax to supplement government funding. The Authority may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.

1.3 Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.

1.4 Authorities are free to determine the reserves they hold. Members are responsible for ensuring that the Authority's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.

1.5 Fire and Rescue Authorities face significant challenges. The unprecedented reduction in government funding since 2010/11, rising costs and growing demand for many services are all testing the Authority's financial management and resilience. The position is set to become tougher with continuous grant reductions.

1.6 Current and future financial challenges pose significant, and increasing, risks for the Authority. The Authority may consider using reserves to balance competing pressures, for example:

- Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource – or invest in making changes that reduce the cost of providing services in the longer term.
- Increasing reserves to strengthen resilience against future, uncertain cost pressures. A feature of the previous budget strategy and MTFS, was that reserves were built up to be used to support the budget and fund investment in delivering savings through transformation and improving services. The Transformational Budget Reserve is now being utilised to offset the budget gap as strategically planned.

2. The approach to setting the Reserves Strategy

2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. Therefore the MTFS includes:

- Information showing the current level of reserves
- Consideration of the forward strategy for reserves needed to support the Authority's MTFS
- A summary of the financial risks facing the Authority in conjunction with
- An explanation of the purpose and level of any earmarked reserves
- Details of the plans for reserves within the published budget

2.2 Reserves will be monitored throughout the year and the level of reserves reported as part of the year end accounting processes.

3 Why the Authority holds reserves

3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:

- General – the main balance that the Authority wishes to set aside. This is the £2.6m and is compared annually to other Combined Fire Authorities.
- Available earmarked reserves – funds we hold set aside to meet known or predicted future spending or ring-fenced by previous Authority decisions (such as the Collaboration Reserve)
- Other reserves the Authority holds but which are not available to fund their general spending; some reserves with statutory restrictions on how they can be spent, such as capital receipts or specific revenue grants
- Total reserves – the sum of earmarked, other and General

3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example property or vehicle damage, or reserves to cover shortfalls in investment income, pay award projections and so on.

3.3 Reserves are distinct from provisions. Provisions are funds set aside for probable future liabilities where the timing and amounts are uncertain

Delivering a balanced budget

3.4 The Authority, in common with other organisations, needs financial reserves to help manage unforeseen circumstances and to smooth the impact of known spending requirements over time. The Authority will use reserves for such purposes to enable it to manage variations between its planned and actual budgets that result from unpredictable spending and funding. Reserves will also be used by the Authority to plan its finances strategically to support activities over the medium and long term

3.5 The Local Government Finance Act 1992 requires the Authority to calculate its expected outgoings and income for the year – including any additions to or use of reserves. Where expected outgoings exceed expected income, the difference is the Authority's tax requirement for that year.

3.6 If unplanned costs are incurred during the year that are not funded externally – for example, by a grant from government or an insurance policy – or the Authority experiences a shortfall in expected income/funding, there will be few options if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore the Authority may want to consider using reserves to balance spending and income.

3.7 The 2018/19 to 2021/22 MTFS assumes that there will be utilisation of the Transformation Reserve and that on current projections, this will be fully used in 2022/23.

4 Reserves and the management of risks

4.1 With regard to the Authority's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: insurance, ill health and early retirement, grant loss, the collection fund (in the past) and budget pressures. These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process. The latest review recommends that the Collection Fund reserve of £270k is used as part to the 2018/19 budget process. This has not been required over recent years and each year sees a Collection Fund surplus for council tax from the Unitary Authorities negating the requirement for this reserve. This position may change in the future and it may be deemed appropriate to reinstate this reserve.

4.2 The Authority also manages unforeseen financial shocks by maintaining a General Fund/Working Balance. The Authority's agreed policy is to maintain working balance at £2.6m. Some Authorities set a minimum desired percentage and although the Authority has not done this, the policy would maintain general balances at approximately 9% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process.

Increasing Financial Risks

4.3 The risk environment for local government has significantly increased. This strategy identifies the following issues that have increased risk:

- Continued reductions in Government funding as indicated in the four year settlement offer
- Further changes in the grant funding methodology ahead of the 2020 planned reset (or thereafter)

- Significant movement and growth in resident population numbers brings pressures to a range of services and requires more investment in infrastructure – could have impacts on hydrant and operational provision
- Localisation of business rates presents a collection rate risk, an economic downturn risk and a risk in respect of backdated appeals
- Welfare reforms including the benefits cap and the impact of Housing Benefit as part of the introduction of Universal Credit which could impact on rent collection for local authorities and potentially increase the level of homeless people seeking accommodation

On-going risks in the current strategy

4.4 In addition to the new risks there are still the risks that are usually managed within the MTFS and the Corporate Risk Register.

5 Budgeted Reserves

5.1 The forecast Earmarked Reserves usage assumed as part of the budget strategy are included in the Medium Term Revenue Plan.

5.2 The forecast value of General Fund Reserves as at 31 March 2017 is £2.6m as detailed in Table 1 below.

5.3 The earmarked reserves are detailed in Table 2 below.

Table 1: Risk Assessed General Reserves

Description	Likelihood	Impact	£'000	Risk Register Ref CRR
Large scale failure of Personal Protective Equipment or other safety critical equipment	Possible	Significant	300	10
Major incident within the County/Region	Likely	Significant	650	1, 17, 34
Failure of operational vehicle prior to planned replacement in Capital Programme/unforeseen inability to provide service requirements	Possible	Significant	300	05
Failure of a major supplier	Likely	Significant	300	08
Failure/corruption/security breach of ICT System	Possible	Significant	200	23,38,39
Non specific General Reserves to meet any other unforeseen service requirements			850	
Total General Reserves			**2,600**	

5.4 The reserves below have been set aside for foreseen circumstances that may necessitate usage. They are annually reviewed and if not deemed necessary, released to support the revenue budget. Some have been set up as a result of base revenue budget scrutiny, where budgets in the past were held for just in case events necessitated their use. Where this was so, these have been removed from base revenue budget and an earmarked reserve created. The large items, such as ESMCP, Hydrants and the Replacement mobilising system, are where the spend is unknown so these amounts have indicatively been set aside to avoid budget pressure in the medium term and to assist with the Medium Term budget setting. The items listed below are not contractually or legally committed, at this point in time. All are clearly linked to supporting the Authority's service delivery plans.

Table 2: Earmarked Reserves

Description	**£'000**	**Risk Register Ref CRR**
Emergency Services Mobile Communications Programme (ESMCP) reserve – Emergency Services Network (ESN)	200	24, 35
Replacement Mobilising Project	300	24
Contingency for doubtful debts	10	11
Pay increases for operational and/or support staff in excess of assumptions (1%) and / or costs of external appointments in excess of budget provision	150	27
Hydrant installation (taken out of revenue budget due to uncertainty)	225	
Goods and services, contractual inflation in excess of assumptions (1%)	80	27, 30
Potential liability as a result of legal/disciplinary action in relation to Personnel and/or Health and Safety issues	300	6, 25, 32, 33, 35
Adverse weather conditions resulting in higher than average numbers of emergency incidents (excludes Bellwin incidents)	250	22
Sudden absenteeism of a large number of personnel across the whole of the Service due to pandemic or similar	150	4
Ill-health retirements in excess of budget provision/injury pension	150	27
Unplanned urgent property works (eg roof repairs)	100	27
Contingency for insufficient Insurance cover (additional contribution)	100	27
Interruption to Business Continuity (including Industrial Action)	250	4
Unplanned urgent maintenance/replacement of particular item of equipment (eg engine or gearbox wearing out/failing earlier than anticipated)	50	5, 10
Invest to Save/Innovation Fund (these have been taken out of annual revenue budgets)	60	27
Total Requirement	**2,375**	

5.5 Other Reserves for noting:

- Collaboration Reserve £1.906m (includes year end additional contribution of £498k from Home Office Pensions refund)
- Capital Receipts Reserve £507k

The following reserves held at year end 2016/17 have been used as part of this budget process:

- Vehicle sales £134k (£48k used for 2017/18 capital programme)
- Collection Fund £270k