| OPEN | ITEM X<br>DECISION |
|---|---|

**DERBYSHIRE FIRE & RESCUE AUTHORITY**

**14 FEBRUARY 2019**

**REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE AND DIRECTOR OF FINANCE/TREASURER**

# REVENUE BUDGET 2019/2020 AND THE MEDIUM TERM FINANCIAL PLAN FOR 2019/2020 TO 2022/2023

## 1 Purpose of Report

1.1 To present proposals for the 2019/2020 Revenue Budget and the Medium Term Financial Plan (MTFP) for 2019/2020 to 2022/2023. It outlines assumptions, including pay and inflation increases, growth and savings, contained within the budget estimates. The report serves to inform and update Members on the following:

- The Local Government Finance Settlement 2019/2020;
- The Proposed Revenue Budget 2019/2020;
- Council Tax and Precepting Options;
- Feedback on Budget and Service Consultations;
- Financial Settlements for 2019/2020 and Future Years;
- The Four Year Financial Plan;
- IRMP Programme (Year 3 of 3);
- The Robustness of Estimates and Level of Reserves.

1.2 This report builds on the Medium Term Financial Strategy presented to Members on the 6 December 2018 and is framed in accordance with the agreed Strategy from that meeting.

## 2 Recommendations

That Members:

2.1 Formally approve a net budget requirement of £37.9m for 2019/2020 based on the information as presented in Section 5 of the report, and summarised in Appendix 1.

2.2 Note the Local Government Settlement, Council Tax Base and Collection Fund positions as outlined in Section 6 of the report.

2.3 Determine the budget requirements and the precept increase of either **Preferred Option 1 – Increase of 2.98% or Option 2 – Increase of 1.98%** (based on the options outlined in section 6 of the report and Appendices 2a and 2b).

2.4 Notify the precept to the Billing Authorities, based on the determination of the precept.

2.5 Note the medium term financial position for 2019/2020 to 2022/2023 and, in particular, measures taken to balance the 2019/2020 budget, and the financial pressures in subsequent years (Sections 5 and 9 of this report).

2.6 Note the Director of Finance/ Treasurer's comments about the robustness of estimates, adequacy of reserves and potential liabilities that may arise in future years (Section 11 of this report).

2.7 Note a separate report on this agenda outlining the 2019/2020 to 2022/2023 Capital Programme, Prudential Code Report and Treasury Management Strategy.

## 3 Summary

***How is the Service doing?***

3.1 The Fire and Rescue Service continues to provide a responsive and high performing service to our communities as highlighted in last year's Annual Report:

**https://www.derbys-fire.gov.uk/files/5415/3310/5097/Annual_Report_2017-18.pdf**

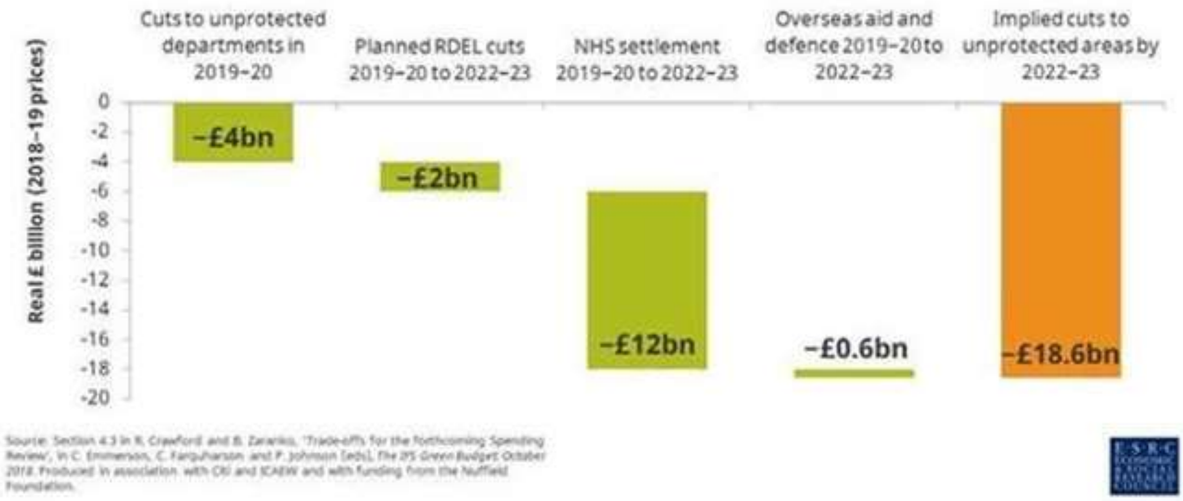
3.2 Whilst austerity remains to 2019/2020 (at least), the continued challenges force new ways of working, through shared approaches to issues like estates, procurement and training, employment arrangements, and mobilisation. Derbyshire Fire and Rescue Service is well placed to safeguard its emergency operations and to continue to protect public safety through 'Invest to Save' initiatives and an ongoing commitment to collaborative working.

3.3 The Authority has secured its strong financial position not least through its ability to make key decisions, particularly around savings to its establishment (Service restructure 2011, Review of Duty System, Swadlincote Fire Station, SLT Review 2016 and support establishment reductions, Review of Duty System, Matlock and Glossop and Joint Control (2019/2020 IRMP)). It is clear that, in light of projected budget deficits, the Authority cannot rely on the continued use of reserves to balance the budget beyond 2019/2020. Members are referred to the long term projection of DFRS reserves in Appendix 4.

***How are the public finances?***

3.4 The Chancellor of the Exchequer Philip Hammond delivered his 2018 Autumn Budget on 29 October amidst claims that public finances had reached a turning point and that the '*era of austerity is finally coming to an end'*. Since 2009/2010 the deficit has fallen by four-fifths, from 9.9% to 1.9%. Public debt peaked in 2016/2017 and is now falling. On average, spending on public services will grow at 1.2% above inflation a year from next year until 2023/2024.

3.5 The Prime Minister announced additional NHS funding (June 2018), pledging a 3.4% increase per year for the next 5 years. After Social Security spending, the NHS is the single biggest element of Government spending, so a £20.5bn increase in NHS funding will have a significant impact for public finances. The Government is planning to eliminate the Deficit by the mid-2020s.




*‘A minimal definition of ending austerity for public services would require* ***an additional £19 billion*** *in 2022/2023’*
Source: IFS

3.6 Alongside the Local Government Finance Settlement for 2019/2020, the Government published a consultation on its plan for a national 75% Business Rates Retention from the following year, 2020/2021. However, funding from local taxes available in future years is unlikely to keep pace with rising spending pressures in coming years (IFS). Indeed, without additional funding sources, many services could see cuts into the 2020s and beyond.

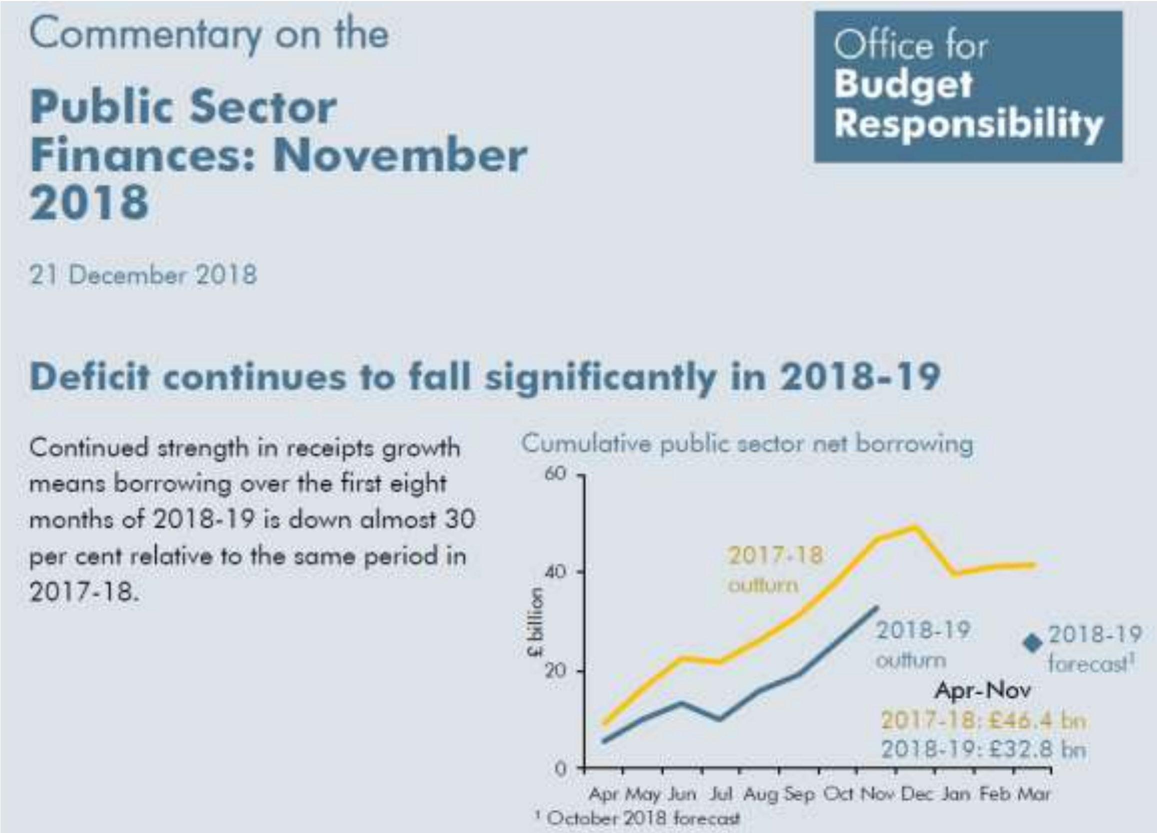
**FORECASTS**

**Headline economic forecasts for the UK**

| | 2018 | 2019 |
|---|---|---|
| GDP growth | 1.3% | 1.5% |
| CPI | 2.3% | 2.0% |
| RPI | 3.2% | 2.9% |
| LFS Unemployment Rate | 4.1% | 4.1% |
| Current account | £-70.8 bn | £-68.0 bn |
| PSNB | £30.3 bn | £32.4 bn |

*Source: Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury December 2018*

3.7 UK growth forecasts are projected to be slightly higher than over 2018 after two consecutive years of slower growth. However, forecasters still expect investment to be held back by Brexit-related uncertainties.




3.8 Throughout 2018, there was a lot of political and economic uncertainty surrounding Brexit negotiations, with increased fears of a hard-Brexit or no-deal Brexit causing Sterling to weaken against the US Dollar and the Euro. The Government is providing £500m of additional funding for departments to prepare for Brexit. This is additional to the £1.5bn already announced for 2019/2020.

3.9 2018 saw the second increase in the interest rate by the Bank of England in ten years, from 0.5% to 0.75%. The Governor of the Bank of England explained this increase was a response to a rebound in economic growth and that he was confident that the weak patch at the start of 2018 was temporary. The rate rise came with the guidance that there would be gradual and limited rate increases in future.

### *What does the Service still need to save?*

3.10 Appendix 1 presents the budget forecasts for 2019/2020 to 2022/2023. The anticipated deficit, taking account of 'Integrated Risk Management Plan (IRMP)' savings and based on a 2.98% increase in the precept is summarised below. It is worth noting that the current 4 year settlement runs to 2019/2020 and years 2020/2021 to 2022/2023 are best and early estimates at this stage:

| | **£** |
|---|---|
| 2019/2020 | 0* |
| 2020/2021 | 1.11m |
| 2021/2022 | 1.81m |
| 2022/2023 | 2.13m |

*Assumes a contribution from reserves

3.11 The position based on a 1.98% Council Tax increase in 2019/2020 is outlined below:

| | **£** |
|---|---|
| 2019/2020 | 0* |
| 2020/2021 | 1.35m |
| 2021/2022 | 2.06m |
| 2022/2023 | 2.38m |

*Assumes a contribution from reserves

3.12 Members should note the measures taken to arrive at a balanced budget in 2019/2020 (see para 3.19 below) and the level of savings targeted over the period to 2022/2023.

3.13 Had the Authority not taken early action to secure sustainable savings through the Effectiveness Programme, 'Fit to Respond' programme and the IRMP projects, then the projected deficit for 2019/2020 would be in the region of £11m, extending to a deficit of around £13m in 2022/2023.

### *What assumptions have been made in developing the budget and what do they mean for us?*

#### *Precept options*

3.14 The figures are based on annual council tax increases of 2.98% in 2019/2020 (1.98% future years). Latest modelling shows that comparatively, precepting (at 2.98%) provides an additional £0.24m to the Authority in 2019/2020, and £0.98m over the period 2019/2020 to 2022/2023. The 2% referendum limit on council tax increases has been lifted for years 2018/2019 to 2019/2020 to 3% for standalone Fire and Rescue Services. This is considered further in paras 6.5 onwards.

3.15 The options on whether to raise precept have been consulted on with the Public. Options to precept at 2.98% are considered in more detail in Section 6. Members have also been briefed on uncertainly in respect of:

- principal funding streams;
- business rates retention;
- inflation and operational pay award variables;
- increases to employer pension contributions;
- financing of the Capital Programme, and borrowing;
- other budget assumptions;
- the level of reserves the Authority holds; and
- the medium term financial position.

**Ability to contribute to reserves**

3.16 In arriving at a balanced position, the proposed budget does not provide for a Revenue Contribution to Capital in years 2019/2020 and 2020/2021. Provision for a £0.3m contribution in years 2021/2022 and 2022/2023 has been maintained. This will contribute towards future capital project costs such as our continued investment in ICT, Property, and Transport. This is considered prudent in light of capital funding uncertainties but will be kept under review, particularly as more details are provided on potential funding for Government programmes.

**Managing vacancies**

3.17 In addition Members should note an additional £0.26m pay budget adjustment (reduction) to reflect the impact of the operational staff retirement profile and vacancy management generally. This has been applied across all years of the MTFP, so 2019/2020 through to 2022/2023, and is in line with prior year operational staffing budget underspends. Assumptions take account of the retirement profile and future plans for wholetime firefighter recruitment.

**Budget growth and savings**

3.18 The proposed budget incorporates savings of £1.8m in 2019/2020 (£0.15m in 2018/2019), before taking account of one-off savings of £0.2m arising through policy decisions. These are outlined in more detail in Section 10 of this report. The requirement for growth items amounts to some £1.2m (£0.55m 2018/2019). These are incorporated within the proposed budget, and are discussed in more detail in Section 5. The Authority's concerted approach to securing savings has protected the front line and supports the approach that 'extraordinary items', unexpected budget pressures, or costs arising from new statutory, legislative or corporate initiatives will be funded through reserves as necessary. The strategy of increasing reserves for Invest to Save and capital investment purposes ensures that the Service takes a long term approach to providing a resilient and sustainable Service (Section 10 refers).

3.19 ***After taking account of pay and other inflation, ongoing budget pressures, and savings items, Members should note that a contribution of £0.6m is required from the Strategic Risk Reserve in order to balance the budget in 2019/2020. This should be considered alongside a Managed Vacancy reduction applied to operational pay budgets, other Staffing Budget reductions, and the removal of a Revenue Contribution to Capital in years 2019/2020 and 2020/2021.***

3.20 ***Members are also reminded of a £0.8m contribution from the Strategic Risk Reserve necessary to balance the 2018/2019 budget, and that reserves cannot be relied upon to bridge funding shortfalls as a sustainable measure.***

3.21 ***CIPFA guidance sets out the legal requirement that a Revenue Budget deficit is not permissible when it cannot be covered by revenue reserves, this applies to any future financial year.***

## 4 Local Government Finance Settlement 2019/2020

4.1 Derbyshire Fire and Rescue Service is funded through a combination of business rates, central government grants, and council tax. The Service also generates other smaller sources of income through rents, fees and charges, investments and contributions.

4.2 This altered in 2018/2019 with Derbyshire Fire being accepted as a pilot authority for 100% business rate retention, along with Derby City Council, Derbyshire County Council and other borough and district councils. Derbyshire Fire will remain part of the Derbyshire Business Rates Pool in 2019/2020 (at 50% rate retention). The Business Rate Baseline has been calculated to adjust the tariff / top ups, to ensure that the position is fiscally neutral. The Authority anticipates an additional benefit of around £100,000 through Pool arrangements in 2019/2020.

4.3 The Local Government Finance Settlement is the annual determination of funding to local government. The Ministry of Housing, Communities and Local Government (MHCLG) announced the Local Government Settlement for 2019/2020 on 13 December 2018, this being the fourth and final year of the multi-year settlement.

4.4 The Settlement Funding Assessment for 2019/2020 is £13.0m, a reduction of £0.4m (2.9%) compared to the 2018/2019 allocation of £13.4m.

***Formula Funding (Revenue Support Grant and Business Rates) 2019/2020***

4.5 The consultation on the Local Government Finance Settlement ran from 13 December 2018 to 10 January 2019, and feedback is currently being analysed. Relevant headline announcements are as follows:

- The Government confirmed the final year of the four-year funding deal, which was accepted by 97% of authorities, including DFRS, at the

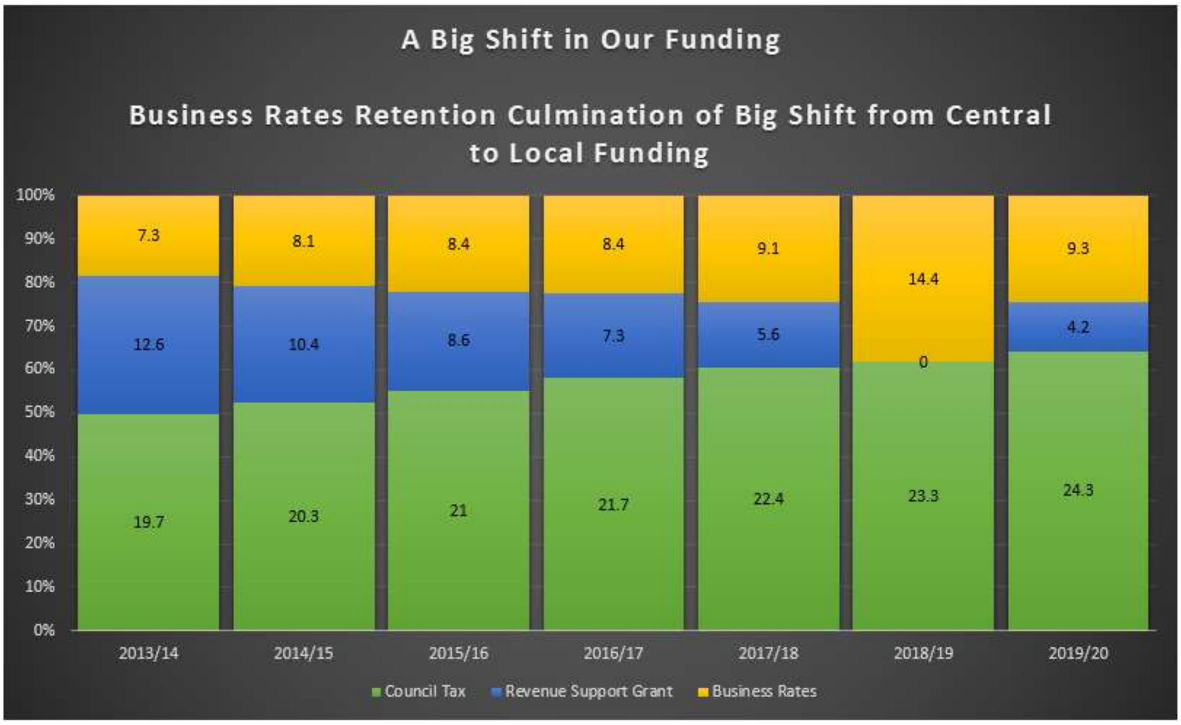
2016/2017 Local Government Finance Settlement in return for publishing Efficiency Plans.

- Proposals for Council Tax referendum principles in 2019/2020 were outlined, including a core principle of up to 3% applicable to Fire and Rescue Authorities. The continuation of an additional 2% flexibility on the Adult Social Care precept, and Police and Crime Commissioner increases of up to £24 were also outlined.

- The Government's approach to eliminating Negative Revenue Support Grant[1] in 2019/2020, and additional Social Care Grant funding for Adult and Children's Services following announcements in the Autumn Budget 2018.

4.6 The Government continues to work towards significant reform in the Local Government finance system to include Business Rates Retention, including resetting Business Rates Baselines. In 2018/2019, a range of local authorities piloted 100% Business Rates Retention, this included DFRS. It was announced in July 2018 that five Local Authorities in devolution deal areas would be extended into 2019/2020.

4.7 The Government confirmed that 15 areas would pilot 75% Business Rates Retention in 2019/2020, with DFRS reverting to 50% retention under previous Derbyshire Pool arrangements.




[1] This is where, as a result of funding reductions through the formula changes, the Revenue Support Grant (RSG), is equivalent to a further reduction in funding.

*4.8* The Authority's estimates include a Section 31 compensation grant of £476,990 in 2019/2020 (£500,000 years 2020/2021 to 2022/2023). The grant recompenses authorities for their individual reduction in non-domestic rating income arising through business rates measures announced at autumn statements.

***The Localism Act and Council Tax Referendums***

4.9 The Localism Act 2011 abolished Council Tax capping in England and instead introduced a power for local electorates to approve or veto excessive council tax rises. From 2012/2013 onwards, an authority setting a council tax increase which exceeds principles endorsed by the House of Commons alongside the Local Government Finance Settlement is required to hold a council tax referendum, the result of which is binding.

4.10 The Secretary of State announced that referendum principles would apply to council tax increases in excess of 3% for years 2018/2019 and 2019/2020. This is an increase on the 2017/2018 referendum limit of 2%, bringing council tax broadly in line with current levels of inflation.

4.11 Options for precepts will be considered alongside the Authority's level of reserves, consultation results and the Medium Term Financial Strategy and Financial Plan 2019/2020 to 2022/2023.

***Specific Grants 2019/2020***

4.12 It is anticipated within financial plans that the Home Office will continue to meet its commitment to provide New Burdens funding to Fire and Rescue Authorities for the provision of **FireLink**. The precise allocation is anticipated to be in line with previous years (FireLink £203,300, 2018/2019), subject to confirmation of the contractual CPI to be applied for the financial year 2019/2020.

4.13 MHCLG typically circulate the Fire and Rescue Revenue Grant Determinations to Fire and Rescue Authorities in June, with payments then being made monthly across the year, the initial payment being retrospective. It is anticipated that 2018/2019 allocations will be published to a similar timescale.

4.14 Following the outcome of the Mass Decontamination Capability review, the budget assumes that **New Dimensions Fire Revenue Grant** will cease in 2019/2020, further to the decommissioning of the Incident Response Units at Alfreton.

4.15 **Emergency Services Mobile Communications Programme (ESMCP)** – the operational communications network that will replace Airwave is expected to cost less than FireLink for equivalent usage. This will be provided by a major national programme (ESMCP) to provide a secure communications network for the Police, NHS and Fire. ESMCP is not a continuation of Firelink funding and it is likely that ongoing revenue costs will be funded through RSG. It is hoped that the current revenue deficit associated with Firelink, circa £0.1m per annum, will be addressed through a more equitable resource allocation. It should be noted that revenue costs will be proportional to the amount of voice and data usage on the network and that the lower anticipated costs are on a like for like usage.

4.16 In 2016/2017 the Service received Capital Grant funding of £831,000 from the Home Office to cover the associated project costs including security compliance, devices, software upgrades and network connections. A further £168,000 Capital Grant was received in 2017/2018. Additionally the Service has received Revenue Grant of £169,000 to date.

***Capital Grant 2019/2020***

4.17 The Authority secured one-off funding of £1.5m in 2015/2016, following the Services' success in a bidding process for Transformational Funding towards the cost of the Joint Headquarters. The Service does not anticipate any further Capital Grant funding in 2019/2020 onwards. The Capital Programme 2019/2020 to 2022/2023 is included in a separate report on this agenda. The financing of the Capital Programme is reflected in the Proposed Revenue Budget over the period.

## 5 Revenue Budget 2019/2020

5.1 The proposed 2019/2020 Revenue Budget is summarised below.

***Table 1: 2019/2020 Net Budget Requirement***

| | **£m** |
|---|---|
| Base Budget 2018/2019 | 37.9 |
| Funding to Balance Base Budget 2018/2019 | 0.8 |
| | |
| **Increases:** | |
| Pay and Other Inflation | 0.6 |
| Ongoing Pressures on the Base Budget | 1.2 |
| | |
| **Reductions:** | |
| Ongoing Budget Reductions (Savings) | -1.8 |
| One-off Budget Reductions (Savings) | -0.2 |
| Revenue Contribution to Capital | 0 |
| Balancing Contribution from Strategic Risk Reserve | -0.6 |
| | |
| **Net Budget Requirement 2019/2020** | **37.9** |

5.2 **Pay and Other Inflation** – the 2019/2020 proposed budget allows for pay inflation of 2% for all categories of employee. Inflation has not been applied to other Service budgets, other than Business Rates £63,000.

5.3 The 2019/2020 staffing budget and Medium Term Financial Plan allow for on-going costs associated with **Pension Scheme Auto Enrolment** which requires the Authority to automatically enrol employees into a pension scheme every three years, effective from October 2013, and re-enrolment October 2016. Re-enrolment will take place in October 2019.

5.4 Ongoing pressures associated with increasing employer pension contributions, effective 2019/2020, are outlined below.

## Ongoing Pressures

5.5 The 2019/2020 budget includes growth of **£1.2m** as outlined below.

5.6 **Direct Employee Expenses** - growth of £130,000 provides for changes to **Occupational Maternity and Adoption Leave Pay** provision aligned to the Diversity and Inclusion Strategy and the People Strategy, as approved by Members in September 2018.

5.7 **Direct Employee Expenses - Employer Pension Contributions -** changes to the discount rate used as part of the pension's valuation reflect Office for Budget Responsibility (OBR) changes to long-term growth forecasts. This has the effect of increasing employer contributions from 17.6% to 30.2% from April 2019. However, final contributions across the schemes are still to be finalised. This results in an additional cost of £2.080m to the Service, reducing to £0.5m ongoing after taking account of a contribution of £1.585m from HM Treasury in 2019/2020. It is hoped that this additional cost beyond 2019/2020 will be better addressed through the Spending Review.

5.8 **DPFP - LLP Building Service Charge** – this budget provides for the DFRS share of the running costs of both the Joint Headquarters and the Joint Training Centre, with a growth requirement of £275,600. Costs have previously been absorbed into the LLP net costs resulting in a lesser profit redistributed to both fire and police at year end. For transparency costs are now being shown gross and are partially offset by increased profit returned to LLP members. This should be considered alongside an expected **Income / Dividend** in the region of £400,000 in year 2019/2020 onwards.

5.9 **Licences and Contracts** – growth of £290,000 is attributable to the realignment of budgets to actual levels of expenditure on contracts, as well as increased contract charges, particularly in relation to Microsoft licence costs. These costs are partially offset by corresponding savings through realignment of budgets.

### *Funding the Cost of Change*

5.10 **Direct Employee Expenses –** additional costs in the region of £250,000 provide for the ongoing effect of Workforce Planning Group approval of fixed term contracts specific to bolstering the ICT and Business Intelligence function, and to enhancing our ICT performance and resilience. A further £50,000 arises through Workforce Planning Group approvals specific to Human Resources capacity to support the IRMP Projects. These additional fixed term costs will be funded through the Invest to Save Reserve, and have a neutral effect on the 2019/2020 Revenue Budget, and that of future years.

5.11 **Direct Employee Expenses** - additional staffing costs in the region of £80,000 are in relation to temporary backfill arrangements for the Joint Director of Finance role, capacity to support the development of an integrated HR / Payroll system, new PPE rollout, and capacity to support new tax requirements after the withdrawal of the Service Level Agreement from Derbyshire County Council. This should be considered alongside potential savings in the region of £60,000 arising through the proposed Joint Director of Finance role, and the avoidance of significant consultancy costs in relation to complex tax advice; therefore resulting in a net cost of approximately £20,000 to the Authority. This additional fixed term cost will be funded through the Invest to Save Reserve and as such will have a nil effect on the 2019/2020 Revenue Budget and that of future years.

***Future Years Growth***

5.12 **Capital Financing Costs** - growth of £80,000 in 2020/2021 (and a further £120,000 in 2021/2022) is in respect of borrowing costs and aligns with the Capital Programme and our planned Capital investment in the Service. It should be considered alongside a reducing contribution to the Capital Development Reserve and the removal of revenue provision to support Capital expenditure in years 2019/2020 and 2020/2021 (£0.3m thereafter).

5.13 Members should note that in arriving at a balanced budget for 2019/2020 a Revenue Contribution to the Capital Programme has not been provided for in year 2019/2020 (or 2020/2021). Members are also reminded of the removal by the Government of Capital Grant (circa £1.049m per annum) from 2015/2016 onwards. The Service will make every effort to secure Central Government funding towards future capital projects, should a resource similar to Transformation Grant funding be made available.

5.14 **After taking account of pay and other inflation, ongoing budget pressures, and savings items, Members should note that a contribution of £0.6m is required from the Strategic Risk Reserve in order to balance the 2019/2020 budget. Members are reminded that this is the second concurrent year that Reserves have been required to present Members with a balanced budget for approval, and that a contribution of £0.8m from the Strategic Risk Reserve was required in 2018/2019.**

## 6 Council Tax and Precepting Options

6.1 Following the introduction of the Business Rates Retention Scheme in April 2013, the district/borough and city councils are now required to take account of both Council Tax and Business Rates collected in determining their surplus / deficits.

### Council Tax Base/Band D Equivalent Properties

6.2 The Council Tax Base represents the number of taxable properties in Derbyshire. There has been a significant increase in the number of taxable properties in Derbyshire compared to 2018/2019. The increase of approximately 1.25% results in additional income to the Authority of £0.3m before any council tax increase is applied. This information was confirmed in writing by the billing authorities by 31 January, the statutory deadline.

**Council Tax and NNDR Surpluses**

6.3 The Authority is entitled to a proportionate share of any surplus income from the City and District Council Tax and NNDR Collection Funds. For 2019/2020 this is a surplus of £0.1m. Full details are shown in Appendices 2a and 2b.

**Implications**

6.4 The net impact of the Financial Settlement, Specific Grant funding and changes to the Council Tax base and NNDR income is a nil effect on the base budget for 2019/2020 (increase of £0.2m 2018/2019). Given the level of funding reduction anticipated in future years, inflationary and pay award considerations, and the anticipated duration of public sector austerity, the Authority should consider the following precepting options. These should be considered alongside the Authority's level of reserves.

***Preferred Option 1 – To increase Council Tax for a Band D property in 2019/2020 by 2.98% above 2018/2019 levels***

6.5 This would increase Council Tax from its current level of £74.74 for a Band D property to £76.97, representing an increase of £2.23. The increase proposed in this option is below the current referendum threshold of 3% for Fire and Rescue Services. It is proposed that the additional income of £0.24m generated by this option is used to prevent further service delivery reductions, and to safeguard the Service's longer term financial resilience in light of expected continuing medium term financial challenges and likely on-going increased employer pension contribution.

***Option 2 – To increase Council Tax for a Band D property in 2019/2020 by 1.98% above 2018/2019 levels***

6.6 This would increase Council Tax from its current level of £74.74 for a Band D property to £76.22, representing an increase of £1.48. The increase proposed in this option is below the current referendum threshold of 3% for Fire and Rescue Services.

6.7 The table below shows the impact that both options will have on the range of council tax bands (A to H) and the subsequent increase in council tax payable in pounds and pence per annum. The decision around the level of increase in council tax will need to be taken in consideration of the Authority's level of reserves, the Medium Term Financial Strategy, and the Medium Term Financial Plan 2019/2020 to 2022/2023.

***Cash Increase in Council Tax Bands from Options***

| Increase in Council Tax | Value of Council Tax Band per Annum (Range from band A to H) | Increase in Council Tax Band per Annum (Range from Band A to H) |
|---|---|---|
| % | £ | |
| 2.98 | 51.31 to 153.94 | £1.48 to £4.46 |
| 1.98 | 50.81 to 152.44 | £0.98 to £2.96 |

## 7 Consultation Feedback

7.1 Consultation has taken place with the public on The Medium Term Financial Strategy 2019/2020 to 2022/2023. As part of the consultation, members of the Derbyshire community were asked to 'have their say' on our MTFS, which was published alongside a shorter presentational version. The consultation was open until 31 January 2019. No specific comments were received.

## 8 Financial Settlements 2019/2020 and Future Years

8.1 The detailed position for 2019/2020 onwards, taking account of variables in all sources of funding, remains unclear. 2019/2020 is the final year of the multi-year settlement.

8.2 Assumptions around Revenue Support Grant in future years do not provide for further reductions to this key funding stream. This is in keeping with budget assumptions applied by partnering bodies and consideration of budget assumptions by the Fire Finance Network. However Members should be aware that in light of continuing national pressures, uncertainty around the implications of Brexit, and similar, future reductions to RSG are not improbable.

8.3 Clearly future funding will be impacted by the continued localisation of Business Rate Retention in the medium term, and future consideration of the Derbyshire Business Rate Pool (and/or Pilot) in the short term.

8.4 The overall position in the Medium Term Financial Plan 2019/2020 to 2022/2023 is illustrated in Appendix 1.

8.5 Even prior to the referendum, the Office of Budget Responsibility, in its long term financial forecasts, pointed out that the ageing of the UK population was projected to place significantly greater strain on public finances beyond 2019/2020. Increased spending on age related public services, in particular on health and social care, would be offset only slightly by an increase in tax receipts as a share of national income. Recent announcements around additional funding for the NHS (June 2018), will clearly have implication on public finances.

8.6 Brexit may well increase the challenges facing public finances. Longer term implications remain uncertain and will depend upon the timing of a return to surplus, prospects for economic growth, and interest rates going forward. Ongoing political and economic uncertainty surrounding Brexit negotiations, and fears over a hard-Brexit or a no-deal Brexit, continue to impact on the strength of the pound.

8.7 Beyond the deficit, the Government will need to turn its attention to reducing its debts. When the deficit is eliminated, UK Government debt will need to be paid down.

8.8 Other factors that are likely to have a significant impact or pressures on the Authority are:

8.9 **Pay** – The Government have made it quite clear that pay restraint is vital to supporting front line service delivery and ensuring medium term financial stability, announcing a 0% cap on national pay awards across the sector immediately after the financial crash of 2008.

8.10 A 1% increase was awarded to all staff in 2017 (and 2016). However, additional public sector pay rises climbed to 2% for 2018/2019 and 2019/2020 based on the Employers offer in the immediate term for support roles, this is discussed in more detail in Section 9. Of note, an increase of 1% across all categories of staff represents an annual budget pressure in the region of £0.3m. Pressures on operational pay budgets in particular, due to protracted pay award negotiations, should be noted.

8.11 **Pensions** – The increased cost of pensions arising from an ageing population, higher pension ages and the reform of ill health benefits are having a significant impact on the ongoing cost of pension payments. Members have been regularly reminded of the threat of increasing employer pension contributions, through regular Fire Authority Reports. With recent changes to the discount rate used as part of the pension's valuation, we see the threat of increasing employer contribution costs coming to fruition in 2019 onwards. The net effect to the Authority sees estimated additional costs of £0.5m per annum with final rates for each scheme still to be finalised. It is hoped that this additional cost beyond 2019/2020 might be addressed through the Spending Review but the Service will need to plan for this likely on-going cost.

8.12 Additionally, The Court of Appeal has recently handed down a judgement in the Firefighters Pension transitional appeals case. This is not yet binding and the Government has made an appeal against this to the Supreme Court. The financial impact of the judgement is not yet known, and whilst there is a budgetary risk that firefighters pensions costs may increase as a result of this, it is too early to make any firm assumptions.

8.13 The Medium Term Financial Plan also provides for a contribution to the local government pensions deficit of £167,000 in 2019/2020 onwards. The likelihood of further budget pressures in the area of pensions, due to an ageing population, longevity assumptions and economic factors, cannot be overlooked.

## 9 Four Year Financial Forecast 2019/2020 – 2022/2023

9.1 The tables below details indicative budgets for the next four years based on a 2.98% in Council Tax 2019/2020 and a 1.98% increase (1.98% 2020/2021 onwards). They assume a further 1% increase in the Council Tax base, and a Collection Fund deficit of £0.1m 2020/2021 onwards. They take account of the national impacts of pressures highlighted in section 8 with more detailed assumptions discussed below.

***Projected Four Year Financial Plan based on a 2.98% increase in Council Tax in year 2019/2020 (1.98% 2020/2021 onwards)***

| | 2019/2020<br>£ | 2020/2021<br>£ | 2021/2022<br>£ | 2022/2023<br>£ |
|---|---|---|---|---|
| **Approved Base Budget Previous Year** | **38,714,420** | **37,853,650** | **39,431,320** | **40,754,510** |
| Pay and Other Inflation | 590,670 | 823,900 | 842,490 | 861,270 |
| Ongoing Budget Pressures | 1,195,600 | 80,000 | 120,000 | |
| Revenue Contribution to Capital | 0 | | 300,000 | |
| Ongoing Budget Reductions | (1,799,320) | (30,000) | (30,000) | |
| Other Budget Reductions | (190,000) | | | |
| Other Budget Adjustments | (45,160) | 91,210 | 90,700 | 88,680 |
| Reserve Funding to Balance | (612,560) | 612,560 | | |
| **Proposed Net Budget** | **37,853,650** | **39,431,320** | **40,754,510** | **41,704,460** |
| Council Tax Precept | (24,317,910) | (25,054,270) | (25,550,350) | (26,056,360) |
| Business Rates Top Ups & Tariffs | (8,801,370) | (8,664,800) | (8,790,410) | (8,917,200) |
| Revenue Support Grant | (4,200,000) | (4,200,000) | (4,200,000) | (4,200,000) |
| Council Tax & NNDR Collection Fund Surplus | (57,380) | 100,000 | 100,000 | 100,000 |
| NNDR Section 31 Grant | (476,990) | (500,000) | (500,000) | (500,000) |
| **Total Funding** | **(37,853,650)** | **(38,319,070)** | **(38,940,760)** | **(39,573,560)** |
| **(Surplus) / Deficit** | **0** | **1,112,250** | **1,813,750** | **2,130,900** |

***Projected Four Year Financial Plan based on a 1.98% increase in Council Tax in year 2019/2020 onwards***

| | 2019/2020<br>£ | 2020/2021<br>£ | 2021/2022<br>£ | 2022/2023<br>£ |
|---|---|---|---|---|
| **Approved Base Budget Previous Year** | **38,714,420** | **37,853,650** | **39,431,320** | **40,754,510** |
| Pay and Other Inflation | 590,670 | 823,900 | 842,490 | 861,270 |
| Ongoing Budget Pressures | 1,195,600 | 80,000 | 120,000 | |
| Revenue Contribution to Capital | 0 | | 300,000 | |
| Ongoing Budget Reductions | (1,799,320) | (30,000) | (30,000) | |
| Other Budget Reductions | (190,000) | | | |
| Other Budget Adjustments | (45,160) | 91,210 | 90,700 | 88,680 |
| Reserve Funding to Balance | (612,560) | 612,560 | | |
| **Proposed Net Budget** | **37,853,650** | **39,431,320** | **40,754,510** | **41,704,460** |
| Council Tax Precept | (24,080,960) | (24,812,580) | (25,303,830) | (25,804,910) |
| Business Rates Top Ups & Tariffs | (8,801,370) | (8,664,800) | (8,790,410) | (8,917,200) |
| Revenue Support Grant | (4,200,000) | (4,200,000) | (4,200,000) | (4,200,000) |
| Council Tax & NNDR Collection Fund Surplus | (57,380) | 100,000 | 100,000 | 100,000 |
| NNDR Section 31 Grant | (476,990) | (500,000) | (500,000) | (500,000) |
| **Total Funding** | **(37,616,700)** | **(38,077,380)** | **(38,694,240)** | **(39,322,110)** |
| **(Surplus) / Deficit** | **236,950** | **1,353,940** | **2,060,270** | **2,382,350** |
| ***Additional Deficit to fund @ 1.98% Council Tax Increase*** | ***236,950*** | ***241,690*** | ***246,520*** | ***251,450*** |
| ***Cummulative Effect*** | | ***478,640*** | ***725,160*** | ***976,610*** |

9.2 A further table below illustrates the effect of an additional reduction in Government funding (RSG) in 2020/2021. A further reduction of £0.4m reflects the reduction applied in 2019/2020 (on 2018/2019 levels). In this scenario, the deficit would rise to £2.8m in 2022/2023.

***Projected Four Year Financial Plan based on further reductions in Revenue Support Grant in year 2020/2021 (1.98% increase in Council Tax)***

| | 2019/2020 £ | 2020/2021 £ | 2021/2022 £ | 2022/2023 £ |
|---|---|---|---|---|
| **Approved Base Budget Previous Year** | **38,714,420** | **37,853,650** | **39,431,320** | **40,754,510** |
| Pay and Other Inflation | 590,670 | 823,900 | 842,490 | 861,270 |
| Ongoing Budget Pressures | 1,195,600 | 80,000 | 120,000 | |
| Revenue Contribution to Capital | 0 | | 300,000 | |
| Ongoing Budget Reductions | (1,799,320) | (30,000) | (30,000) | |
| Other Budget Reductions | (190,000) | | | |
| Other Budget Adjustments | (45,160) | 91,210 | 90,700 | 88,680 |
| Reserve Funding to Balance | (612,560) | 612,560 | | |
| **Proposed Net Budget** | **37,853,650** | **39,431,320** | **40,754,510** | **41,704,460** |
| Council Tax Precept | (24,080,960) | (24,812,580) | (25,303,830) | (25,804,910) |
| Business Rates Top Ups & Tariffs | (8,801,370) | (8,664,800) | (8,790,410) | (8,917,200) |
| Revenue Support Grant | (4,200,000) | (3,800,000) | (3,800,000) | (3,800,000) |
| Council Tax & NNDR Collection Fund Surplus | (57,380) | 100,000 | 100,000 | 100,000 |
| NNDR Section 31 Grant | (476,990) | (500,000) | (500,000) | (500,000) |
| **Total Funding** | **(37,616,700)** | **(37,677,380)** | **(38,294,240)** | **(38,922,110)** |
| **(Surplus) / Deficit** | **236,950** | **1,753,940** | **2,460,270** | **2,782,350** |
| | | | | |
| ***Additional Deficit to fund @ 1.98% Council Tax Increase*** | ***236,950*** | ***241,690*** | ***246,520*** | ***251,450*** |
| ***Cummulative Effect*** | | ***478,640*** | ***725,160*** | ***976,610*** |

9.3 Funding assumptions, as outlined in the report, result in a deficit in the region of £2.1m over the next four years if council tax is increased by 2.98% in 2019/2020 and 1.98% year on year thereafter. Years 2020/2021 to 2022/2023 projections should be considered to be indicative at this stage, and are subject to the uncertainties over funding streams and the delivery of the IRMP 2019/2020. Workings reasonably assume that savings identified are secure.

***Pay Budgets***

9.4 In the Summer Budget of July 2015 it was announced that public sector pay rises would be capped at 1% a year for the next four years. However, real wages are growing at rates not seen since before the recession. This has inevitably led to pressure on public sector pay negotiations.

9.5 In anticipation of pressure on future public sector pay awards, general pay inflation has been included over the period of the Medium Term Financial Plan as follows:

| | |
|---|---|
| 2019/2020 | 2% |
| 2020/2021 | 2% |
| 2021/2022 | 2% |
| 2022/2023 | 2% |

9.6 As such, the budget allows for pay inflation of around £0.6m per annum. Members should note the very real pressures around firefighter pay negotiations (and broadening the firefighter role map) and support staff market supplements, and the potential for this to impact adversely on future budgets.

9.7 Provision for price increases are based on the following assumptions.

| | |
|---|---|
| 2019/2020 | 0% * |
| 2020/2021 | 2% |
| 2021/2022 | 2% |
| 2022/2023 | 2% |

**Other than for Business Rates*

## 10 The Effectiveness Programme, Fit to Respond and IRMP Programme

10.1 The '**Effectiveness Programme**' covered the period 2011/2012 to 2014/2015, it identified a number of initiatives designed to deliver sustainable ongoing savings and to address significant funding reductions whilst maintaining effective frontline service provision to the community. The Service achieved significant savings, as outlined below:

- Target Ongoing Savings £5.4m.
- Total Savings £12.2m (ongoing savings £5.6m, one off savings £6.6m).
- Total Ongoing Savings £5.6m.

10.2 Effectiveness Programme savings should be considered alongside savings monitored and delivered through Service Improvement savings, both cashable and non-cashable.

### Fit to Respond Programme 2015/2017

10.3 During 2013/2014 the Service undertook a further comprehensive, service wide review, the purpose of which was to assess more far reaching opportunities for savings with more significant changes required in light of the saving requirements in the medium term. Taking account of all responses, Derbyshire Fire and Rescue Authority agreed to develop a new plan based on five Key Principles, to address eleven Key Outcomes underpinning the strategy for future service delivery.

**IRMP Programme 2019/2020 (Year 3)**

10.4 The latest savings targets against the themes can be found on the DFRS website and in Appendix 3 (example Collaboration shown below):

| **Delivering against: IRMP 2019/20 (Year 3)**<br>**Collaboration Projects** |
|---|
| ***Name of project*** |
| Progress the Joint Command and Control Centre for Derbyshire and Nottinghamshire |
| Develop further Fire/Police collaboration opportunities:<br>• Joint Finance Director<br>• Combined property team<br>• Special Operations<br>• Investigation (ISO)<br>• Internal Communications<br>• Fleet<br>• Procurement/stores<br>• IS/ICT<br>• Assets<br>• Prevention |
| Review phase two of the Tri Services Control project |

10.5 Savings of £0.15m are on track to be delivered in the 2018/2019 financial year. Savings of £1.8m ongoing (and £0.2m one-off) applied to the 2019/2020 Revenue Budget are outlined below.

10.6 This brings the total savings achieved by the Service over the period 2011/2012 to 2019/2020 to approximately **£11m**.

**Planned Budget Savings – 2019/2020 Onwards**

10.7 The 2019/2020 budget includes ongoing savings of £1.8m, more significant items are outlined below.

***Duty Systems***

10.8 **Direct Employee Expenses** - at its meeting on 28 September 2017 and 7 December 2017, Members considered the business case and a number of options relating to proposed changes to the duty systems at both Matlock and Glossop Fire Stations. Further to Member approval to implement changes in March 2018, savings in the region of £0.4m will be secured in the 2019/2020 financial year after taking account of pay protections. Fleet reductions aligned to the Specials Review secure ongoing savings in the region of £16,000, and some associated training cost savings.

***Collaboration***

10.9 **Direct Employee Expenses** - savings of some £61,000 arise through collaboration opportunities specific to the proposed role of the Joint Director of Finance for Derbyshire Fire and Rescue Service and Derbyshire Constabulary, and savings of £38,000 arise through the Joint Police / Fire Assets Role, both of which were approved by Members in September 2018.

10.10 **Other Government Grants and Other Income - Rental Income** – additional income, in the region of £55,000, will be received in 2019/2020 onwards from blue light partners. This is due to the completion of new lease agreements including Swadlincote and Bakewell Fire Stations, as well as the renegotiation of existing leases following building adaptations.

10.11 **Equipment, Furniture and Materials - Smoke Alarms -** savings of £25,000 arise through a jointly negotiated regional Smoke Alarm pricing agreement with suppliers, and more efficient stock management arrangements. Members will be aware of an underspend of £40,000 on this budget heading in the 2018/2019 financial year.

***Other Savings***

10.12 **Leasing Budget, External Interest and Minimum Revenue Provision** - budget savings of £150,000 in 2019/2020 represents a reduction in borrowing costs, which reflect decisions around the outright purchase of Service vehicles in the Capital Programme.

10.13 **IT Contracts** – savings of £144,000 represents contracts which have expired or have been renegotiated, delivering savings to the Authority.

***Further Measures Taken to Balance the 2019/2020 Budget***

10.14 **Contribution to Capital Development Reserve** – a revenue contribution to the Vehicle Replacement Fund was previously provided for in all years of the Medium Term Financial Plan 2018/2019 to 2021/2022. The balance of this Reserve was transferred to the **Capital Development Reserve** during 2018/2019, as both Reserves support capital expenditure generally.

10.15 In order to balance the 2019/2020 budget, and to reduce the reliance on our Reserves to bridge the Revenue Budget funding shortfall, the contribution to the **Capital Development Reserve** has been reduced by £410,000 in all years of the proposed MTFP. This results in a contribution of £280,000 to the **Capital Development Reserve** in 2019/2020 which should be considered alongside the **Revenue Contribution to Capital** provision (of £0.3m in years 2021/2022 and 2022/2023) and borrowing costs in 2020/2021 onwards.

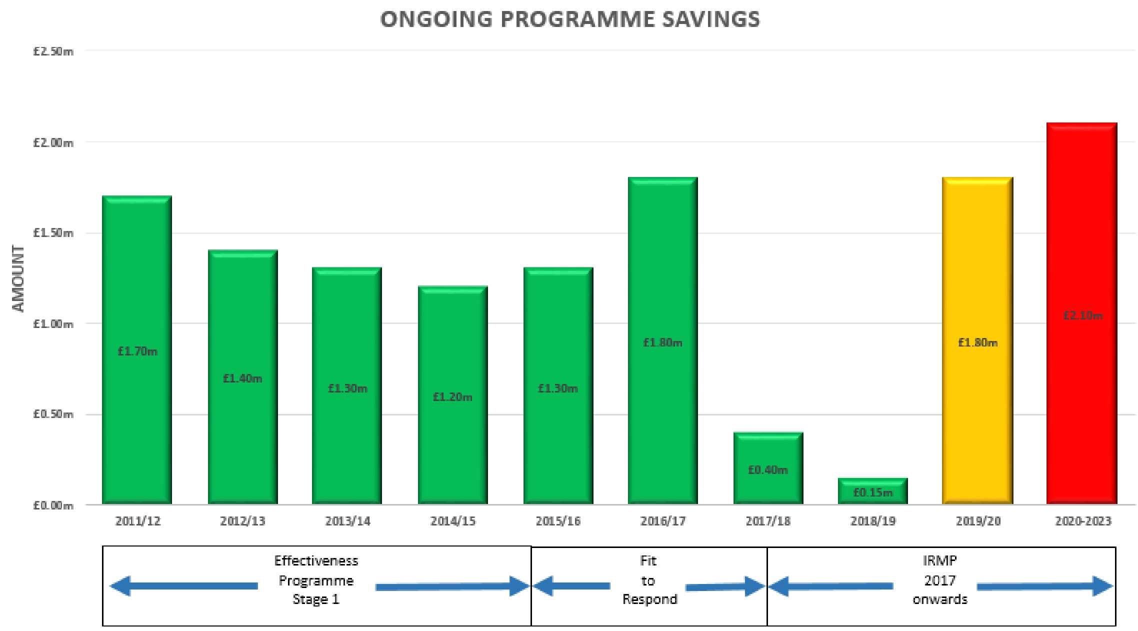
10.16 **Direct Employee Expenses** – in arriving at a balanced budget, a £260,000 pay budget reduction has been applied. This reflects the impact of the operational staff retirement profile and vacancy management generally. This has been applied across all years of the MTFP, so 2019/2020 through to 2022/2023, and is in line with prior year operational staffing budget underspends. Assumptions take account of the retirement profile and future plans for wholetime firefighter recruitment.

10.17 This is in additional to a £240,000 reduction applied in 2018/2019 in order to balance the budget, bringing the total ‘managed vacancy’ to £500,000 ongoing.

10.18 This measure should be considered alongside the removal of the **Support Overtime** budget (£72,000), and the **Agency Budget** (£152,000), both of which are on an ongoing basis.

10.19 This results in a staffing budget reduction of around £0.5m (cumulatively £0.74m after taking account of 2018/2019 adjustments), which will affect staffing budget underspends from 2019/2020 onwards. As Revenue Budget underspends have previously been used to bolster our level of Reserves and specifically our capital investment in the Service, Members should consider this alongside our medium term Reserves position, and are referred to Appendix 4 accordingly.

10.20 The targeted ongoing budget savings, as shown across the Service Development themes for 2019/2020 are detailed in Appendix 3.




### *Future Savings – Collaboration*

10.21 **Direct Employee Expenses** - In December 2018, Derbyshire Fire and Rescue Authority approved the business case for a Joint Control Room provision for Nottinghamshire and Derbyshire Fire. Nottinghamshire Fire and Rescue Authority also approved the same business case, with the Joint Fire Control planned to be delivered in the 2019/2020 financial year. Annual savings in the region of £350,000 will be achieved by both Services, although Members are aware of significant initial set up costs. These are anticipated to be in the region of £350,000 (likely case, worst case £430,000) for Derbyshire Fire and Rescue Service, and will be financed for the most part through reserves. The MTFP will be updated for this saving when final approval has been given, and the position becomes more certain.

## 11 Robustness of Estimates and Reserves - Assurance Statement from the Treasurer

11.1 Section 25 of The Local Government Act 2003 requires the Director of Finance/Treasurer to report to Members annually on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves. The Authority must take these into account when setting a precept.

11.2 The process involved in producing the estimates has taken into account all known quantifiable financial impacts on the Authority's budget. Inflation has been added on the basis of best estimates and the budget has been closely scrutinised.

11.3 A comprehensive analysis of reserves has been undertaken as part of the 2019/2020 budget setting process in order to identify any reserves that could be set aside to support schemes which will deliver savings and to help fund any short term deficit. To this end the Service has maintained an Invest to Save Reserve for the amount of £0.5m (note future commitments against this).

11.4 Expenditure in 2018/2019 has been subject to close monitoring and control in an attempt to increase the Authority's level of reserves in accordance with agreed policy to remain two years ahead of government cuts. The Forecast Outturn Report (February 2019) outlines a managed underspend of £0.6m which reflects strict controls over vacancy management and spend generally throughout the year.

11.5 The projected 2018/2019 Revenue Budget underspend will be transferred to the **Strategic Risk Reserve** at year end to offset the balance required to bridge the 2018/2019 funding gap (£809,580). Any additional balance will be transferred to the **Capital Development Reserve**, which provides for future expenditure specific to our capital projects. A contribution in the region of £3.9m from the **Capital Development Reserve** during 2018/2019 to support capital spend should be noted.

11.6 Judgements about reserves, to what extent they should be used or set aside, can only be made at a local level. Uncertainty and risk is increasing, despite the recent multiple year settlement. Future budgets present the dual challenge of potential further funding reductions and continued financial reform (transfer of ministerial responsibility, 75% business rates retention, financial implication of Brexit, pension valuations and changing legislation, localisation of council tax benefit and similar). This represents significantly greater uncertainty and risk than would normally be the case. Members should be aware that recent enhanced levels of Capital spend mean that our level of reserves have reduced significantly.

11.7 A contribution from the Strategic Risk Reserve of £0.6m required to balance the 2019/2020 budget should be noted, which cannot be sustained.

### Level of Reserves

11.8 Estimated 2019/2020 Opening Reserves assume that £0.6m is transferred to Reserves at year end 2018/2019, reflecting the projected Revenue Budget underspend. Opening Reserves also take account of a Reserve contribution of £0.8m required to balance the 2018/2019 Revenue Budget. The level of Reserves reported provide an update to the Authority's Efficiency Plan return submitted to the Home Office in October 2016, and the Medium Term Financial Strategy 2019/2020 to 2022/2023 as approved by Members in December 2018.

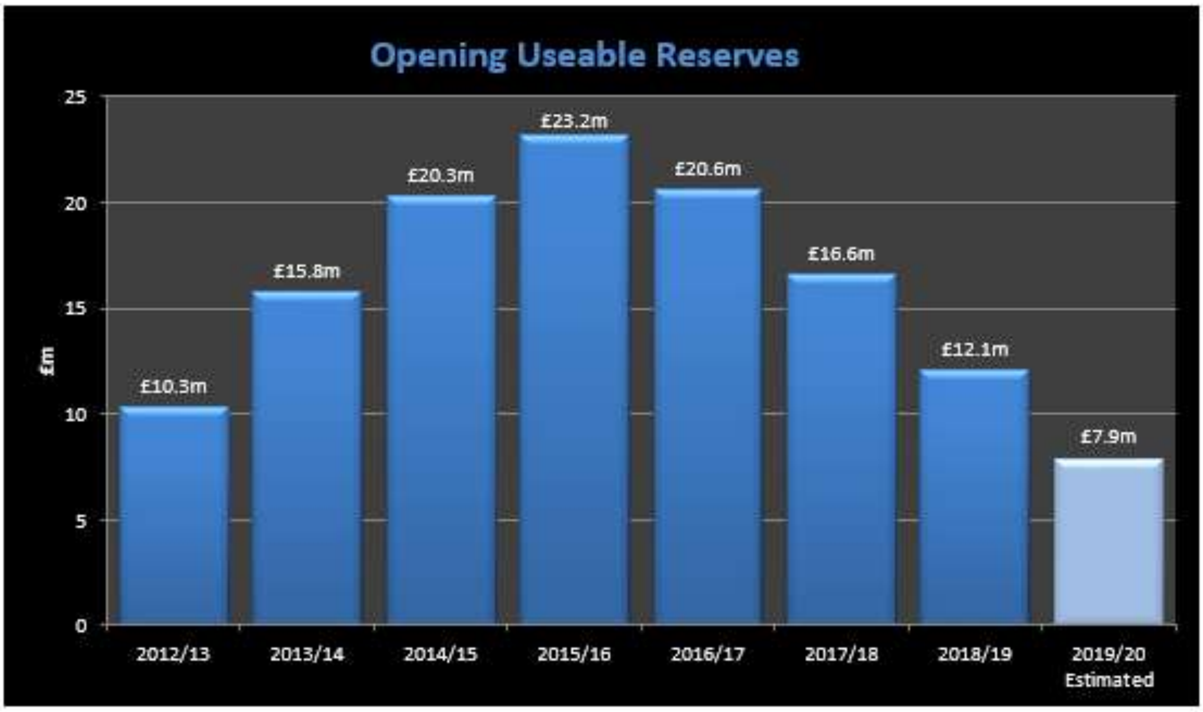
| **Estimated Opening Reserves** | **2019/2020 £000s** |
|---|---|
| Capital Financing Deferral | 1,106 |
| Revenue Earmarked Reserves | 692 |
| General Fund Balance | 1,900 |
| Invest to Save Reserve | 302 |
| Strategic Risk Reserve | 271 |
| Tri Control / ESN Reserve | 2,040 |
| **Subtotal** | **6,311** |
| **Revenue Budget underspend 2018/2019** | **623** |
| **Total** | **6,934** |

**Excludes ringfenced Capital Grant Unapplied £1,014,400*

11.9 A statement of estimated reserves 2019/2020 to 2022/2023 is included at Appendix 4.

11.10 A historic favourable level of reserves provided the Authority with a buffer against budget shortfalls in forthcoming years and provided for a greater degree of financial resilience, which allowed the Service to manage any reduction in workforce through retirements and natural turnover of staff. However, as Members will be aware, it is a finite fund and cannot be relied on indefinitely, particularly in light of funding shortfalls in years 2018/2019 and 2019/2020.

11.11 General Reserves are maintained at 5% of net expenditure which is consistent with published guidance from the Home Office and in line with the financial strategy. Uncommitted or General Reserves are now below average for Fire and Rescue Services.




11.12 A risk assessment of key reserves is included below. The Medium Term Financial Strategy 2019/2020 to 2022/2023 provides a robust and comprehensive analysis which includes the Service's published Reserves Strategy

**General Reserve**

| |
|---|
| *Purpose*: To provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and extraordinary in nature.<br>*Activity*: Volatile – likelihood is unpredictable. Significant impact, provides the Authority with capacity to maintain operations in the event of significant one off large scale incidents and pressures.<br>*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.<br>*Timescale for review:* Annual. |

**Strategic Risk Earmarked Reserve**

| |
|---|
| *Purpose*: To meet significant unforeseen pressures, changes in funding, major incidents including environmental and large scale incidents, strike action, business continuity and security implications. To provide temporary funding from reserves to cover delays or shortfalls in delivering IRMP programme savings and to provide an unallocated reserve to cushion the impact of funding cuts.<br>*Activity*: Volatile – such events are unpredictable but need to be provided for.<br>Significant impact, provides the Authority with capacity to maintain operations in the event of significant one off large scale incidents and pressures. |

*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review:* Annual.

### Invest to Save Earmarked Reserve

*Purpose*: To provide funding to deliver structural change and pump prime projects which require investment to deliver savings in the longer term. The reserve further provides for service and delivery improvements, funding for which is not inherent in the base budget.
*Activity*: Uncertain – uncertainty in government funding and on-going effect of local government reform, years 2017/2018 and beyond. Significant impact, limited notice of changes in government policy and material sums of money are involved.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review*: Annual.

### Tri Control and ESN Earmarked Reserve

*Purpose*: To provide for the uncertainty around the Tri-Control and ESMCP projects and emerging requirements. To build capacity to support alternative mobilising systems if required, the replacement for Airwave, the new Emergency Services Network and meet other national resilience proposals.
*Activity*: Volatile – uncertainty in government funding and diminishing opportunities to claim for New Burdens funding. Significant impact due to limited notice of changes in government policy and material sums of money are involved.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review*: Annual.

### Capital Development Earmarked Reserve

*Purpose*: To offset future borrowing costs and to fund future capital programme schemes. This reserve provides for expenditure specific to our Property, ICT and Transport Capital Programme, and is particularly valid in light of future capital funding uncertainties.
*Activity:* Uncertain – uncertainty over capital grant and Transformation Funding. Significant impact due to limited notice of changes in government policy and material sums of money are involved.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review*: Annual.

### Workforce Contingency Earmarked Reserve

*Purpose:* To provide for employee related costs associated with internal restructuring or the disestablishment of posts due to partnering opportunities, to include voluntary and compulsory redundancy payments.
*Activity:* Uncertain – subject to organisational need and external funding pressures. Impact is not anticipated to be significant.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review:* Annual.

**Ill Health Pension – Refund of Taxation Earmarked Reserve**

*Purpose:* To provide for the potential refund of taxation on On Call Injury Awards for the period prior to 2013.
*Activity:* Uncertain – subject to legal clarification.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review:* Annual.

**BA Training House R&M Fund Earmarked Reserve**

*Purpose*: To provide for essential repairs and maintenance works to the fire house units at Kingsway Fire Station and JTC, due to the expensive nature of repair.
*Activity:* Uncertain – timing of requirement unknown. Potential for significant impact given associated high cost.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for Review:* Annual.

**System Development Earmarked Reserve**

*Purpose:* Established to enable the development of key systems, such as Agresso. Funding for development purposes is not inherent within the base revenue budget.
*Activity:* Subject to timescale for upgrade, and ICT resource availability.
Impact has potential to be significant, due to the Service's reliance on key financial systems.
*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review:* Annual.

**Protecting the Most Vulnerable Earmarked Reserve**

*Purpose:* Established to safeguard prevention activities currently undertaken with partner agencies in the main, and to support schemes and partners in providing health and wellbeing support to the most vulnerable members of our community.
*Activity:* Uncertain – depends largely on partnership activities. Small financial impact to DFRS, but potential for significant impact in the community, for example, a house fire to horder's premises.
*Procedure for management and control:* the level and utilisation of the reserve is determined by Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for Review:* Annual.

**Carry Forwards Earmarked Reserve**

*Purpose:* To provide for prior year underspends which have been approved by Members for carry forwards purposes.
*Activity:* Expenditure to be incurred in full in the financial year following approval. Minimal impact.
*Procedure for management and control*: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.
*Timescale for review*: Annual.

11.13 The 2019/2020 Opening Reserves are considered to be of an appropriate level to provide financial resilience in the medium term and will be key to the delivery of planned reform. However, the continuance of significant funding reductions in future years, the withdrawal of on-going capital grant and the need for continued investment in the Service prevents a real risk.

11.14 The Authority is mindful of the need to continue to invest in service redesign, collaborative working and to obtain future sustainable savings through the streamlining and continuous review of its services.

## 12 Legal Considerations

12.1 The Authority has a statutory duty to notify its precept to Billing Authorities by 1 March 2019 and has no power to issue a supplementary precept.

12.2 Section 114 of the Local Government Finance Act 1988 requires the Treasurer to report to Members and the External Auditor if the Authority or one of its officers has made, or is about to make, a decision that involves incurring unlawful expenditure (not setting a balanced budget would be classed as being unlawful).

12.3 The Authority must also comply with the Accounts and Audit Regulations 2011 and ensure that the financial management of the Authority is adequate and effective, and has a Duty of Best Value to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

## 13 Financial Considerations

13.1 This report is asking Members to consider the strategic financial direction of the Authority. Members will need to take account of national, local and corporate issues addressed in the report.

## 14 Inclusion and Equality Considerations

14.1 In considering the budget Members are under a legal duty to pay “due regard” to the need to eliminate discrimination and promote equality with regard to race, disability and gender, including gender reassignment, as well as to promote good race relations. From April 2011 this equality duty was extended to cover age, sexual orientation, pregnancy, maternity and religious belief.

**This report has been approved by the following officers:**

Strategic Leadership Team Meeting 28/01/2019

**Contact Officer:** Simon Allsop **Contact No:** 01773 305410

**Background Papers:**

*Revenue Budget Monitoring 2018/2019 (April 2018 to September)*

*Capital Monitoring and Prudential Update 2018/2019*

*Revenue Budget Outturn 2017/2018*

*Capital and Prudential Outturn 2017/2018 and Revised Capital Programme 2018/2019*

*Medium Term Financial Strategy 2019/2023*

*Revenue Budget 2018/2019 and the Medium Term Financial Plan for 2018/2019 to 2021/2022*

*Efficiency Plan 2016/2017*