

LANCASHIRE COMBINED FIRE AUTHORITY

Meeting to be held on 18 December 2017

REVENUE BUDGET 2018/19-2022/23

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Executive Summary

The report sets out the draft revenue budget for 2018/19-2022/23 and the resultant council tax implications.

Budget requirement has been re-assessed taking account of known/anticipated changes, incorporating current year-end forecast projections, and forecast vacancy factors based on anticipated recruitment. The most significant assumption is that the final pay awards for 17/18, 18/19 and 19/20 all remain at 1%.

Funding takes account of the draft 4 year settlement (up to and including 2019/20) and assumes a cash freeze in subsequent years. In terms of council tax we have modelled increasing council tax by 2% each year, but have provided details re the impact of a freeze in 18/19. The model shows a funding gap of £0.5m in 18/19, increasing to £1.1m in 2019/20, the last year of the current 4 year settlement. With significantly higher deficits beyond that.

Based on the assumptions within the budget the deficit identified over the next 2 years could be met from reserves. However looking longer term a combination of savings and utilisation of reserves would be required.

The two key variables within the budget remain current and future pay awards and funding post the current 4 year settlement. Any significant increase in pay award over and above the 1% built into the budget will add in significant financial pressures. A 2% pay award for grey book in 17/18, and a 2% pay award for all staff in 18/19 will increase the 18/19 budget/funding gap by £0.6m. A further 2% pay award for all staff in 19/20 will add in a further £0.4m to this figure (i.e. a total additional budget/funding gap of £1.0m in 2019/20 and each subsequent year). Should the settlement in 2020/21 and beyond be better than the cash freeze budgeted for then the level of deficit will reduce accordingly. As always the longer the forecast the less accurate it will be.

As part of the recent Technical Consultation on the Local Government Finance Settlement the Fire Sector as a whole made representations on the size of current funding cuts as well as on the draft council tax referendum principles. In terms of the latter the Authority, and the sector as a whole, proposed that the same flexibility is provided to the Fire Sector as to District Councils and PCCs in the lower quartile, namely an ability to raise council tax by a maximum of £5. For information raising council tax by £5 would generate an additional £1.6m of precept over and above the 2% limit outlined in the report. Dependent upon the outcome of the current consultation process and the final pay awards agreed this flexibility may be required.

Recommendations

The Authority is requested to: -

1. Give initial consideration to the draft revenue budget as presented;
2. Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
3. Give further consideration to the revenue budget at their next meeting on 19 February 2018, in light of the consultation process.

Information

In line with the Authority's objective to deliver affordable, value for money services the Authority's Budget Strategy remains one of:-

- Maintaining future council tax increases at reasonable levels, reducing if possible;
- Continuing to deliver efficiencies in line with targets;
- Continuing to invest in improvements in service delivery;
- Continuing to invest in improving facilities;
- Setting a robust budget;
- Maintaining an adequate level of reserves.

Draft Budget

In order to determine the future budget requirement, the Authority has used the approved 2017/18 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Preceding Years Draft Net Budget Requirement	53.9	54.5	55.9	57.7	59.8
Add back Previous Years Vacancy Factors	1.2	1.7	0.4	0.6	0.6
Inflation	0.8	0.8	1.3	1.9	2.0
Other Pay Pressures	(0.4)	0.3	0.8	0.3	-
Committed Variations	0.1	0.1	-	-	-
Growth	1.3	(1.0)	0.1	-	-
Efficiency Savings	(0.8)	(0.3)	(0.1)	-	-
Vacancy Factors	(1.7)	(0.4)	(0.6)	(0.6)	(0.5)
Net Budget Requirement	54.5	55.9	57.7	59.8	61.9

Inflation

The following amounts have been added to the budget in respect of inflationary pressures, in line with current estimates:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
A 1% allowance has been built in for all pay-awards for 2017/18-2019/20. However it is worth noting that the NJC offered a 2% award in 17/18 and identified a further potential award of 3% in 18/19 subject to further funding being made available. This has subsequently been withdrawn on the back of the current pay discussions, but does give a strong indication that the 1% increase included in the budget may not be sufficient. The 2020/21 budget allows for a 2.5% pay award in 2021/22 and 3.6% in 2022/23. (These are in line with the estimates provided by the Home Office as part of its pension forecasting exercise in July.)	0.4	0.4	0.9	1.5	1.6
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.4	0.4	0.4
	0.8	0.8	1.3	1.9	2.0

Each 1% pay award in excess of the above assumptions equates to an additional cost of £340k per year for grey book personnel, and if this is mirrored for green book personnel an additional £70k. Therefore assuming a 2% pay award for grey book in 17/18, and a 2% pay award for all staff in 18/19 this will increase the 18/19 budget by £0.6m. A further 2% pay award for all staff in 19/20 will add in a further £0.4m to this figure (i.e. a total additional budget of £1.0m in 2019/20 and each subsequent year).

Other Pay Pressure

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Pay has been re-costed based on an updated recruit's profile, taking account of the impact of this on numbers of personnel in development rates of pay, the number of personnel in receipt of Continuing Professional Development payments, and the mix of personnel in the old and new FF pension scheme.	(0.4)	0.3	0.8	0.3	-

The Chancellor of the Exchequer in the 2016 Budget announced that “The Government had reviewed the discount rate used to set employer contribution to unfunded public service pension schemes. The discount rate is being set at 2.8% and the employers will pay higher contributions to the schemes from 2019/20 as a result.” This will add a further £2bn of costs to these schemes. The next tri-annual valuation of the FF Pension Scheme will include the impact of this when it sets the contribution rate payable from 1 April 2019. Whilst no details of the specific impact on any unfunded scheme are available at the present time, an allowance for a 3% increase has been built into the budget in 2019/20.	-	0.7	-	-	-
The saving in respect of the drawdown on the Local Government Pension Scheme surplus will continue in 2018/19 and 2019/20. We have assumed this ceases in 2020/21 when a new actuarial valuation will take effect.	-	-	0.3	-	-
	(0.4)	0.3	0.8	0.3	-

Committed Variations

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Increase in rates payable, following the recent revaluation exercise	0.1	-	-	-	-
Reduction in interest receivable based on reducing cash balances	-	0.1	-	-	-
	0.1	0.1	-	-	-

Growth

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Creation of additional posts to meet new demands placed on the Service in areas such as:- <ul style="list-style-type: none"> • Audit and inspection requirements • Implementation of National Operational Guidance and Learning • Increased training demands associated with both Whole-time and RDS recruits courses 	0.6	(0.3)	-	-	-
Costs associated with the roll out of apprentices within the Service	0.2	0.1	-	-	-
Additional budget in respect of the cost of recruits in training, reflecting the timing and number of new Whole-time recruits each year	0.3	(0.6)	0.1	-	-
Additional PPE costs to enable the full swap out of gloves, boots and helmets (which was commenced in the current financial year but with the balance to be completed in 18/19)	0.2	(0.2)			
	1.3	(1.0)	0.1	-	-

Efficiency Savings

The Authority has a good track record of delivering efficiency savings. Between April 2011 and March 2018 we will have delivered £18m of savings. With further savings identified below:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Removal of temporary posts created in previous years	(0.1)	-	(0.1)-	-	-
Reduction in Interest Payable as a result of paying off a proportion of debt	(0.2)	-	-	-	-
Reduction in operational equipment replacement budget reflecting asset management plans	(0.1)	-	-	-	-
Savings identified from reviewing various non-pay budgets	(0.4)	-	-	-	-
Rental Income re Site Sharing of Preston Fire Station	-	(0.1)	-	-	-

Savings relating to transfer from Airwave to ESMCP	-	(0.2)	-	-	-
	(0.8)	(0.3)	(0.1)	-	-

In-year Vacancy Factors

The budget needs to take account of forecast vacancy factors arising from retirement and recruitment profiles:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
The vacancy factor for whole-time has been updated. This shows an increase in the vacancy forecast for 2018/19, reflecting the shortfall in recruit numbers in the current year. But with a higher over-provision in 2019/20 and beyond, based on the current profile of recruits.	(0.6)	0.7	0.5	0.6	0.7
RDS vacancy factors has been left at 20% reflecting the current level of staffing, and assuming this remains constant.	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)
Support staff vacancy factor has been left at 2.5% It is extremely hard to make an accurate prediction relating to this as one or two key posts have a significant impact on this, as evidenced by the position within ICT and Service Development in 17/18.	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
	(1.7)	(0.4)	(0.6)	(0.6)	(0.5)

Net Budget Requirement

As set out above the overall net budget requirement for each year is as follows:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Draft Budget Requirement	54.5	55.9	57.7	59.8	61.9
Budget (Decrease)/Increase	1.0%	2.5%	3.2%	3.7%	3.4%

Grant Funding

As a major precepting authority the Authority receives funding in the form of:-

2017/18	
Settlement Funding Assessment (Grant)	
Revenue Support Grant, direct from the Government	£10.7m
Individual Authority Business Rates	£4.1m
Business Rates Top-Up, from the Government	£10.5m
Business Rates collection fund deficit	(£0.2m)
Section 31 Grant - Business Rates Capping	£0.5m
	£25.6m
Council Tax	
Council Tax	£27.8m
Council Tax collection fund surplus	£0.5m
	£28.3m
Total Funding	£53.9m

Future funding is based on the four year settlement figures previously identified, with an assumption that funding is frozen thereafter:-

		Reduction	
2015/16	£29.6m		
2016/17	£27.8m	£1.8m	6.4%
2017/18	£25.5m	£2.3m	8.3%
2018/19	£24.5m	£1.0m	3.8%
2019/20	£24.1m	£0.4m	1.6%
2020/21	£24.1m	-	-
2021/22	£24.1m	-	-
		£5.5m	18.7%

(the above figures include an assumption that both Section 31 Grant - Business Rates Capping and Business Rates collection fund deficit remain at their current levels.)

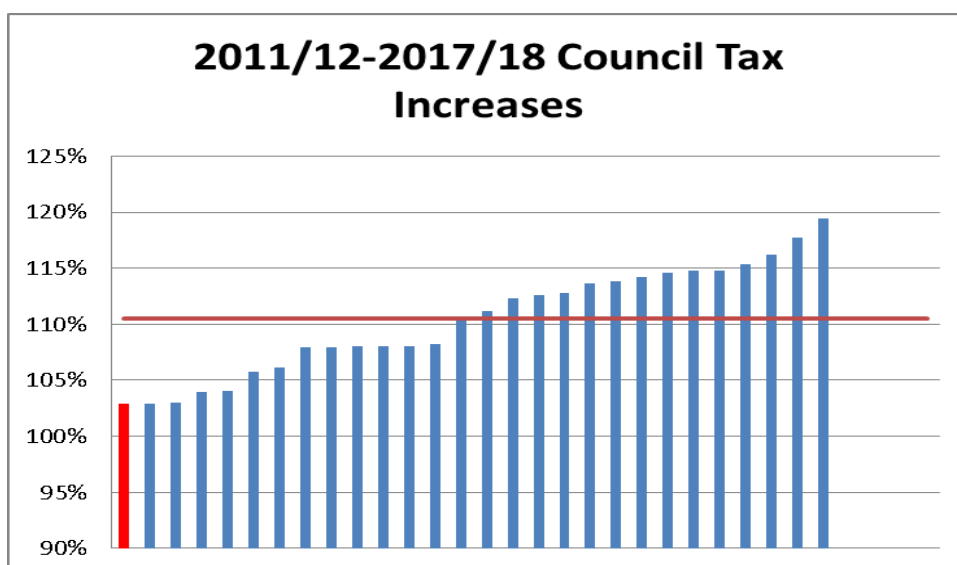
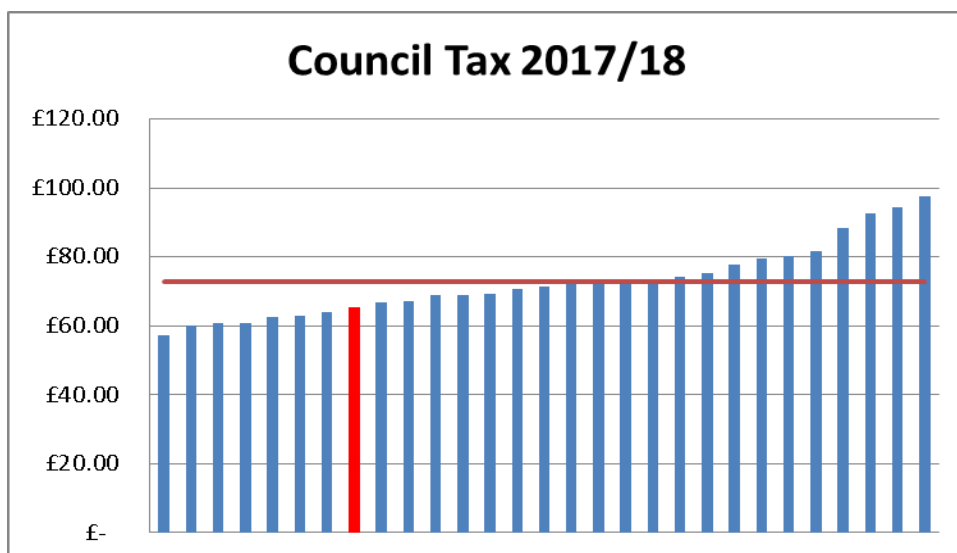
The Government remains committed to Local Authorities retain 100% of business rates by 2020/21, but details are not available as to how this will work and what the impact on the fire sector will be, and hence for the purpose of financial planning we have assumed that this will be cost neutral.

Funding projections will be updated once the Local Government Finance Settlement provides further details which are anticipated in late December, and as Billing Authorities provide more detail re business rates.

Council Tax

In setting the council tax, the Authority aims to balance the public's requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

The Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services, culminating in a council tax freeze between 2011/12-2014/15, a 1.90% increase in 2015/16, 1.0% in 2016/17 and a freeze last year. Our council tax of £65.50 is still below the national average of £72.80 (being the 8th lowest out of 29 Authorities), and our increase of just 2.90% over the last 6 years (2011/12-2017/18) compares with an average increase of 10.50% over the same period and is the joint lowest of any Fire Authority.



The latest consultation document on the 2018/19 Local Government Finance Settlement maintains the council tax referendum principle of any increase being lower than 2%, otherwise a referendum will be triggered.

It is worth noting that as part of the consultation the Fire sector as a whole made representations on the council tax referendum principles, proposing that the same flexibility is provided to the Fire Sector as to District Councils and PCCs in the lower quartile, namely an ability to raise council tax by a maximum of £5. The Home Office have confirmed that Lancashire is in the lower quartile for council tax. Dependent upon

the outcome of the current consultation process and the final pay awards agreed this flexibility may be required in future years.

Council Tax-Base

We have assumed that the council tax base continues to grow at the rate of 1.75% per year, which is in line with historic trends.

In terms of the council tax collection fund we are still awaiting draft figures from billing authorities, and hence we have included an allowance for a £500k surplus each year, which again is broadly in line with the recent years.

Both the tax base and collection fund deficit will be updated once figures are received from billing authorities.

Draft Council Tax Requirements

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Draft Budget Requirement	54.5	55.9	57.7	59.8	61.9
Less Total Grant	(24.6)	(24.3)	(24.3)	(24.3)	(24.3)
Council Tax Collection Surplus	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Equals Precept	29.4	31.1	32.9	35.0	37.1
Estimated Number of Band D equivalent properties	432,464	440,032	447,733	455,568	463,540
Equates to Council Tax Band D Property	£67.93	£70.64	£73.47	£76.86	£79.97
Increase in Council Tax	3.7%	4.0%	4.0%	4.6%	4.0%

(For information, a 1% change to the council tax equates to £0.285m.)

As can be seen the increases are all above the referendum limit. In order to set a budget within the existing draft referendums principles i.e. limit council tax increases to 2%, we would need to reduce the budget requirement in each year by:-

	2018/19	2019/20	2020/21	2021/22	2022/23
A 2% increase in council tax each year	(£0.5m)	(£1.1m)	(£1.8m)	(£2.7m)	(£3.6m)

Freezing council tax in 18/19 would increase the gap by £0.5m each year.

As highlighted earlier if pay awards are higher than the 1% allowed for in the budget then the funding gaps will increase. Assuming a 2% pay award for grey book in 17/18, and a 2% pay award for all staff in 18/19 will increase the 18/19 budget gap by £0.6m. A further 2% pay award for all staff in 19/20 will add in a further £0.4m to this figure i.e. a total additional budget gap of £1.0m in 2019/20 and each subsequent year. However until such time as a more definitive position emerges we have not allowed for that in the budget.

Reserves

A reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement. As such a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this incorporates issues such as higher than anticipated pay awards, increased number of ill health retirements, etc.

An accurate review of future reserve requirements will be undertaken, and reported on at the CFA budget setting meeting in February. However, in order to give an overview of this area, we identified a minimum uncommitted reserve requirement of £2.8m last year. At 31 March 2018 we anticipate holding £8.4m at the end of the current year, providing scope to utilise approx. £5.6m of reserves. As such they could be used to meet the funding gap across the remainder of the four year settlement period, as well as offset some of the gap in future years.

The following table shows our anticipated reserve position taking account of current and future revenue and capital budgets (ignoring any year end slippage) with any funding gap being met by a drawdown of general reserves:-

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Provisions	Total Useable Reserves
	£m	£m	£m	£m	£m
Balance 31/3/17	10.4	7.5	18.1	1.9	37.9
Change in year	(2.0)	(0.7)	(5.8)	(0.7)	(9.3)
Balance 31/3/18	8.4	6.8	12.3	1.1	28.6
Change in year	(0.5)	(0.3)	(4.8)	0.0	(5.6)
Balance 31/3/19	7.9	6.5	7.4	1.1	23.0
Change in year	(1.1)	(0.2)	(4.0)	0.0	(5.3)
Balance 31/3/20	6.8	6.2	3.5	1.1	17.6
Change in year	(1.8)	(0.2)	(2.0)	0.0	(4.0)
Balance 31/3/21	5.0	6.1	1.5	1.1	13.7
Change in year	(2.7)	(0.2)	(0.1)	0.0	(3.0)
Balance 31/3/22	2.3	5.9	1.4	1.1	10.7
Change in year	(3.6)	(0.1)	0.8	0.0	(2.9)
Balance 31/3/23	(1.3)	5.8	2.2	1.1	7.8

The position will change significantly if pay awards are higher than anticipated or if funding changes.

For comparative purposes the usable reserves set out above at 31 March 2018 are forecast as £28.6m, 52.5% of our turnover, this compares with a sector average of 47%. However it must be remembered that within our usable reserves are £4.0m of PFI reserve and without this our overall reserve percentage would reduce to 45% which is in line with the sector average. Not only that the draft capital programme shows a significant proportion of reserves being used in the next 2 years, reducing this figure down to approx. 30% by March 2020.

Summary Council Tax options 2018/19

Based on the scenarios outlined, and specifically allowing for a 1% pay award, the council tax options for 2018/19 are as follows:-

	2% Increase	Freeze
	£m	£m
Gross Budget Requirement	54.5	54.5
Utilisation of reserves/additional savings	(0.5)	(1.0)
Final Budget Requirement	54.0	53.5
Less Revenue Support Grant & Baseline Funding	(24.4)	(24.4)
Less Section 31 Grant re Business Rates Capping	(0.5)	(0.5)
Add Business Rates Collection Deficit	0.2	0.2
Less Council Tax Collection Surplus	(0.5)	(0.5)
Equals Precept	28.9	28.4
Estimated Number of Band D equivalent properties	432,464	432,464
Equates to Council Tax Band D Property	£66.80	£65.50
Increase in Council Tax	1.99%	0.00%

A 2% increase equates to an additional £1.30 council tax for a band D property per annum, £0.03 per week.

Summary

The draft budget shows the Authority being able to set a balanced budget in 2018/19, based on the draft 4 year settlement. It should be noted that this is based on a 1% pay award being agreed for both 2017/18 and 2018/19, any pay award in excess of this will build in additional costs which may, or may not, be met with additional funding.

Financial Implications

As outlined in the report.

Human Resource Implications

None

Equality & Diversity Resource Implications

The budget as set should enable the Authority to continue to make progress against its equality and diversity targets.

Environmental Implications

The budget as set takes account of the need to invest in environmental issues.

Business Risk

The final approved budget forms a key element of the Authority's risk management process, as it is designed to minimise any financial risks, which the Authority may face. The Treasurer feels that the budget has been prepared in a robust manner and that the level of reserves held is sufficient to meet any potential risks.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		