

LANCASHIRE COMBINED FIRE AUTHORITY

Meeting to be held on 14th January 2013

REVENUE BUDGET 2013/14-2015/16

Contact for further information:

Keith Mattinson - Director of Corporate Services - Telephone Number 01772 866804

Executive Summary

The report sets out the draft revenue budget for 2013/14-2015/16 and the resultant council tax implications.

Funding levels are based on the draft Local Government Finance Settlement announced in December, and estimated tax base figures.

In terms of council tax the report identifies the impact of a council tax freeze and the impact of the council tax referendum levels.

Whatever option is chosen we will face a significant financial challenge going forward with the draft funding gap of between £9m and £10m by 2015/16. A significant element of this can be offset by £4m of savings already identified/targeted in respect of both admin reviews and non-pay savings, but this still leaves a significant shortfall which still needs to be identified. A combination of the utilisation of reserves and potential savings in the whole time staffing budget can be utilised to offset the majority of this in the budget period. However these are very much dependent upon the outcome of the next Emergency Cover Review and do not address some of the recurring deficit that we will face.

All figures are estimates at the moment as final funding will not be known until the final Local Government Finance Settlement announcement, anticipated at the end of January and until all billing authorities have provided final tax base figures.

A final revenue budget will be presented to the Authority in February, for formal approval.

Recommendation

The Authority is requested to: -

- (i) Give initial consideration to the draft revenue budget as presented;
- (ii) Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
- (iii) Give further consideration to the revenue budget at their next meeting on 11 February 2013, 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 2012/13 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:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Preceding Years Budget Requirement	62.900	62.396	62.747
Removal of drawdown from reserves in previous years	0.011	-	-
Inflation	0.817	1.307	1.467
Other Pay Pressures	(0.015)	0.099	0.762
Committed Variations	(0.703)	0.009	0.187
Growth Items	-	-	-
Efficiency Savings	(0.409)	(1.553)	0.098
Draft Budget Requirement	62.601	62.463	64.977

Removal of 2012/13 drawdown from reserves

Included within the 2012/13 budget was the drawdown of £0.011m of reserves in order to freeze council tax. This was a one-off measure to balance the position and as such needs to be added back into the start position to provide a true reflection of budgeted costs in 2012/13.

Inflation

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

	2013/14	2014/15	2015/16
	£m	£m	£m
A 1% pay award in 2013/14 and 2.5% pay award thereafter	0.466	1.005	1.106
Non-pay inflation of 3.0% in 2013/14 and 2.50 thereafter	0.351	0.301	0.361
	0.817	1.306	1.467

Note – a 1% change in the pay award equates to £0.5m per annum.

Other Pay Pressure

	2013/14	2014/15	2015/16
	£m	£m	£m
Pay recosting, including the following:- <ul style="list-style-type: none"> • timing of public holidays; • mix of competent personnel in development and competent rates of pay; • mix of staff in pension schemes; • forecast vacancy/over establishment factors, based on historical levels or anticipated retirement profiles. 	0.275	0.099	(0.028)
The Government Actuary Dept. has previously published a tri-annual valuation of the Fire-Fighters Pension Scheme which showed a requirement to increase contribution rates by 3.1%. There has been, and remains, a great deal of uncertainty as to how this increase would be implemented, with the latest indicator being that the full increase will be implemented with effect from 1 April 2015 and hence the budget needs to be adjusted to reflect this.	(0.290)	-	0.786
	(0.015)	0.099	0.762

Committed Variations

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

	2013/14	2014/15	2015/16
	£m	£m	£m
Restructuring costs	(0.500)	-	-
The increase reflects the revised costs of the PFI project based on the final agreed interest rate swap and the anticipated timing of the four new fire stations being brought into service:- <ul style="list-style-type: none"> • Blackburn – March 2012 • Fleetwood – July 2012 • Burnley – July 2013 • Chorley – June 2013 	0.232	0.030	0.029
Capital Financing charges have been amended to reflect the latest forecast, taking account of the anticipated level of debt required to fund the draft capital programme, forecast interest rates, the anticipated Minimum Revenue Provision and the revenue contribution to capital outlay identified in the capital programme.	(0.298)	0.187	(0.028)
A local project team was set up to implement the North West Fire Control solution. The reduction in budget reflects the completion of the project and hence the disestablishment of the team.	-	(0.150)	-

Whilst we currently receive New Burdens funding in respect of the increased costs associated with the national Fire Link project, this is only guaranteed for the period of the current Spending Review. As such the budget allows for the potential removal of New Burdens, and the resultant impact on the Authority's budget.	-	-	0.186
Removal of budget for one-off replacement of Fire-ground radios.	(0.110)		
Removal of budget for temporary implementation team for SharePoint.		(0.058)	
Balance	(0.049)	-	-
	(0.725)	0.009	0.187

Growth Items

No growth items have been identified.

Efficiency Savings

The following efficiency savings have been identified: -

	2013/14	2014/15	2015/16
	£m	£m	£m
The savings reflect the full year effect of the roll out of Day Crewing Plus system to Fleetwood and Darwen.	(0.394)	-	-
The savings reflect the anticipated timing of the roll out of Day Crewing Plus system to Nelson and Morecambe.	(0.233)	(0.567)	-
This reflects the transfer to the North West Fire Control solution with the increase cost in 2013/14 due to the dual running of our own control room and that of the North West solution.	0.228	(0.969)	0.100
Balance	(0.010)	(0.017)	(0.002)
	(0.409)	(1.553)	0.098

Net Budget Requirement

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

	2013/14	2014/15	2015/16
	£m	£m	£m
Draft Budget Requirement	62.601	62.463	64.977
Budget (Decrease)/Increase	(0.5%)	(0.2%)	4.0%

The budget increase in 2015/16 is mainly due to the potential increase in employer pension contributions associated with the Fire-fighters pensions' scheme.

Grant Funding

Whilst the Fire Service has fared better than many public sector bodies in terms of the settlement for 2011/12 and 2012/13 the Spending Review 2010 identified an average reduction in formula grant for FRAs of 25% over the four years, stating that this would be back loaded.

The draft Local Government Finance settlement, announced on 19 December, identified an average reduction in funding for the Fire sector of 7.5% in 2013/14. Lancashire fared slightly worse than that with a funding cut of 7.96%, a reduction of £2.5m. However it is worth noting that the overall sector average is distorted by Greater London Authority who account for over 25% of the sector wide funding and who had the lowest reduction in funding within the sector, a cut of just 4%. If their funding is ignored the sector average cut was 8.7% and hence compared with this we fared better than most other authorities. It is also worth noting that within this the Authority has contributed £0.3m to floor damping. In addition the one-off council tax freeze grant of £0.9m in respect of 2012/13 has been removed from next year's funding.

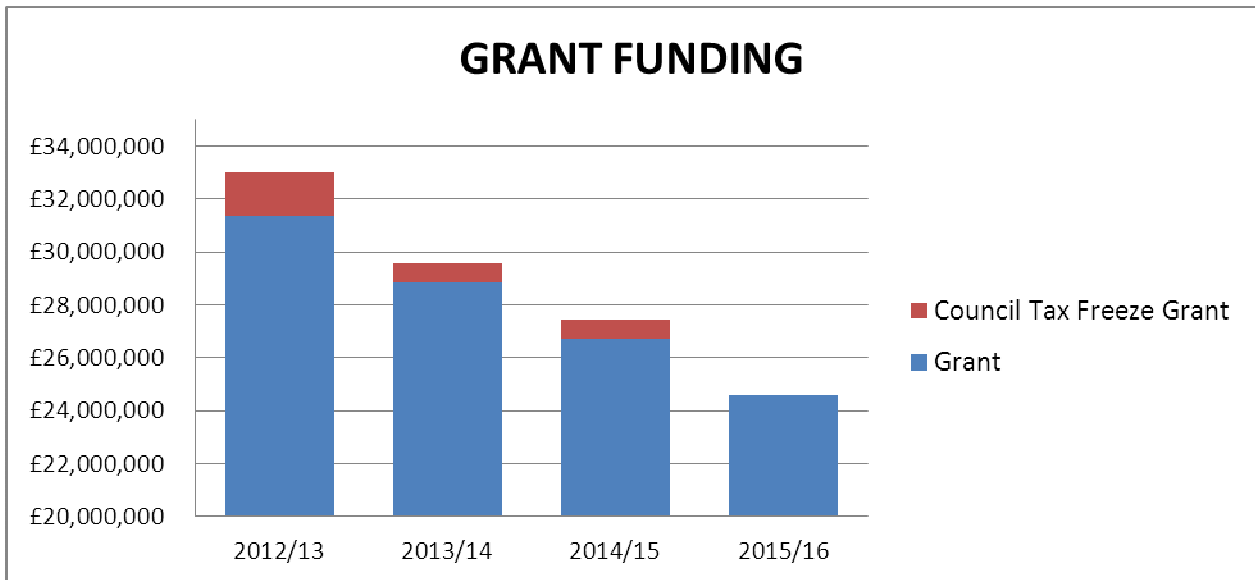
It is important to note that this settlement may change as a key part of the calculation relates to the level of local business rates within Lancashire and therefore the final settlement will be affected by the Business Rate Base returns that billing authorities provide in the next few weeks, hence until these are completed and the final settlement is announced (usually the end of January) we will not have total certainty over the level of funding for next year.

The provisional 2014/15 settlement showed a further reduction in funding of £2.1m, 7.4% which is broadly in line with the sector average.

It is also worth noting that the next Spending Review will cover the four year period from 2015/16 onwards. Obviously no details are available relating to this but given the current economic climate it is likely that this will also be a very tough settlement for the public sector with further cuts likely. Therefore for the purpose of medium term financial planning we have assumed on going cuts in total funding of 8% and 6% in 2015/16 and 2016/17, respectively. Furthermore, this will coincide with the removal of the 'council tax freeze' grant relating to 2011/12, £0.75m, in 2015/16.

Therefore our estimated total grant funding position, excluding any grant associated with the localisation of council tax support scheme, is as follows:-

	Govt. Grant	Council Tax Freeze Grant	Total Gant Funding	Reduction	
2012/13	£31.3	£1.7	£33.0m		
2013/14	£28.8	£0.8	£29.6m	£3.4m	10.3%
2014/15	£26.7	£0.8	£27.5m	£2.1m	6.4%
2015/16	£24.6	-	£24.6m	£2.9m	8.8%
Cumulative				£8.4m	25.5%

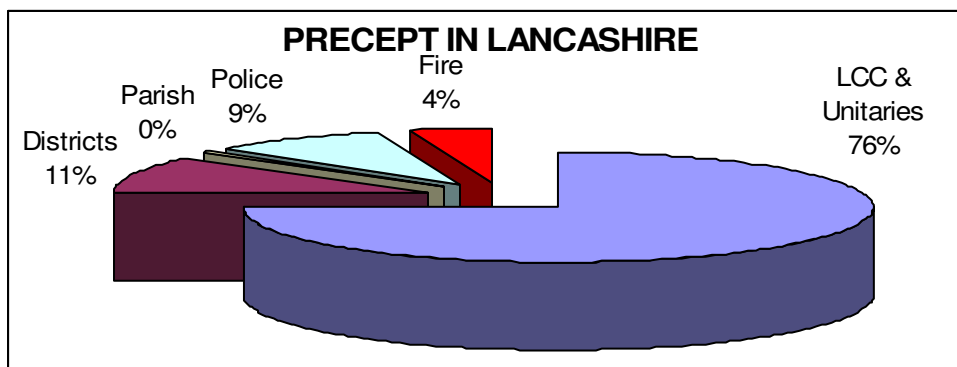


Council Tax Limits

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.

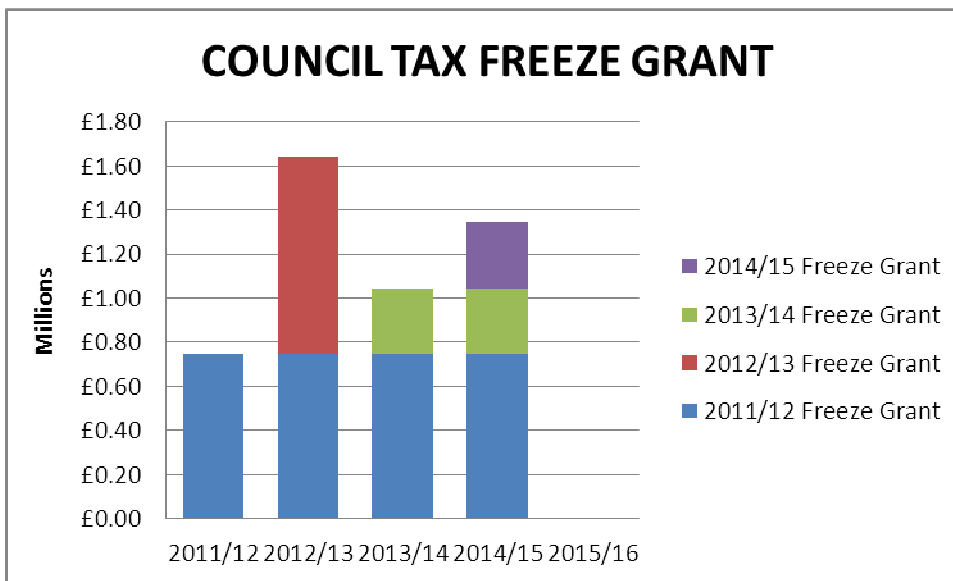
The Authority became a precepting authority on 1 April 2004, which coincided with the Government re-introducing the principle of capping, (capping is where the government limits the amount of increase in council tax to a level, which it deems acceptable, resulting in any authority that exceeds this having to reduce its budget to the agreed level and stand the cost of rebilling all council tax payers). As such our council tax increases and hence budget increases have been limited as a result of the threat of capping/requirement to hold a referendum, and our desire to deliver value for money services. Culminating in a council tax freeze at £63.65 applying in the last two years.

In order to put this figure into context the following graph shows the split of average council tax within Lancashire, demonstrating that our element accounts for a relatively small proportion of the overall council tax bill, approx. 4%:-



The Government has indicated its intention to continue to minimise the impact of council tax increases on the public by again identifying additional funding to support a council tax freeze in 2013/14. In previous years this has been set at 2.5% and 3.0% however this year the Government has set this at 1.0%, equivalent to £0.3m. In 2011/12 this funding was provided throughout the Spending Review period whereas last year it was only provided as a one-off grant. The Government has indicated that this year's grant will be provided for the remaining two years of the Spending Review period, 2013/14 and 2014/15. Whilst this limit has been set

for 2013/14 the government's intention to minimise council tax is likely to continue and hence for the purpose of financial planning we have assumed a further council tax freeze grant of 1% being offered in 2014/15.



In addition the scope to increase council tax in future years is no longer limited by capping but by the new legislation contained in the Localism Act which provides local residents with the right to veto excessive increases in a referendum. Last year the limit for this was set at 4.0% but this year the government has set this at 2.0%. Hence any proposed increase in excess of 2.0% will require a referendum, and given that the cost of holding a County wide referendum may exceed £1m and the likelihood of obtaining support for an increase in excess of this is considered low this is not a viable option. For the purpose of financial planning we have assumed the 2% limit on council tax increases continuing to apply in future years. (Whilst 2% has been set as the limit for the majority of authorities some exemptions have been identified covering shire district councils, fire authorities and PCCs whose 2012/13 band D council tax is in the lower quartile for their category of authority, and in these instances the authorities could increase council tax by up to £5. We do not fall into this as the cut off point for the lower quartile is £60.39 however this does create an anomaly in that a £5 increase for that authority give a revised council tax of £65.39. Whereas a 2% increase on our council tax gives a revised band D of £64.92.) Members may wish to consider whether they would like to make representation to the Government about this anomaly and the apparent arbitrary nature of this additional freedom.

Council Tax-Base

As previously reported to the Resources Committee the current national scheme for council tax benefit will cease and will be replaced with a localised scheme for council tax support, funded by specific grant. However the specific grant provided by the Government, in our case £4.7m, is 10% lower than the current scheme costs. As such each billing authority has to determine its own scheme, however any gap between the final scheme adopted and the level of grant provided is shared between billing authorities and major preceptors, as such the Fire Authority would have to fund approx. 4% of any such gap.

This issue is further complicated by a one-off transitional grant that the Government is providing for any schemes which meet set criteria, the main one being that claimants currently in receipt of 100% support pay no more than 8.5% of their council tax liability. If schemes are designed to meet these criteria there will still be a net shortfall between total funding provided and the cost of the scheme and, again, the Fire Authority would stand 4% of any such gap.

Furthermore as the funding is only for 2013/14 the gap would increase in the following year unless schemes were amended again.

Running alongside this the Government has introduced new powers allowing billing authorities to vary the level of council tax discounts and exemptions relating to empty properties and second homes, which if introduced will increase the council tax base and hence generate more funding.

As a result of these changes billing authorities are also considering whether a hardship fund needs to be set up whereby the billing authority would offer one-off support to individuals who were suffering financial hardship and therefore could not meet council tax payments. The extent of any support and the duration of this would depend on the final scheme implemented. However it is assumed that any hardship fund is likely to be a recurring requirement. This issue was discussed at the last Resources Committee who determined that they were not prepared to make a decision to support a hardship fund until such time as it was known what each billing authority was doing, the details of the scheme they would be implementing and the details of the level of contributions to such funds. As the schemes have not been finalised we are still not in a position to determine whether a contribution to a hardship fund is appropriate and hence for the purpose of the draft budget we have excluded any such requirement.

Until such time as final decisions on both the Localisation of Council Tax Support Scheme and the level of discounts and exemptions are taken by each billing authority the actual tax base will not be known, hence the tax base used is based on the latest information provided by billing authorities but is liable to change once final schemes are agreed. No allowance has been made for the one-off transitional grant, as again until each billing authority has agreed its final scheme we will not know what level of grant we will receive. However, as an indicator if all authorities implemented a compliant scheme our total one off grant would be £0.1m.

On a similar basis we have estimated that the council tax collection fund will break even in the current year but given the changes to the Council Tax Support scheme this position will not be sustained as it will become harder to collect council tax debt and hence we have allowed for a deficit of £150k in future years.

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

Council Tax Requirements

Taking account of the draft funding settlement and the draft budget identified, this results in a council tax increase of over 12% in 2013/14, with large increases also required in future years:-

	2013/14	2014/15	2015/16
Draft Budget Requirement	£62.601m	£62.463m	£64.977m
Less Total Grant	(£29.588m)	(£27.457m)	(£24.575m)
Less Grant re Localisation of Council Tax Support	(£4.703m)	(£4.703m)	(£4.703m)
Council Tax Collection Deficit	-	£0.150m	£0.150m
Equals Precept	£28.311m	£30.453m	£35.849m
Estimated Number of Band D equivalent properties	395,766	396,586	397,409
Equates to Council Tax Band D Property	£71.53	£76.79	£90.21
Increase in Council Tax	12.39%	7.34%	17.48%

(For information, a 1% change to the council tax equates to £0.3m.)

The draft council tax requirement of 12.39% clearly exceeds the local referendum threshold and as such the Authority will have to either identify additional reductions to the budget requirement or will need to hold a local referendum, at an estimated cost in excess of £1m, to seek agreement for the local electorate to the increase stated. As stated earlier given the cost and the likelihood of success in a referendum it is not considered worth pursuing this option.

Therefore, there appear to be two distinct scenarios that could apply:

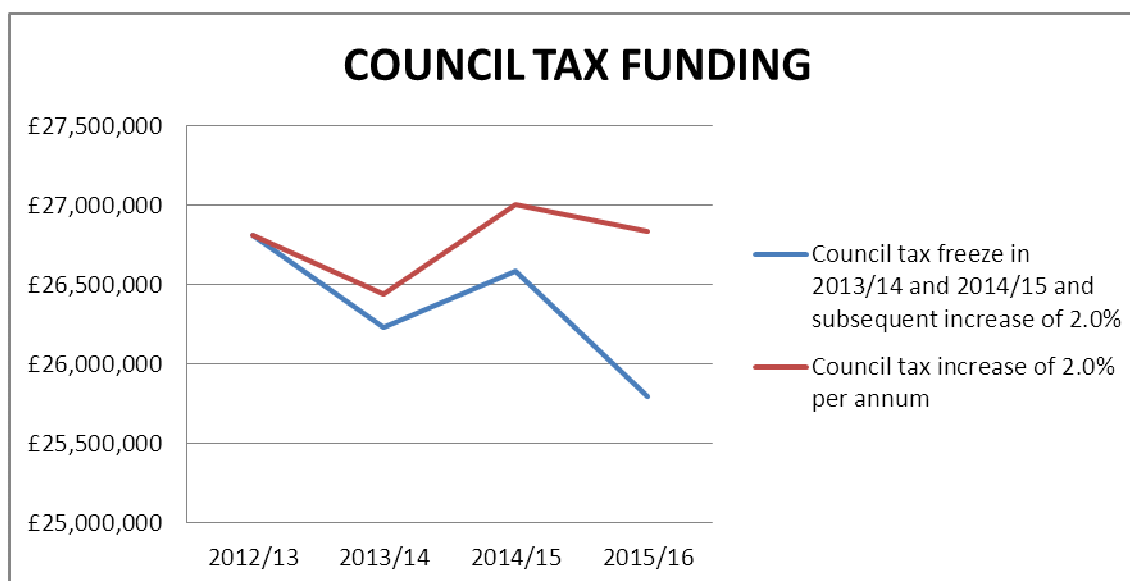
- Accepting the freeze for the next two years (and subsequently increasing council tax by 2.0% thereafter) which generates the following level of grant funding

	2013/14	2014/15	2015/16
Council Tax	£25.2m	£25.2m	£25.8m
Council Tax Freeze Grant	£1.0m	£1.3m	-
Total	£26.2m	£26.5m	£25.8m

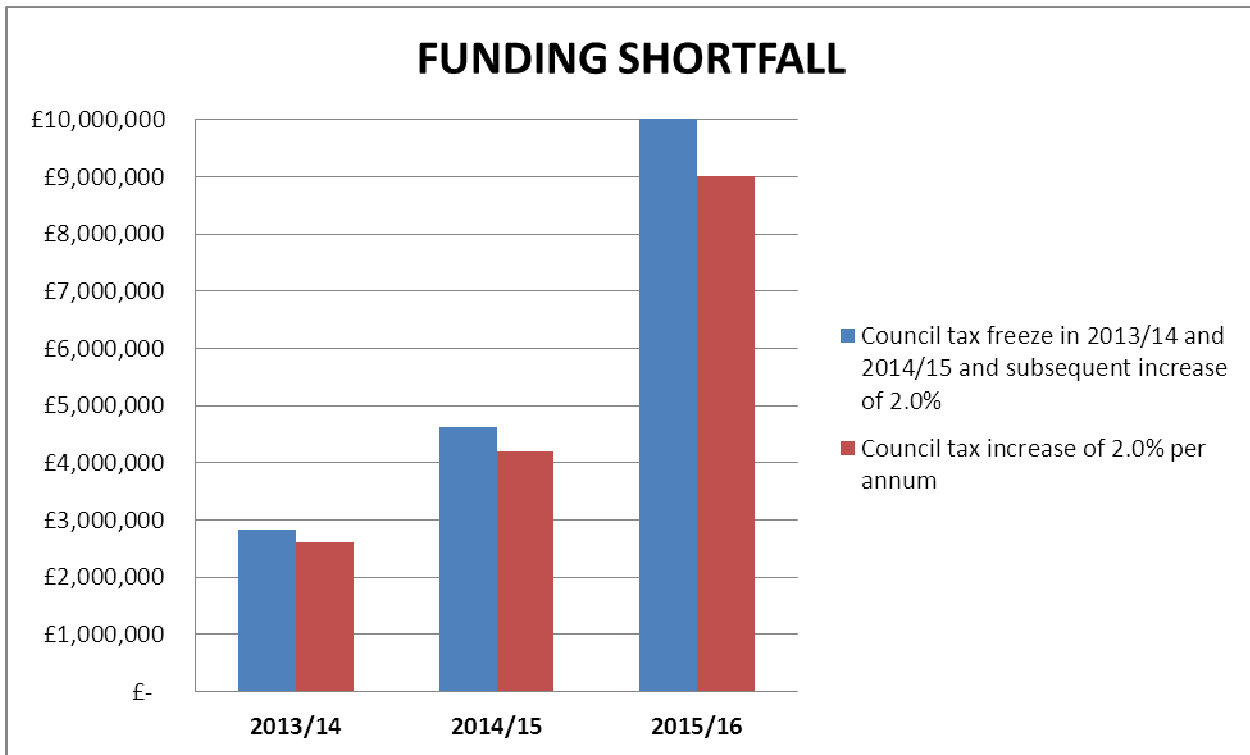
- Increasing council tax by the maximum permissible under the referendum rules, 2%, which generates the following level of grant funding

	2013/14	2014/15	2015/16
Council Tax	£25.7m	£26.3m	£26.8m
Council Tax Freeze Grant	£0.7m	£0.7m	-
Total	£26.4m	£27.0m	£26.8m

Implementing the council tax freeze in 2013/14 results in £0.2m less funding when compared with a 2% increase and if this is maintained in 2014/15 the reduction in funding becomes £0.5m. However, it must be noted that an increase in local council tax is built into the base funding levels and hence becomes recurring funding whereas council tax freeze grants are time-limited and hence once the one-off grant ends the overall loss of funding equates to a reduction of £1.0m per annum.



Regardless of which option is ultimately chosen the Authority will face a significant funding shortfall compared with the draft budget of between £2.6m and £2.8m in 2013/14 rising to £9.0m and £10.0m in 2015/16:-



These are extremely challenging savings requirements.

Additional Savings

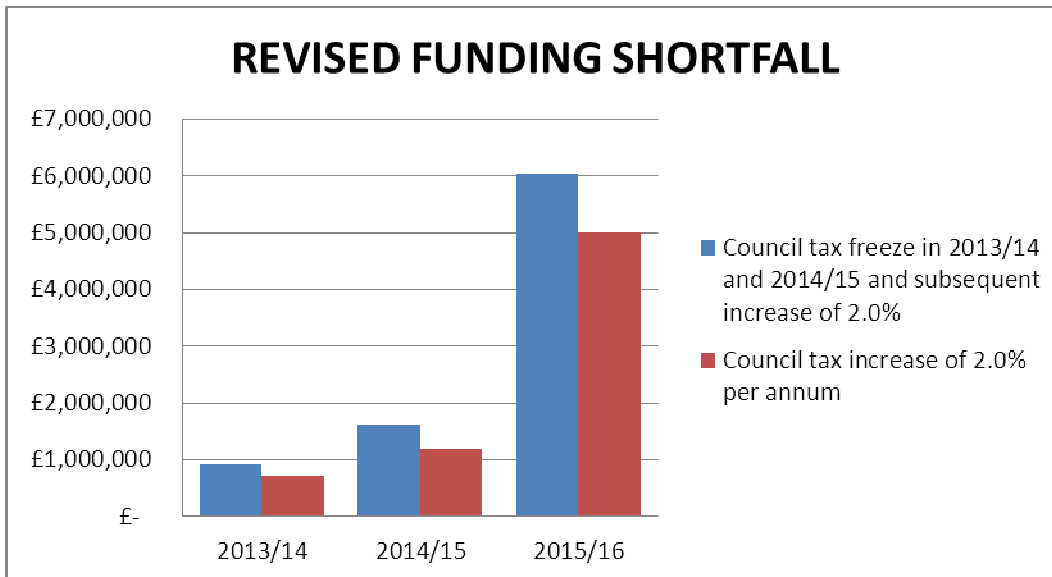
The Authority has a good track record of delivering efficiency savings. It has significantly exceeded Government targets over the last two Spending Review periods delivering cumulative savings of nearly £10m, with a further £4m of savings already identified in the current Spending Review period:-

	Target Saving	Savings achieved
Spending Review 2004	£2.8m	£5.7m
Spending Review 2007	£2.7m	£4.1m
Spending Review 2010 (identified in previous budgets and in the above draft budget)	Not Known	£3.7m

The Authority has undertaken a number of reviews looking at back-office savings, and non-pay budgets and whilst some of these are on-going we have identified target savings of £4.0m over the next three years:-

	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
Total In-Year	(1.9)	(1.1)	(1.0)	(4.0)

After allowing for the above savings the revised funding shortfalls between £0.7m and £0.9m in 2013/14 rising to £5.0m and £6.0m in 2015/16:-



From this it is apparent that the gaps in 2013/14 and 2014/15 are relatively manageable and reserves/additional savings could be used to fund this in the short term (see section below). However the gap of between in 2015/16 is still very large and whilst reserves could be used to offset some of this it is not sustainable in the medium term. As such the process of reviews will continue to determine whether further savings can be made, however the scope to deliver savings from this is relatively limited. As such the authority will have to look to the Emergency Cover Review, which is due to report in 2013, and a further review of Prevention and Protection, which is scheduled for 2014/15, to offset the majority of the remaining funding gap on a recurring basis.

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.

As reported elsewhere on the agenda the Treasurer feels that the minimum recommended level of uncommitted reserves should remain at £4.0m, and as such we anticipate having scope to utilise £5.6m of reserves over the medium term. These can be used to:-

- smooth out some of the savings requirements, enabling time to effectively plan changes, as well as providing scope to meet any upfront costs associated with revising organisational structures over and above the allowance built into the revenue budget’;
- offset the shortfall in capital funding’;
- repay existing loans/offset the need to take out outstanding borrowing, however given the funding gaps that will exist in the medium term this is not considered a viable option.

Based on the assumptions set out in the report the following identifies the potential use of reserves and future savings requirements dependent upon which option is chosen in respect of future council tax increases.

Option 1 - A council tax freeze in 2013/14 and 2014/15 and a 2% increase in 2015/16

	2013/14	2014/15	2015/16
	£m	£m	£m
Original Draft Budget	62.6	62.5	65.0
Additional Savings	(1.9)	(3.0)	(4.0)
Funding (Govt and council tax)	(59.8)	(58.0)	(55.0)
Deficit	(0.9)	(1.5)	(6.0)

As already highlighted earlier despite delivering £4m more savings (£6m in total over the three years) we are still left with a potential £6m funding gap. Natural wastage within whole time personnel provide opportunities to deliver further savings over this budget period, dependent upon what options are identified as part of the Emergency Cover Review. The latest estimates indicate potential for further savings of £0.4m due to anticipated vacancies in 2014/15, if establishment remains in line with the above figures and no new recruitment takes place, with this figure rising to £1.6m in 2015/16.

Furthermore as highlighted earlier we can utilise reserves to offset some of the shortfall over the next three years, with a total of £5.6m being available for this.

Hence the revised deficits are shown below:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Deficit as above	(0.9)	(1.5)	(6.0)
Whole-time vacancy factor	-	0.4	1.6
Drawdown of Reserves	0.9	1.1	3.6
Revised Deficit	-	-	0.8

However in this scenario we will have utilised all surplus uncommitted reserves by the end of 2015/16 and will still be faced with a potential budget deficit of £0.8m.

Option 2 - A council tax increase of 2.0% each year

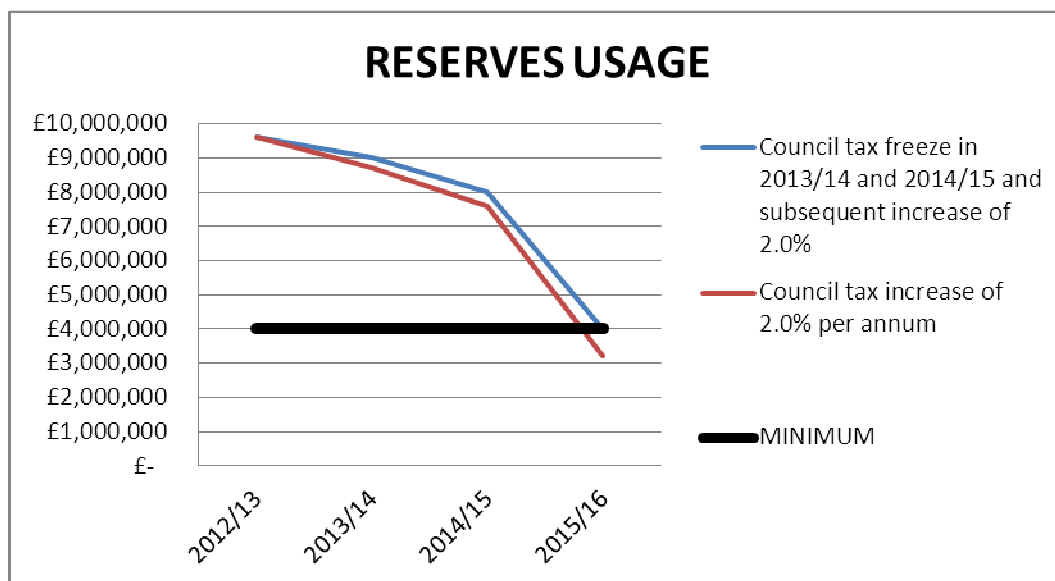
	2013/14	2014/15	2015/16
	£m	£m	£m
Original Draft Budget	62.6	62.5	65.0
Additional Savings	(1.9)	(3.0)	(4.0)
Funding (Govt and council tax)	(60.0)	(58.4)	(56.0)
Deficit	(0.7)	(1.1)	(5.0)

Again we could utilise additional savings opportunities presented by natural wastage and reserves to offset some of this deficit as set out below:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Deficit as above	(0.7)	(1.1)	(5.0)
Whole-time vacancy factor	-	0.4	1.6
Drawdown of Reserves	0.7	0.7	3.4
Revised Deficit	-	-	-

In this scenario we will still have £0.6m of uncommitted reserves available to utilise in future years and will have been able to deliver a balanced budget based on current predictions.

The following graph shows the usage of reserves under these two options compared with the minimum target level a set out in the reserves and balances policy.



Summary

The draft budget is based on the funding identified in the draft Local Government Finance Settlement in December, together with estimates of future funding reductions.

Billing authorities have not yet provided final tax base information as they are still in the process of finalising their schemes in respect of localisation of support for council tax and in respect of possible changes to council tax exemptions and discounts. As such all council tax funding is predicated on estimates and with final details not being available until the end of January.

In setting the draft budget we have already identified £6m of savings over the next 3 years, as well as identifying the drawdown of up to £5.6m of reserves.

However potentially we are still left with a funding gap in 2015/16 and a recurring shortfall of up to £6m at the end of 2015/16 .

In this context the Authority needs to consider its decision re council tax increase in 2013/14, balancing the additional long term funding that a 2% increase would provide against the impact on the local council tax payer of Lancashire.

Clearly this remains an extremely challenging financial environment and one which the Authority needs to continue to plan to address in the medium term.

Financial implications

As set out in the report.

Human Resource Implications

None as a direct result of this report, although obviously any major restructuring will have significant human resource implications.

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
Council Tax Freeze Letter	November 2011	Keith Mattinson - Director of Corporate Services
Draft Local Government Finance Settlement	December 2012	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		