

## **LANCASHIRE COMBINED FIRE AUTHORITY**

Meeting to be held on 15 December 2014

### **REVENUE BUDGET 2015/16-2018/19**

Contact for further information:

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#### **Executive Summary**

The report sets out the draft revenue budget for 2015/16-2018/19 and the resultant council tax implications.

Funding levels are based on the latest estimates contained in the recent consultation document on the Local Government Finance Settlement.

In terms of council tax, the report identifies the impact of a council tax freeze and the impact of the assumed council tax referendum levels, 2%.

We are able to set a balanced budget in 2015/16 based on either a council tax increase of 2% or a council tax freeze, whilst drawing down up to £0.2m to reserves.

2016/17 is more challenging but again we anticipate being able to set a balanced budget by identifying £1.0m of additional savings and by utilising up to £1.0m of reserves, which is considered deliverable.

The real financial pressures come in future years, when, based on anticipated funding cuts of 7% per annum, we will be faced with a funding gap of up to £6.8m. Whilst we can offset some of this with further savings, up to £3.0m, this would still require us to utilise up to £7.7m of reserves over the 4 year period, and this would take us below our current target reserve level. It is clear that the financial picture will continue to become ever more challenging and that the Authority will need to continue to plan to address this.

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.

#### **Recommendations**

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 16 February 2015, 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 2014/15 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:-

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Preceding Years Draft Budget Requirement	58.3	55.9	56.0	57.2
Removal of drawdown from reserves in previous years	0.1	-	-	-
Inflation	0.8	1.4	1.4	1.4
Other Pay Pressures	0.9	0.5	0.1	(0.1)
Committed Variations	(0.7)	(0.2)	0.1	-
Efficiency Savings	(3.3)	(1.7)	(0.2)	(0.2)
Additional staff costs	(0.2)	0.1	(0.2)	-
Budget Requirement	55.9	56.0	57.2	58.3

## Removal of 2014/15 drawdown from reserves

Included within 2014/15 was the drawdown of £0.1m 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 2014/15.

## Inflation

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

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
A 1% grey book pay award in 2015/16 and 2.5% pay award for grey and green book thereafter	0.4	1.0	1.0	1.1
Non-pay inflation of 2.5% each year	0.4	0.4	0.4	0.3
	0.8	1.4	1.4	1.4

Note – a 1% change in the pay award equates to £0.3m per annum.

## Other Pay Pressure

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Pay recosting, including the following:- <ul style="list-style-type: none"> <li>• timing of public holidays;</li> <li>• mix of personnel in development and competent rates of pay;</li> <li>• mix of staff in pension schemes.</li> </ul>	0.1	(0.3)	0.1	(0.1)
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.	0.8	-	-	-
As a result of the Government amending the state pension and abolishing the NIC rebate in respect of contracted-out pension services the Authority will incur additional employer contributions.	-	0.8	-	-
	0.9	0.5	0.1	(0.1)

## Committed Variations

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

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
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 over the next three years, forecast interest rates, and the anticipated Minimum Revenue Provision. Last year the Authority agreed an additional MRP in order to provide sufficient funding to pay off debt in future years, the reduction in budget requirement in 2015/16 reflects the removal of this one off measure.	(1.4)	0.1	0.1	-
In order to balance the draft capital programme the Revenue Contribution to Capital Outlay has been increased as a one-off measure in 2015/16 (the reduction in 2016/17 reflects the additional monies being taken back out of the budget).	0.5	(0.5)	-	-
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 this.	-	0.2	-	-
Anticipated reduction in New Dimension funding in respect of the USAR team, reflecting the outcome of national negotiations.	0.2	-	-	-
	(0.7)	(0.2)	0.1	-

## Efficiency Savings

The Authority has a good track record of delivering efficiency savings. Despite already identifying £5.5 of savings since 1 April 2011, the Authority set a revised target of a further £10m of savings to be delivered from 1 April 2013. By the end of 2014/15 the Authority will have delivered £5.2m of this target, leaving a balance of £4.8m. Over the next 4 years we will exceed this target:-

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Anticipated savings arising from the Emergency Cover Review, reported elsewhere on this agenda	(1.6)	(1.3)	-	-
Reduction in staff identified in the review of administrative functions	(0.4)	-	-	-
Savings identified from reviewing non-pay budgets	(0.7)	(0.3)	(0.1)	-
Reduction in capital financing charges arising from the additional MRP payments in order to offset debt	(0.6)	(0.1)	(0.1)	
Reduction in restructuring costs, reflecting the level of earmarked reserves currently set aside	-	-	-	(0.2)
	(3.3)	(1.7)	(0.2)	(0.2)

Based on the above by the end of 2018/19 we anticipate having delivered in excess of £15m of savings since the 2010 Spending Review, the equivalent of 25% of our total budget.

## Additional Staff Costs

The gross budget assumes that all reductions in establishment are matched by reductions in staffing numbers. This is not the case due to reliance on natural wastage and hence the gross budget is adjusted to take account of the retirement profile within the service, reflecting the additional staffing costs incurred each year (Note the retirement profile is based on staff only leaving once they accrue full pension benefits, and does not include any allowance for those who resign, are dismissed or retire early):-

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Removal of preceding years additional staff cost	(0.3)	(0.1)	(0.2)	-
Anticipated in year additional staff costs	0.1	0.2	-	-
Net change to additional staff costs	(0.2)	0.1	(0.2)	-

## Net Budget Requirement

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

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Draft Budget Requirement	55.9	56.0	57.2	58.3
Budget (Decrease)/Increase	(4.1%)	0.2%	2.1%	1.9%

## Grant Funding

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

<b>2014/15</b>	
<b>Settlement Funding Assessment (Grant)</b>	
Revenue Support Grant, direct from the Government	£18.0m
Individual Authority Business Rates Baseline	£4.6m
Business Rates Top-Up, from the Government	£9.4m
Section 31 Grant - Business Rates Capping	£0.2m
Council Tax Freeze Grant, from the government	£0.3m
	<b>£32.5m</b>
<b>Council Tax</b>	
Council Tax	£25.6m
Council Tax collection fund surplus	£0.2m
	<b>£25.8m</b>
<b>Total Funding</b>	<b>£58.3m</b>

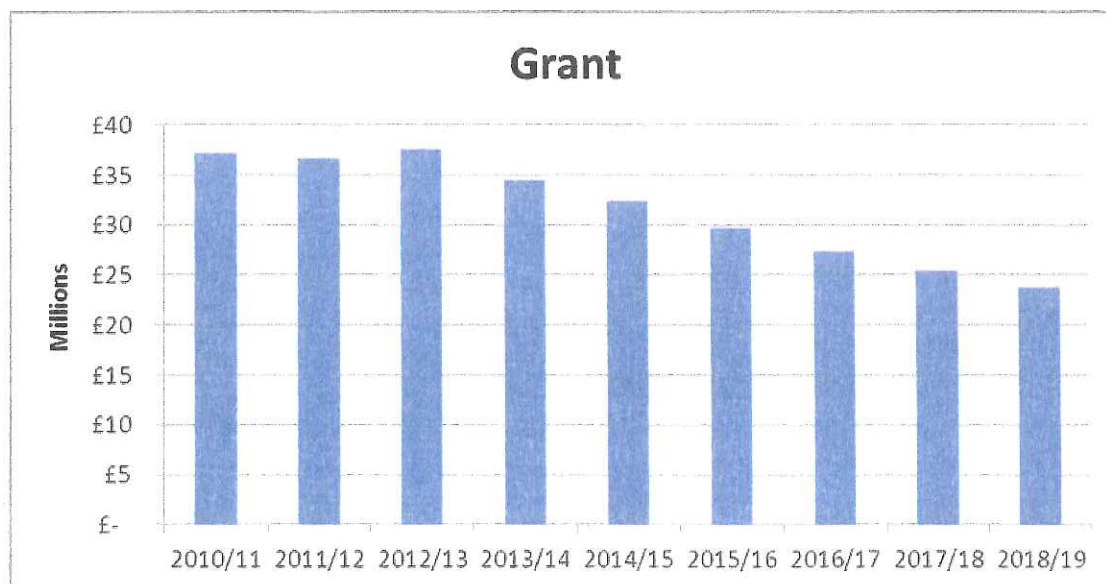
Since 2010 grant funding has fallen and this trend is set to continue. Whilst neither the draft local Government Finance Settlement nor the Autumn Statement were available at the time of writing the report, the technical consultation undertaken by the Government in the summer provides a very strong indicator as to the likely settlement. Based on the Government forecast of business rates and after allowing for the transfer of council tax freeze grant into baseline funding the draft figures shows a £2.7m (8.4%) grant reduction, down to £29.8m. (The forecast Business Rates figure, including anticipated cost of appeals and collection funds surplus/deficits, will be updated once billing authorities have provided final figures.)

Looking beyond 2015/16 there remains a great deal of uncertainty surrounding funding. At the time of the Budget 2014 the Office for Budget Responsibility forecasts highlighted a 19.8% cut to department spending between 2010/11 and 2018/19, and confirmed that by the end of 2014/15 they expected that just 8.9% of this reduction would have been delivered, meaning that 11.9% was still to come. They went on to say that if the policy of protecting some departments such as NHS, schools and overseas aid, was maintained cuts to 'unprotected' departments could be 35.6% by 2018/19. This makes it clear that the current austerity measures will continue in the next Spending Review period, with the latest indications showing funding cuts of 8% in 2016/17 and 7% per annum in the following years.

Based on these projections our estimated total grant funding position (exc council tax) shows a reduction of £13.6m (36%, in line with the Office for Budget Responsibilities assumptions) between 2010/11 and 2018/19 (note: grant has been notionally adjusted to allow for the changes to grant associated with the localisation of council tax support scheme, an increase of £4.7m grant offsetting the reduction in council tax):-

	Govt. Grant, inc council tax freeze grant	In Year Reduction	Cumulative Reduction	Cumulative Reduction
2010/11	£37.3m			
2011/12	£36.7m	£0.6m	£0.6m	
2012/13	£37.7m	(£1.0m)	(£0.4m)	
2013/14	£34.6m	£3.1m	£2.7m	
2014/15	£32.5m	£2.1m	£4.8m	
2015/16	£29.8m	£2.7m	£7.5m	
2016/17	£27.4m	£2.4m	£9.9m	
2017/18	£25.5m	£1.9m	£11.8m	
2018/19	£23.8m	£1.8m	£13.6m	36%

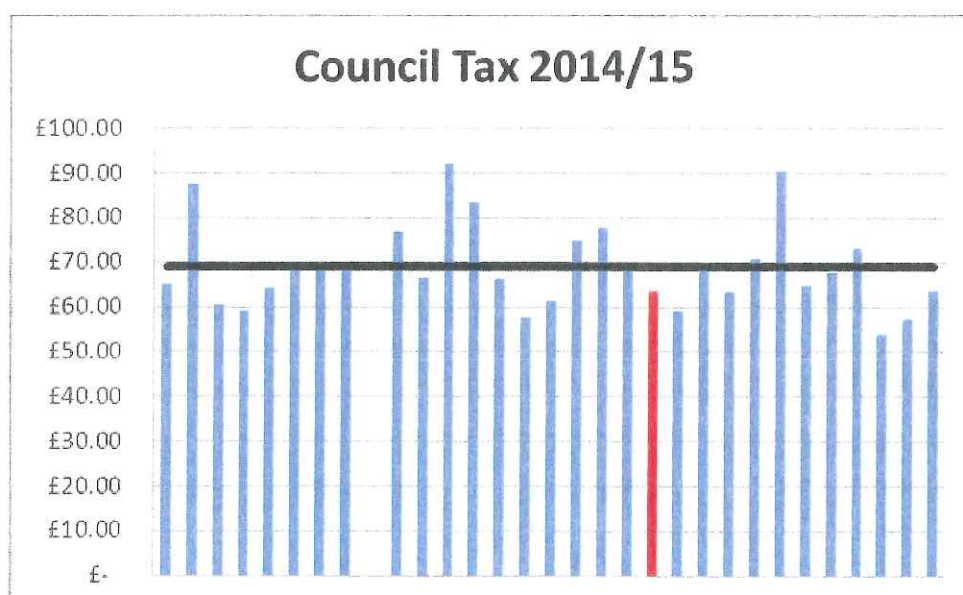




## Council Tax

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 at £63.65 applying in the last four years. Lancashire Fire Authority is one of only 7 Fire Authorities who have frozen council tax in each of these years, resulting in our council tax now being the 8th lowest of all Fire Authorities, compared with a national average of £68.96:



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 2015/16, equivalent to 1.0%, £0.3m. Furthermore it is anticipated that this grant will be incorporated into future funding streams, as happened with the last council tax freeze grant provided in 2014/15.



The scope to increase council tax in future years will continue to be limited by the Government's referendum levels, with any proposed increase in excess of this requiring a local referendum. Given that the cost of holding a County wide referendum may exceed £1.5m and the likelihood of obtaining support for an increase in excess of this is considered low this is not a viable option. Whilst the government has not yet confirmed the level of this in 2015/16, for the purpose of financial planning we have assumed the 2% limit on council tax increases will continue to apply in future years.

### **Council Tax-Base**

Members will recall that 2013/14 saw the introduction of a new localised scheme for council tax support, funded by specific grant, with any gap between the final schemes adopted and the level of grant provided being shared between billing authorities and major preceptors. As part of the introduction, each billing authority consulted with all the major preceptors on their proposed scheme. Any billing authority which is proposing to amend its current scheme is again required to consult with major preceptors and whilst this consultation is currently taking place at the present time there are no major changes proposed which would have a significant impact on the Authority.

Until such time as final decisions on revised schemes are taken by each billing authority the actual tax base will not be known, hence for the purpose of the draft budget the tax base used is based on last year's figures, inflated in line with historic growth trends, which are reflective of new housing developments etc.

In terms of the council tax collection fund we are still awaiting draft figures from billing authorities. As such we have included an allowance for a £50k deficit which is broadly in line with historic trends (the one exception to this was 2013/14 where the impact of the new council tax support fund was not as severe as originally anticipated, and this was reflected in the tax base used for 2014/15).

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

### **Draft Council Tax Requirements**

Taking account of the draft funding settlement and the draft budget identified results in a council tax increase of just 2.0% in 2015/16, but with large increases in future years:-

	2015/16	2016/17	2017/18	2018/19
Draft Budget Requirement	£55.9m	£56.0m	£57.2m	£58.3m
Less Total Grant	(£29.8m)	(£27.4m)	(£25.5m)	(£23.8m)
Council Tax Collection Deficit	£0.1m	£0.1m	£0.1m	£0.1m
Equals Precept	£26.2m	£28.7m	£31.8m	£34.6m
Estimated Number of Band D equivalent properties	403,653	405,141	406,634	408,132
Equates to Council Tax Band D Property	£64.92	£70.78	£78.09	£84.72
Increase in Council Tax	2.0%	9.0%	10.3%	8.5%

(For information, a 1% change to the council tax equates to £0.250m.)

Whilst the draft council tax requirement in 2015/16 is within the assumed local referendum threshold this is not the case in future years 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 £1.5m, to seek agreement from local residents to the proposed increases. Given the cost and the likelihood of success of a local referendum it is not considered worth pursuing this option.



## Council Tax Options

There appear to be two options in terms of council tax in future years:-

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

	2015/16	2016/17	2017/18	2018/19
Council Tax	£26.2m	£26.8m	£27.5m	£28.1m
Council Tax Freeze Grant	-	-	-	-
Total	£26.2m	£26.8m	£27.5m	£28.1m

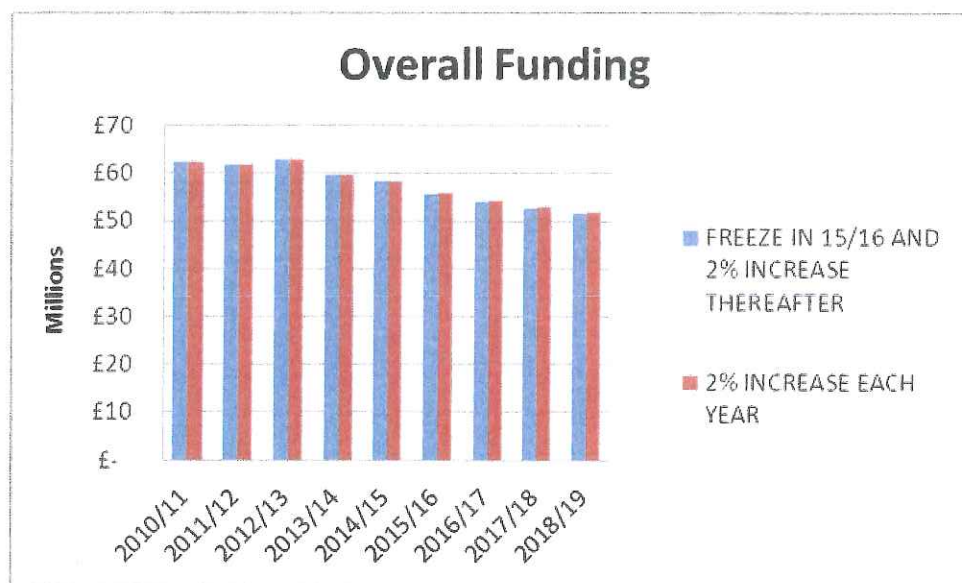
- Accepting the freeze for 2015/16 and subsequently increasing council tax by 2.0% thereafter, which generates the following level of grant funding

	2015/16	2016/17	2017/18	2018/19
Council Tax	£25.7m	£26.3m	£26.9m	£27.6m
Council Tax Freeze Grant	£0.3m	£0.3m	£0.3m	£0.2m
Total	£26.0m	£26.6m	£27.2m	£27.8m

As can be seen implementing the council tax freeze in 2015/16 results in £0.2m less funding when compared with a 2% increase. However as the council tax freeze grant will be built into baseline in future years it will be subject to future funding cuts meaning that by 2018/19 the grant will have reduced from £0.3m to £0.2m. As such the loss of funding will have grown to £0.3m in 2018/19.

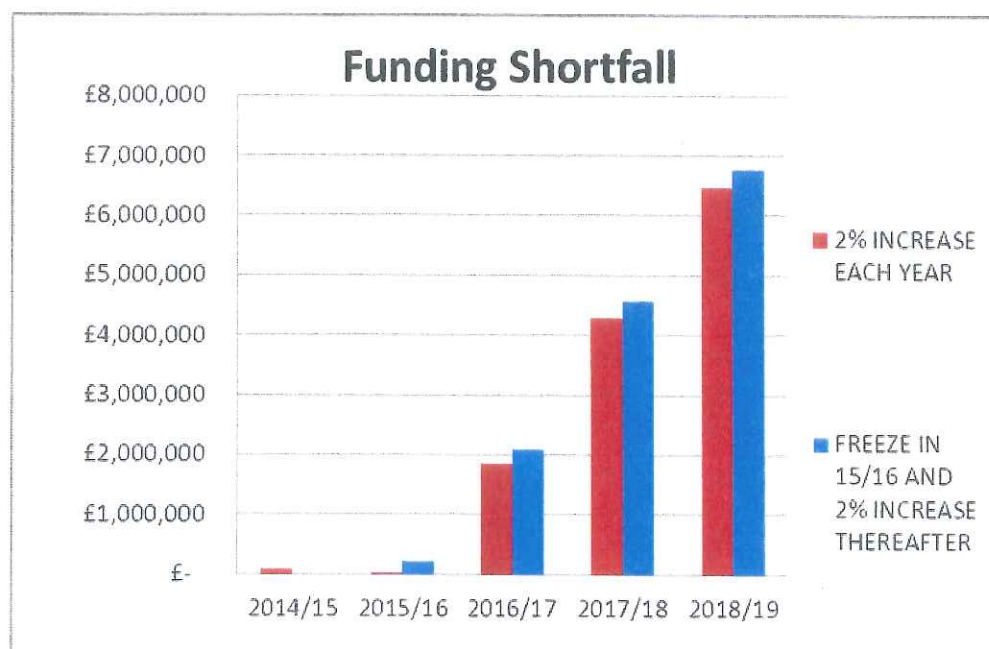
## Overall Funding

Looking at the next year, and dependent upon which council tax option is chosen, overall funding will fall from its current level, £58.3m, to either £55.9m or £55.7m. Looking beyond that overall funding is anticipated to reduce to £51.8m or £51.6m by 2018/19, a reduction of between £6.5m and £6.7m.



Regardless of which option is ultimately chosen and despite the Authority identifying over £15m of efficiency savings we will still face a significant funding shortfall compared with the draft budget in future years:-





As can be seen next year's budget is broadly balanced and whilst there is a funding gap in 2016/17 (up to £2.1m) this could be offset by further targeted savings and the utilisation of reserves. 2017/18 and 2018/19 present a far more challenging picture, with a funding gap in the region of £4.5m and £6.8m, respectively, where the utilisation of reserves and the identification of further significant savings becomes essential.

## 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.

We have not yet had time to carry out an accurate review of future reserve requirements. As such this 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 £3.7m last year, and as at 1 April 2014 we held £10.5m of these. If these requirements remain unchanged we have scope to utilise approx. £6.8m of reserves. 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 £0.5m allowed for in the revenue budget.

## On-going Reviews

The Authority has continued to target in-year savings in order to enhance the overall financial position. As part of this the service has imposed a vacancy freeze, which will not

only result in an in-year saving, but will also provide greater flexibility to meet future staffing changes which will be required.

Reviews completed to date have identified over £10m of savings:-

	To Date	15/16	16/17	17/18	18/19	Total
ECR	£1.0m	£1.6m	£1.3m	-	-	£3.9m
Specials	£0.4m	-	-	-	-	£0.4m
Flexi officers	£0.6m	-	-	-	-	£0.6m
Functional	£0.6m	-	-	-	-	£0.6m
Admin	£0.4m	£0.4m	-	-	-	£0.8m
Other	£0.2m	-	-	-	-	£0.2m
Financing Charges	£0.1m	£0.6m	£0.1m	£0.1m	-	£0.9m
Non-Pay	£1.9m	£0.7m	£0.3m	£0.1m	£0.2m	£3.2m
	£5.2m	£3.3m	£1.7m	£0.2m	£0.2m	£10.6m

In addition the Authority has commissioned various other reviews to identify the scope for delivering further efficiency savings:-

	Savings identified to date	Current Budget	Target savings
Non pay	£4.1m (21%)	£15.4m	£0.7m
Support services	£1.6m (22%)	£5.8m	£0.3m
Front Line services	£4.9m (12%)	£37.5m	£3.0m

Savings identified from these reviews will feed the budget setting process in future years in order to reduce the funding gap previously identified.

## Budget Scenarios

The previous sections of the report outlined various issues surrounding budget requirement, government funding, council tax funding, and reserves usage. Based on these the Authority will determine whether the budget is affordable or whether a funding gap exists, and if so the Authority will have to review options to eliminate this.

It is clear that there remain various uncertainties surrounding future funding predictions, in terms of both Government funding and council tax funding, as well as considerable uncertainty around future financial pressures such as pay awards, pension contributions etc.

The following scenarios are designed to show the impact in terms of affordability, potential use of reserves and additional savings requirements:-

### Option 1 - A council tax increase of 2.0% each year

	2015/16	2016/17	2017/18	2018/19
Original Draft Budget	£55.9m	£56.0m	£57.2m	£58.3m
Funding (Govt and council tax)	(£55.9m)	(£54.2m)	(£52.9m)	(£51.8m)
Deficit	-	(£1.8m)	(£4.3m)	(£6.5m)

As already highlighted earlier despite delivering £15m savings we are still left with a potential £6.5m funding gap in 2018/19. We are undertaking various review to identify further savings and we do have scope to utilise reserves to offset some of the deficit in the short to medium term:-

	2015/16	2016/17	2017/18	2018/19
Deficit as above	-	(£1.8m)	(£4.3m)	(£6.5m)
Additional Savings Target	-	£1.0m	£1.8m	£3.0m
Drawdown of Reserves	-	£0.8m	£2.5m	£3.5m
Revised Deficit	-	-	-	-

This scenario requires the delivery of £3.0m more savings, which is considered achievable, and the drawdown of £6.8m of reserves. This would leave the Authority with £3.7m of reserves, in line with our minimum target reserve level. Of more concern is the on-going funding gap of £3.9m that we would be left with at the end of this period

#### Option 2 - A council tax freeze in 2015/16 and a 2% increase thereafter

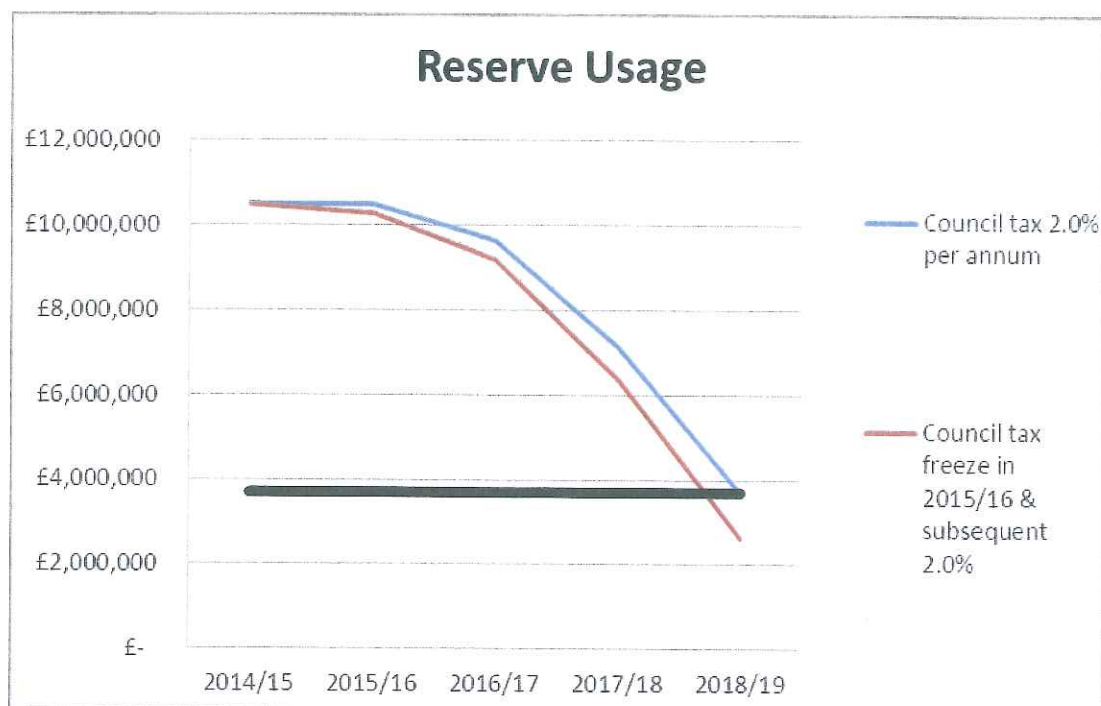
	2015/16	2016/17	2017/18	2018/19
Original Draft Budget	£55.9m	£56.0m	£57.2m	£58.3m
Funding (Govt and council tax)	(£55.7m)	(£54.0m)	(£52.7m)	(£51.6m)
Deficit	(£0.2m)	(£2.1m)	(£4.5m)	(£6.7m)

Again we could utilise a combination of additional savings and reserves to offset some of this deficit as set out below:-

	2015/16	2016/17	2017/18	2018/19
Deficit as above	(£0.2m)	(£2.1m)	(£4.5m)	(£6.7m)
Additional Savings Target	-	£1.0m	£1.8m	£3.0m
Drawdown of Reserves	£0.2m	£1.1m	£2.7m	£3.7m
Revised Deficit	-	-	-	-

This scenario requires the delivery of £3.0m more savings, which is considered achievable, but the drawdown of reserves has increased to £7.7m, which would take the Authority down to £2.8m of reserves, which is below our minimum level. Potentially this could be offset by transferring any future in-year underspends into the reserve. The on-going funding gap of £3.7m represents a far more significant challenge in future years.

The following graph shows the usage of reserves under these options compared with the minimum target level currently set:-





## Summary

The draft budget shows the Authority being able to set a balanced budget in 2015/16, based on the latest estimates of future funding, however full details of this will not be known until the Local Government Finance Settlement in December.

From a medium term financial perspective a council tax increase of 2.0% per annum remains a more desirable financial option compared with freezing council tax due to the higher level of funding and the recurring basis of this, but this needs to be considered in the context of the impact on local council tax payers.

In 2016/17 we will be able to set a balanced budget by identifying an additional £1.0m of savings and by utilising up to £1.1m of reserves, which is considered deliverable.

The real financial pressure comes in future years, when funding is less clear. In 2017/18 we anticipate still being able to set a balanced budget by identifying £1.8m of savings and drawing down up to £2.7m more reserves. In 2018/19 we will potentially be faced with a funding gap of up to £6.7m. Whilst we can offset some of this with further savings, £3.0m, this would still require us to utilise up to £3.7m of reserves, and this would take us below our current target reserve level. It is clear that the financial picture will continue to become ever more challenging and that the Authority will need to continue to plan to address this.

## 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
Local Government Finance Settlement 2015/16– Technical Consultation	July 2014	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		