PART 1 ITEM No 12

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 7th December 2015

CAPITAL BUDGET 2016/17-2020/21

Contact for further information:
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Executive Summary

The report sets out the draft capital programme for 2016/17-2020/21.

The draft programme allows for items included within various asset management plans, some of which still need to be finalised, such as the replacements of Mobile Fire Stations and Aerial Ladder Platforms.

At the time of writing the report capital funding was uncertain as we were awaiting the outcome of the Spending Review. This position will be updated at the meeting.

A final capital programme will be presented to the Authority in February, for formal approval.

Recommendation

The Combined Fire Authority is requested to: -

(i) Give initial consideration to the draft capital 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 capital budget at their next meeting on 15 February 2016, in light of the consultation process.

Capital Budget Strategy

The Authority's capital strategy is designed to ensure that the Authority's capital investment:

- assists in delivering the corporate objectives;
- supports priorities identified in asset management plans;
- ensures statutory requirements are met, i.e. Health and Safety issues;
- supports the Medium Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets;
- represents value for money.

Capital Requirements

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

A summary of all capital requirements is set out in the table below.

	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
	£m	£m	£m	£m	£m	£m
Vehicles	1.370	1.645	1.810	2.909	0.933	8.666
Operational Equipment	1.000	0.220	-	1.250	-	2.470
Buildings	0.200	2.500	2.500	-	-	5.200
IT Equipment	0.200	2.115	0.310	0.470	0.210	3.305
Total	**2.770**	**6.480**	**4.620**	**4.629**	**1.143**	**19.641**

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives:-

	No of Vehicles				
Type of Vehicle	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Pumping Appliance	5	6	6	6	3
Mobile Fire Stations (MFS)	-	1	1	-	-
Aerial Ladder Platform (ALP)	-	-	-	2	-
All Terrain Vehicle	-	-	-	1	-
Driver Training	2	-	-	-	-
Pod	1	-	1	1	-
Operational Support Vehicles	11	10	16	14	14
	19	17	24	24	17

The replacement programme has been adjusted to remove peaks in the number of vehicle replacements in any one year for a number of years now. This 'smoothing' has inevitably resulted in some vehicles being replaced marginally ahead of or behind schedule in the past, but provides a better basis for longer term replacement strategies, which is evident in the programme outlined above. As a result of this only two support vehicles which are due replacement in the period of the programme will be delayed by one year.

Driver Training vehicle replacements are currently under discussion with the Training and Operational Review department in terms of requirements, therefore are anticipated to be replaced in 2016/17.

The MFS replacements reflect the replacement of two vehicles at the end of their current asset life, however a review of requirements for these appliances is planned to commence shortly, with the potential to replace with a different sort of vehicle according to requirements.

LFRS currently has several vehicles provided and maintained by CLG under New Dimensions (6 Prime Movers and 2 Incident Response Units), which under LFRS replacement schedules would be due for replacement during the period of the programme. However our understanding is that CLG will issue replacement vehicles if they are beyond economic repair, or if the national provision requirement changes. Should LFRS be required to purchase replacement vehicles, a grant from CLG may be available to fund them. Based on the current position, we have not included these vehicles (or any potential grant) in our replacement plan.

In addition, Fleet Services continue to review future requirements for the replacement of all vehicles in the portfolio, hence there may be some scope to modify requirements as these reviews are completed, and future replacement programmes will be adjusted accordingly.

Operational Equipment

The budget allows for the replacement of the Thermal Imaging Cameras (TIC) in 2017/18 at the end of their asset lives, at an estimated cost of £0.2m.

The budget allows for the replacement of the Breathing Apparatus (BA) and Telemetry equipment in 2019/20 at the end of their asset lives, at an estimated cost of £0.8m.

The budget also allows for the replacement of the current cutting and extrication equipment at the end of its useful life in 2019/20, at an estimated cost of £0.45m.

A review is currently underway of innovations in future fire fighting equipment, as previously highlighted at the Strategy Group, and whilst this is not yet complete a sum of £1.0m has been included in the capital programme to meet any costs arising from this.

Buildings

The current level of backlog maintenance has reduced significantly, reflecting the investments the Authority has made in its building stock. Following completion of works budgeted during 2015/16, the Authority will only have Preston fire station classed as in poor condition. In addition, the Emergency Cover Review (ECR) planned for completion during 2017/18 may highlight the requirement to make changes to our stations, hence we have included a sum of £5m spread over two financial years to give scope for these changes once known.

In addition to this a further sum of £0.2m has been included in the programme to allow for the relocation of the Fleet workshop from its current site at Service HQ to Service Training Centre. This will enable the combination of the Fleet and Breathing Apparatus workshops into one central location, leading to the multi-skilling of engineers enabling one workshop to be responsible for the maintenance of all operational equipment. Furthermore this will provide scope and capacity to bring ladder maintenance in house, reducing our on-going maintenance costs by £35k.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	**£m**	**£m**	**£m**	**£m**
Buildings	0.200	2.500	2.500	-	-
	0.200	**2.500**	**2.500**	**-**	**-**

ICT

The sums identified for the replacement of various ICT systems are in line with the software replacement lifecycle schedule incorporated into the ICT Asset Management Plan.

All replacements identified in the programme will be subject to review prior to replacement, with both the requirement for the potential upgrade/replacement and the cost of such being revisited prior to any expenditure being incurred.

Of particular note are the anticipated replacements for the operational communications assets most of which are affected by the national Emergency Services Mobile Communications Project (ESMCP) to deliver a replacement for Airwave (the wide area radio system currently used for mobilising by all blue light services). To date the national project has not yet completed awarding contracts, therefore the exact timing of the potential need, and the associated replacement costs remain uncertain. However, the project milestones of North West Fire Control go live in January 2017 and LFRS go live in August 2017 are reflected in the estimated budgets in the table below. As the national situation becomes clearer, forthcoming budget revisions will be updated.

	2016/17	2017/18	2018/19	2019/20	2020/21
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicle specification crash recovery software		0.020			
Performance Management		0.100			
Geographic Information System (GIS) Risk Information		0.100			
Finance system		0.250			
Wide Area Network (WAN)		0.380			
Pooled PPE system			0.080		
Rota system (Retained Duty System)			0.050		
Rota system (Wholetime Duty System and officer cover)				0.050	
Hydrant Management system				0.020	
HR & Payroll system					0.150
Incident Command system					0.060
	-	**0.850**	**0.130**	**0.070**	**0.210**
Operational Communications					
ESMCP (Airwave) replacement (estimated)	0.200	0.800			
Station end mobilising system		0.400			
Alerters for RDS/DCP staff		0.065			
Incident Ground Radios			0.180		
Vehicle Mounted Data Systems				0.400	

(VMDS)					
	0.200	**1.265**	**0.180**	**0.400**	**-**
Total ICT Programme	**0.200**	**2.115**	**0.310**	**0.470**	**0.210**

Capital Funding

Capital expenditure can be funded from the following sources:

Prudential Borrowing

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. In determining the level of borrowing, the Authority must prepare and take account of a number of prudential indicators aimed at demonstrating that the level and method of financing capital expenditure is affordable, prudent and sustainable. However, the Government has maintained reserve powers to limit any such borrowing if it believes the proposals to be unaffordable or in terms of national public spending constraint.

Since the 2010 Spending Review, supported borrowing is no longer available to the Fire Service, meaning any future borrowing will incur a financing charge against the revenue budget for the period of the borrowing.

Capital Grant

Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

The Authority was successful in its bids for 2015/16, receiving a total allocation of £3m. To date no capital grant funding has been made available for 2016/17. Whilst it is possible that the Spending Review will include some it is difficult to see how this could be administered on a 'bidding' basis for 2016/17, given timeframes. As such we have not built in any allowance for future years pending the outcome of the Spending Reviews. There is potentially Government grant accessible in relation to ESMCP, however as we don't currently have any information regarding the potential timing or amount of grant which could be received by LFRS, we have not allowed for this in the programme as presented.

A verbal update will be provided at the meeting, following the Spending Review announcement, and incorporated into the final capital budget report for the February meeting.

Capital Receipts

Capital receipts are generated from the sale of surplus land and buildings, with any monies generated being utilised to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The Authority currently holds £1.2m of capital receipts. In addition to this, we are anticipating capital receipts of £0.3m from the sale of surplus site at Chorley.

Note at the end of the five year programme capital receipts will have been fully utilised.

Capital Reserves

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. Following completion of the 2015/16 capital programme, the Authority expects to hold £7.4m of capital reserves. Over the life of the programme this will be fully utilised.

Revenue Contribution to Capital Outlay (RCCO)

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The revenue contribution reduces over the life of the programme, reflecting the anticipated funding reductions. The ability to maintain this throughout the 5 year programme depends on affordability and in particular the outcome of the Spending review and subsequent Local Government Finance Settlement.

Total Capital Funding

The following table details available capital funding over the five year period (note funding reflects the timing of funding):

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Grant	-	-	-	-	-	**-**
Capital Receipts	-	1.487	-	-	-	**1.487**
Capital Reserves	0.020	3.243	3.120	2.166	-	**8.549**
Revenue Contributions	2.750	1.750	1.500	1.500	1.500	**9.000**
	2.770	**6.480**	**4.620**	**3.666**	**1.500**	**19.036**

Summary Programme

Therefore the summary of the programme, in terms of requirements and available funding, is set out below:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Requirements	**2.770**	**6.480**	**4.620**	**4.629**	**1.143**	**19.641**
Capital Funding	**2.770**	**6.480**	**4.620**	**3.666**	**1.500**	**19.036**
Surplus/(Shortfall)	**-**	**-**	**-**	**(0.963)**	**0.357**	**(0.605)**

Over the next five years of the capital programme there is an overall shortfall of £0.605m, however it should be noted that the following assumptions could change:-

- Operational Communications replacements (ESMCP) are subject to a great deal of uncertainty in terms of both timing and costs as they are related to a national replacement project, in addition there may be grant funding available for this which is also unknown at this time;

- Capital grant may be made available in future years, in order to assist service transformation and greater collaboration;
- Replacement of both the Mobile Fire Stations and Aerial Ladder Platforms are subject to a review and vehicle requirements could be amended;
- New Dimensions vehicle replacements are expected to be carried out by CLG, however this position may change;
- The Thermal Imaging Camera replacements scheduled for 2017/18 and the Breathing Apparatus and Cutting Equipment replacements scheduled for 2019/20 are at estimated costs, and would be subject to proper costings nearer the time;
- ICT software replacements are based largely on the ICT asset management plan, and are subject to review prior to replacement, which has led in the past to significant slippage.

The programme shortfall occurs in 2019/20, therefore when looking at the three year programme, 2016/17 to 2018/19 is balanced, and as such be considered prudent, sustainable and affordable. Although it must be recognised that future funding levels, both in terms of revenue and capital, will inevitably impact upon the achievability of the programme as identified.

However as noted above, should any of the funding assumptions or expenditure items within the programme change, this will have an impact on the overall affordability of the programme.

Impact on the Revenue budget

It is worth noting that the capital programme and its funding directly impacts on the revenue budget in terms of capital financing charges and in terms of the revenue contribution to capital outlay. The draft revenue budget allows for an on-going contribution to the capital programme, but it must be recognised that dependent upon the final extent of future funding cuts this maybe one area where additional savings could be delivered to offset some of the revenue funding gap. If that was the case we would need to reduce the capital budget accordingly, or alternatively we could take out new borrowing (or not pay off some of the existing borrowing) in order to deliver a balanced programme. This will impact on the revenue budget in the form of additional financing charges, albeit these will be spread over a longer time period, as opposed to the full cost be borne in one year as is the case with the current in-year revenue contribution.

Prudential Indicators

The Authority is required to calculate various prudential indicators to demonstrate that the proposed capital programme is affordable, prudent and sustainable. These have not yet been calculated, but will be included in the Authority report in February.

Financial Implications

The financial implications are set out on the report.

Human Resources Implications

None.

Equality and Diversity Implications

The capital programme in respect of replacement/refurbishment of existing property will include some element of adaptations to ensure compliance with the Disability Discrimination Act.

Environmental Impact

The environmental impact of decisions relating to the capital programme will be considered as part of the project planning process, and where possible we will look to minimise the environmental impact of this where it is considered practical and cost effective to do so.

Business Risk Implications

The capital programme is designed to ensure that the Service has the appropriate assets in order to deliver its services; as such it forms a key element in controlling the risk to which the Authority is exposed.

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

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

PART 1 ITEM No 13

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 7th December 2015

REVENUE BUDGET 2016/17-2019/20

Contact for further information: Keith Mattinson - Director of Corporate Services
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Executive Summary

The report sets out the draft revenue budget for 2016/17-2019/20 and the resultant council tax implications.

The Spending Review announcement on 25 November 2015 did not provide any specific details relating to Fire. Hence we have continued to model two scenarios, a 26% cut based on estimates that have been derived from the Spending Review report and the Local Government Association analysis of this, and an assumed worst case scenario of a 40% funding cut, in line with the Government's initial savings targets.

In terms of council tax we have modelled two scenarios, one based on increasing council tax by 2% each year and one based on freezing council tax in 2016/17, and subsequently increasing it by 2% thereafter (no allowance has been made in respect of the council tax freeze grant as this is not mentioned in the Spending Review).

These models produce a variety of results ranging from a surplus of £0.4m to a deficit of £0.7m in 2016/17. However all scenarios result in a deficit in 2017/18 and beyond increasing up to a potential deficit of between £2m and £7m in 2019/20.

There may be scope to deliver further savings on top of those already identified, but inevitably the scope to do this without impacting on service delivery is limited.

Reserves are in a healthy position and could be utilised to bridge any shortfall and timing issues, however these only provide a short term solution, and eventually recurring savings must be identified to offset the final funding gap.

A final revenue budget will be presented to the Authority in February 2016, 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 15 February 2016, 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 2015/16 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:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Preceding Years Draft Budget Requirement	56.7	54.0	53.5	53.5
Inflation	0.8	0.8	0.7	0.7
Other Pay Pressures	(0.5)	0.3	(0.1)	-
Committed Variations	(0.3)	(1.0)	(0.5)	0.1
Efficiency Savings	(3.2)	(0.2)	(0.1)	0.1
Additional staff costs	0.5	(0.4)	-	-
Budget Requirement	54.0	53.5	53.5	54.4

Inflation

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

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
A 1% allowance has been built in for all future pay-awards based on the Governments budget proposals in which they confirmed their desire to continue to restrict public sector pay increases to this figure.	0.4	0.4	0.4	0.4
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.3	0.3
	0.8	0.8	0.7	0.7

Other Pay Pressure

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Pay recosting, including the following:- • timing of public holidays; • mix of personnel in development and competent rates of pay; • mix of staff in pension schemes.	(0.3)	0.1	(0.1)	-
At the time of setting the budget last year we were still awaiting final details of employer's pension's contributions in respect of the Fire-fighters Pension Scheme. An increased allowance was built in to the budget taking account of previous actuarial valuations. However when the final figures were published in March these were lower than anticipated resulting in the budget being overstated by £1.0m. Hence the 2016/17 budget needs to be reduced.	(1.0)	-	-	-
As a result of the Government amending the state pension and abolishing the National Insurance Contribution rebate in respect of contracted-out pension services the Authority will incur additional employer contributions.	0.8	-	-	-
The government will introduce the apprenticeship levy in April 2017 set at a rate of 0.5% of an employer's pay bill.	-	0.2	-	-
	(0.5)	0.3	(0.1)	-

Committed Variations

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

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
In order to balance the draft capital programme the Revenue Contribution to Capital Outlay was increased in 2015/16, hence the reduction brings this back in line with future requirements, as reflected in the draft capital programme.	(0.1)	(1.0)	(0.2)	-
Reduction in restructuring costs, reflecting the level of earmarked reserves currently set aside.	(0.2)	-	(0.3)	-
New Burdens funding in respect of the increased costs associated with the national Fire Link project, Airwave, has been extended, hence the budget allows for the removal of this in January 2020.	-	-	-	0.1
	(0.3)	(1.0)	(0.5)	0.1

Efficiency Savings

The Authority has a good track record of delivering efficiency savings. In February 2013 the Authority set a target of an additional £10m of savings to be delivered by March 2017, on top of the £5.5m previously identified since 2011. By the end of 2015/16 we anticipate having delivered £8.5m of this target, and have already identified a further £3.2m of savings in 2016/17, meaning we will have exceed our original £10m target by £1.7m. Furthermore we have identified a further £0.2m of savings in the following two years, bringing our overall identified savings to £11.9m:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Anticipated savings arising from the Emergency Cover Review, reported elsewhere on this agenda.	(1.4)	-	-	-
Reduction in staff identified in the review of prevention and protection services, as reported elsewhere on the agenda.	(0.7)	-	-	-
Savings identified from reviewing non-pay budgets: • Fleet; • Property; • Area; • Other.	(0.7)	-	-	-
Reduction in LGPS Employer Contributions reflecting payment made to offset part of deficit.	-	(0.1)	-	-
Revised Capital Financing charges reflect anticipated level of debt required to fund the draft capital programme, forecast interest rates, and the anticipated Minimum Revenue Provision.	(0.3)	(0.1)	(0.1)	0.1
Removal of the contribution to GMC in respect of their USAR team which previously provided resilience support for our own dedicated team. As a result of the move to introduce USAR facilities at both Chorley and Bamber Bridge the support from GMC is no longer required.	(0.1)	-	-	-
	(3.2)	(0.2)	(0.1)	0.1

Based on the above by the end of 2018/19 we anticipate having delivered in excess of £17m of savings since the 2010 Spending Review, over 25% of our 2010/11 budget.

Additional Staff Costs

The gross budget assumes that all reductions in establishment are matched by reductions in staffing numbers. Due to reliance on natural wastage this is unlikely to be the case in 2016/17 and hence the gross budget has been adjusted to take account of the retirement profile within the Service, reflecting the additional staffing costs incurred. (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). No adjustment is required in 2017/18 and beyond as, based on changes identified in the draft budget; staffing levels will reduce below forecast establishment in these years. In effect this will create an opportunity to deliver further efficiencies in those years:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Removal of preceding years additional staff cost	0.1	(0.4)	-	-
Anticipated in year additional staff costs	0.4	-	-	-
Net change to additional staff costs	0.5	(0.4)	-	-

Net Budget Requirement

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

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Draft Budget Requirement	54.0	53.5	53.5	54.4
Budget (Decrease)/Increase	(4.8%)	(1.0%)	-	1.6%

Grant Funding

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

2015/16	
Settlement Funding Assessment (Grant)	
Revenue Support Grant, direct from the Government	£15.2m
Individual Authority Business Rates Baseline	£4.6m
Business Rates Top-Up, from the Government	£9.6m
Section 31 Grant - Business Rates Capping	£0.2m
	£29.6m
Council Tax	
Council Tax	£26.6m
Council Tax collection fund surplus	£0.5m
	£27.1m
Total Funding	**£56.7m**

Since 2010 grant funding has fallen and this trend is set to continue. The Spending Review showed Revenue Support Grant being reduced by 53% by 2019/20, and being phased out completely by 2020/21. However the Review went on to say *"the settlement includes reductions to local government grant of £6.1billion by 2019/20, though given forecast increases to other sources of local government income, overall local government spending will be higher in cash terms in 2019/20 than in 2015/16."* However the situation is extremely complicated as these numbers include forecast increases in council tax receipts, including the new Social Care precept, the £1.5 billion increase to the Better Care Fund, forecast increases in business rates etc., and it is impossible to accurately strip these out.

Helpfully the Local Government Association has produced some further analysis and this shows a reduction of 19% in core government funding over the four year period. But this includes the additional £1.5billion Better Care Fund and if we strip this out the total reduction is 26% over the period. The phasing of this reduction is also difficult to identify as no details of the timing of the additional Better Care Fund are available, hence we have assumed that is phased evenly throughout the 4 year period, which would result in a slight front loading of the overall reduction.

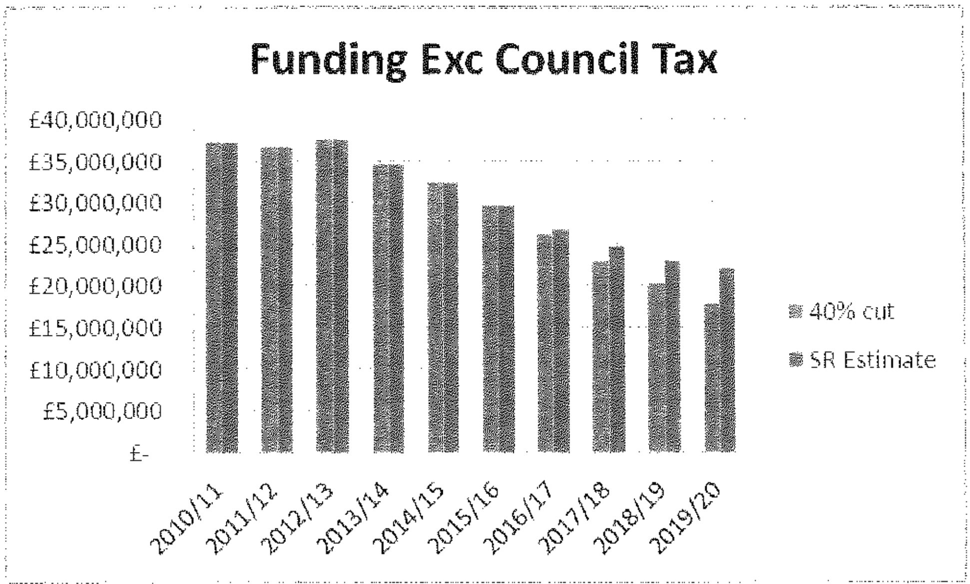
Given how many assumptions are included in the above statement, a second scenario has been included in the report showing a 40% reduction over the next four years, based on the Chancellors initial maximum reduction target, which I have assumed is spread evenly across the period.

Based on the above the projected Settlement Funding Assessment (RSG and Business Rates) is as follows:-

	26% reduction	40% reduction
2015/16	£29.6m	£29.6m
2016/17	£26.7m	£26.1m
2017/18	£24.7m	£23.0m
2018/19	£23.0m	£20.2m
2019/20	£22.1m	£17.8m

This shows a total reduction of between £7.5m and £11.8m. This is in addition to the funding cuts of £7.7m implemented since 2010/11. (In 2010/11 our equivalent funding was £37.3m.).

The Spending Review also confirmed that by 2020/21 Local Authorities will retain 100% of business rates, but no details are available as to how this will work and what the impact on the fire sector is, and hence for the purpose of financial planning we have assumed that this will be cost neutral.

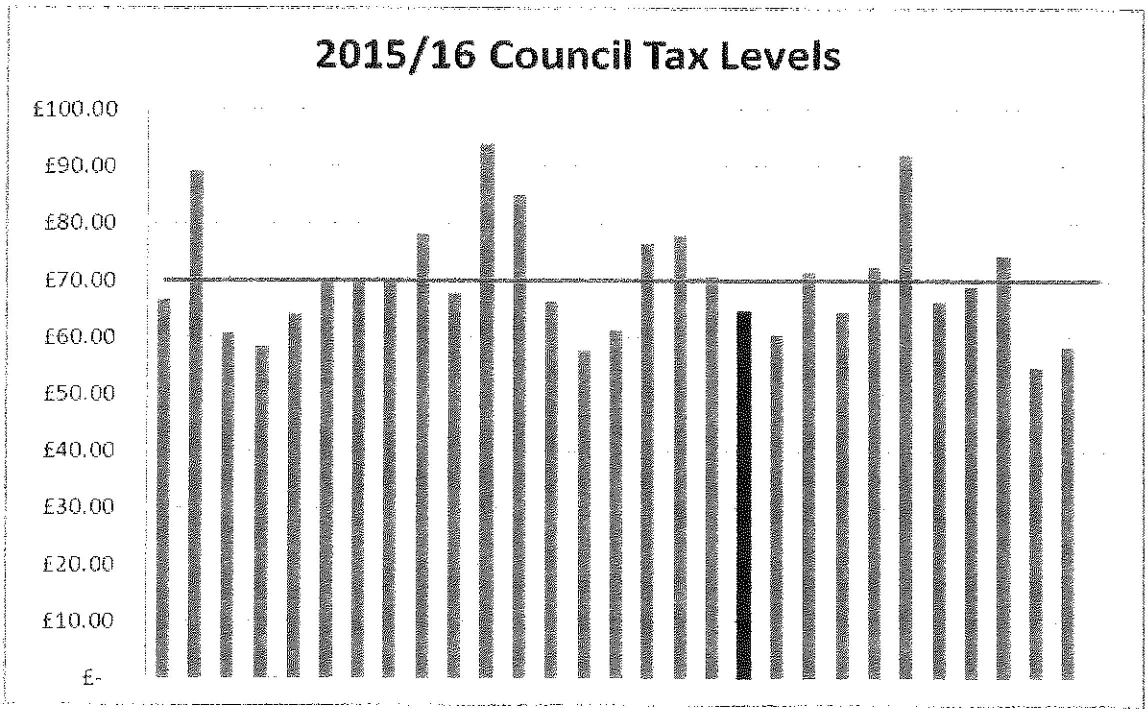


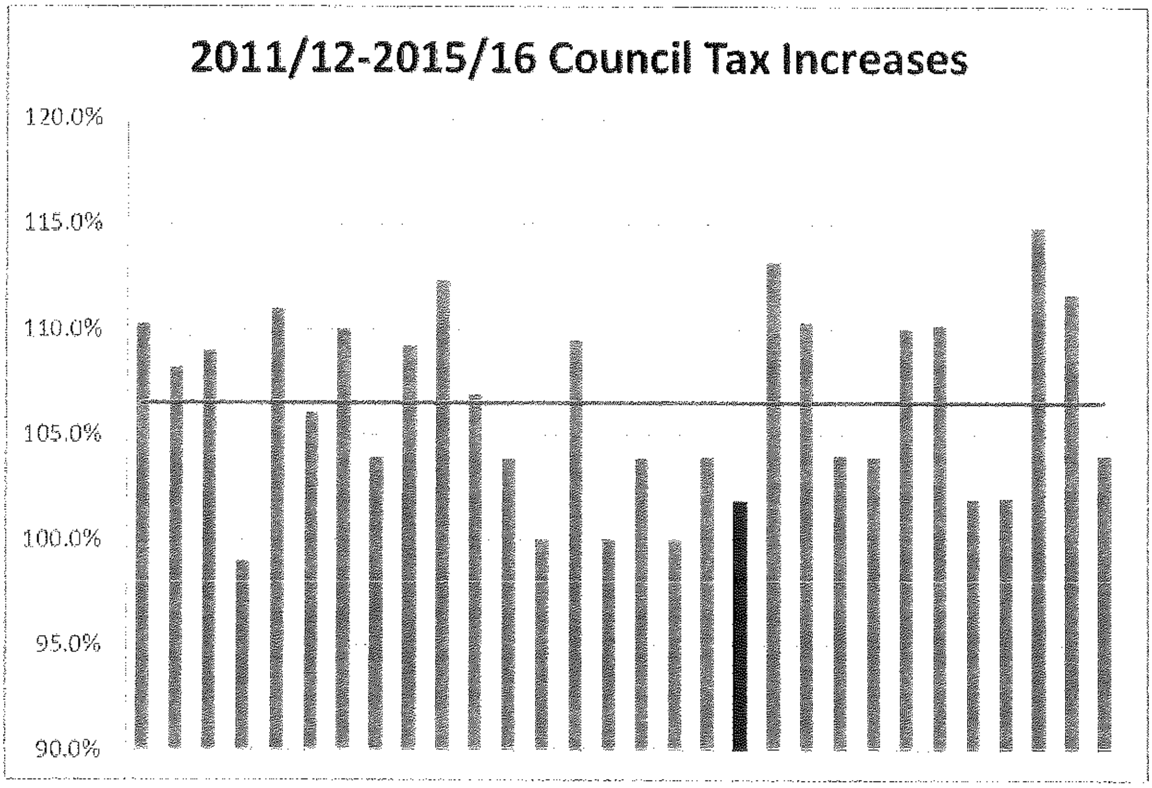
Funding projections will be updated once the Local Government Finance Settlement provides further details which are anticipated in December, and as Billing Authorities provide more detail re: business rates.

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 and a 1.90% increase last year. Our council tax of £64.86 is still below the national average of £70.00, and our increase of just 1.90% over the last 5 years compares with an average increase of 6.50% over the same period and is the fifth lowest of any Fire Authority.





The Spending Review makes no mention of the council tax freeze grant, hence for the purposes of the draft budget we have assumed that this does not carry on. (Note as the funding forecasts are based on total available funding, these will already include the freeze grant, if it exists, and hence if it does continue in its current form then we will have to revisit the funding assumptions to take account of that fact).

Nor does the review explicitly state that the referendum limit will remain at 2%, but it does reference the current limit on several occasions, hence for the purpose of planning we have assumed the 2% limit 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 I have assumed the tax base will increase by 1% each year.

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 £300k surplus each year. (Note this is in line with the last 2 years, but is significantly higher than previous trends).

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

Draft Council Tax Requirements

Two different funding assumptions have been modelled:-

Assuming a 26% cut

Assuming a 26% funding cut, in line with the Spending Review analysis, the draft budget identified results in a marginal council tax increase of 0.5% in 2016/17, but with larger increases in future years:-

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Draft Budget Requirement	54.0	53.5	53.5	54.4
Less Total Grant	(26.7)	(24.7)	(23.0)	(22.1)
Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)	(0.3)
Equals Precept	27.0	28.5	30.2	32.0
Estimated Number of Band D equivalent properties	414,661	418,807	422,996	427,225
Equates to Council Tax Band D Property	£65.18	£67.94	£71.51	£74.99
Increase in Council Tax	0.5%	4.2%	5.3%	4.9%

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

As the increases in future years exceed the assumed referendum level two scenarios have been modelled, a 2% increase each year, and a freeze in 2016/17 followed by 2% increases in subsequent years, which gives the following in year surplus/(deficits).

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
2% increase - Surplus/(Deficit)	0.4	(0.2)	(1.1)	(2.1)
A council tax freeze in 2016/17 and a 2% increase thereafter - Surplus/(Deficit) NB council tax freeze grant would add a further £0.25m of funding to the position if it is maintained in its current format and had not already been included in our grant projections)	(0.1)	(0.8)	(1.7)	(2.6)

Assuming a 40% cut

Assuming a 40% funding cut the draft budget identified results in a council tax increase of 2.8% in 2016/17, but with large increases in future years:-

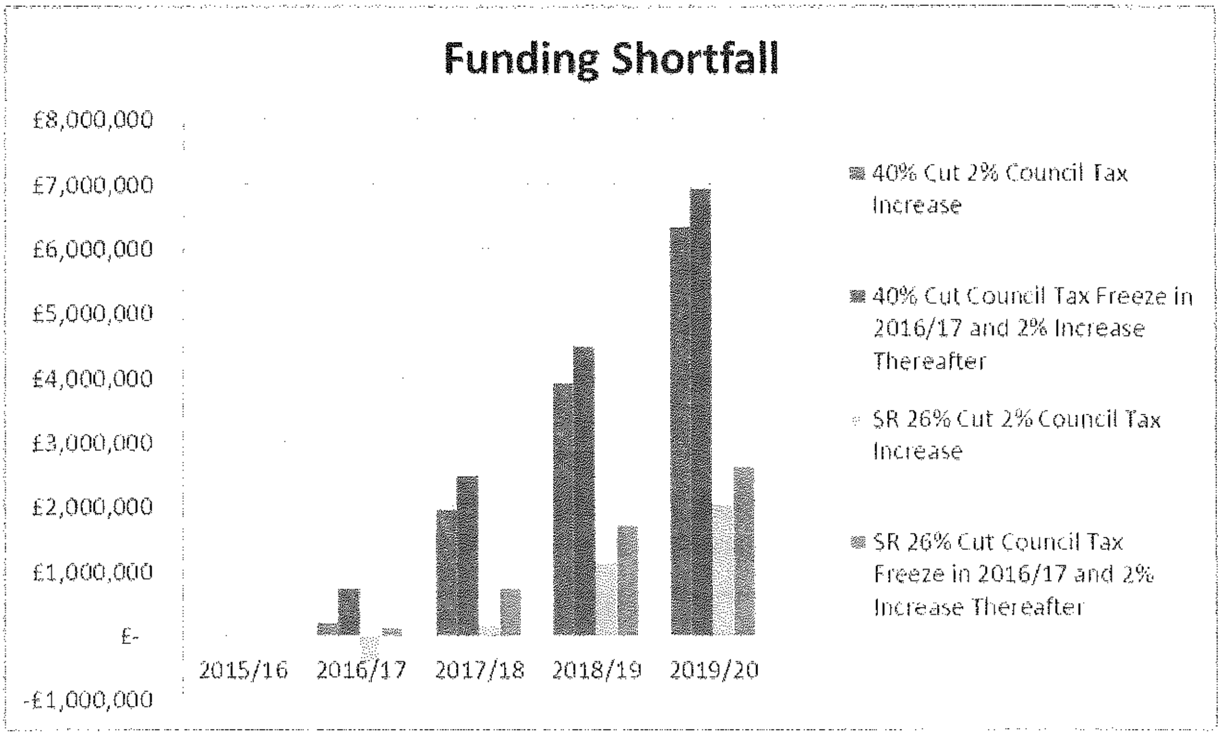
	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Draft Budget Requirement	54.0	53.5	53.5	54.4
Less Total Grant	(26.1)	(23.0)	(20.2)	(17.8)
Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)	(0.3)
Equals Precept	27.6	30.2	33.0	36.3
Estimated Number of Band D equivalent properties	414,661	418,807	422,996	427,225
Equates to Council Tax Band D Property	£66.65	£72.12	£78.10	£85.04
Increase in Council Tax	2.8%	8.2%	8.3%	8.9%

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

As the increases exceed the assumed referendum level two scenarios have been modelled, a 2% increase each year, and a freeze in 2016/17 followed by 2% increases in subsequent years, which gives the following in year surplus/(deficits)

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
2% increase - Surplus/(Deficit)	(0.2)	(1.9)	(3.9)	(6.3)
A council tax freeze in 2016/17 and a 2% increase thereafter - Surplus/(Deficit) NB council tax freeze grant would add a further £0.25m of funding to the position if it is maintained in its current format and had not already been included in our grant projections)	(0.7)	(2.5)	(4.5)	(6.9)

Regardless of the level of funding cuts and which council tax option is chosen, and despite the Authority identifying over £17m of efficiency savings, we will still face a significant funding shortfall compared with the draft budget in future years:-



Under both scenarios the level of funding shortfall in the next two years can be achieved by a combination of a drawdown of reserves and/or additional savings. The real challenge arises in the latter two years, particularly if funding is cut by 40%, which would present as extremely challenging positions.

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 £4.0m last year, and as at 1 April 2015 we held £10.7m of these. If these requirements remain unchanged we have scope to utilise approx. £6.7m 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 £0.25m 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 nearly £12m of savings:-

	To Date	16/17	17/18	18/19	19/20	Total
ECR	£2.5m	£1.4m	-	-	-	£3.9m
Specials	£0.4m	-	-	-	-	£0.4m
Flexi officers	£0.6m	-	-	-	-	£0.6m
Functional	£0.6m	-	-	-	-	£0.6m
Admin	£0.8m	-	-	-	-	£0.8m
P&P Review	-	£0.7m	-	-	-	£0.7m
Other	£0.2m	£0.1m	£0.1m	-	-	£0.4m
Financing Charges	£0.1m	£0.3m	£0.1m	£0.1m	(£0.1m)	£0.5m
Non-Pay	£3.3m	£0.7m			-	£4.0m
	£8.5m	£3.2m	£0.2m	£0.1m	(£0.1m)	£11.9m

The Authority could commission further reviews to identify the scope for delivering further efficiency savings. Our retirement profile continues to show an average of 30 personnel retiring each year, providing scope to deliver up to an additional £1m of savings in each of 2017/18, 2018/19 and 2019/20. (Note the 2016/17 budget already takes account of our anticipated retirement profile.) However in order to realise this the Authority will need to identify savings opportunities which result in a reduction in establishment in line with this, hence the outcome of the next Emergency Cover Review will be key to achieving this.

In addition we can review opportunities to reduce the cost of support functions, but as previously highlighted the scope to do this is fairly limited.

Non-pay costs are reviewed on an annual basis and they could deliver savings to offset some of the future funding gap. As highlighted in the capital budget report the revenue contribution to the capital, programme could be replaced with borrowing, which would deliver a short term saving but obviously comes at a cost in terms of future interest charges and repayment schedules spread out over the long term.

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

Option 1 – Spending Review 26% Funding Cut & 2% Council Tax Increase Each Year

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Deficit as identified earlier	0.4	(0.2)	(1.1)	(2.1)
Drawdown of Reserves	(0.4)	0.2	1.1	2.1
Revised Deficit	-	-	-	-

Under this scenario the entire deficit could be met from drawing down £3.0m of reserves, reducing our balance to £7.7m, within our target range. Alternatively this could be met from a combination of both a drawdown of reserves and additional savings.

This still leaves a recurring funding gap of £2.1m which ultimately will have to be met from identifying recurring savings.

Option 2 – Spending Review 26% Funding Cut & Council Tax Freeze in 2016/17 and 2% Increase Thereafter

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Deficit as identified earlier	(0.1)	(0.8)	(1.7)	(2.6)
Drawdown of Reserves	0.1	0.8	1.7	2.6
Revised Deficit	-	-	-	-

Under this scenario the entire deficit could be met from drawing down £5.2m of reserves, reducing our balance to £5.5m, within our target range. Alternatively this could be met from a combination of both a drawdown of reserves and additional savings.

This still leaves a recurring funding gap of £2.6m which ultimately will have to be met from identifying recurring savings.

Option 3 - 40% Funding Cut & 2% Council Tax Increase Each Year

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Deficit as identified earlier	(0.2)	(1.9)	(3.9)	(6.3)
Whole-time Savings Opportunity	-	-	1.0	2.0
Additional Savings Target	-	0.3	0.9	1.4
Drawdown of Reserves	0.2	1.6	2.0	2.9
Revised Deficit	-	-	-	-

The significant increase in funding cuts produces a completely different position whereby reserves alone are not sufficient to meet the funding gap and hence additional savings are essential.

This scenario shows the Authority delivering £3.4m of recurring savings but still having to utilise £6.7m of reserves, reducing our reserve balance to £4.0m, in line with our minimum target level. We would still be looking at a recurring funding gap of £2.9m by the end of 2019/20 which will be extremely challenging.

Option 4 - 40% Funding Cut & Council tax Freeze in 2016/17 and 2% Council Tax Increase Thereafter

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Deficit as identified earlier	(0.7)	(2.5)	(4.5)	(6.9)
Whole-time Savings Opportunity	-	0.5	1.5	2.0
Additional Savings Target	0.5	0.7	1.2	1.5
Drawdown of Reserves	0.2	1.3	1.8	3.4
Revised Deficit	-	-	-	-

Again this scenario is very similar to the previous one, but the council tax freeze in 2016/17 means that the position is even worse, requiring £3.5m of recurring savings and a £6.7m drawdown of reserves over the same period, reducing our reserve level to £4.0m, our current minimum target level, but the recurring funding gap will increase to £3.4m.

Summary

The draft budget shows the Authority being able to set a balanced budget in 2016/17, 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. An increase of 2% would result in a band D council tax of £66.15, an increase of just £1.29 per annum. But this needs to be considered in the context of the impact on local council tax payers and in light of final medium term funding.

Even if the overall funding cuts are 40% we will still be able to set a balanced budget in 2017/18 by identifying either additional savings or by drawing down reserves of up to £2.5m or a combination of both, and this is considered deliverable.

The real financial pressure comes in 2018/19 and beyond; however even in those years we remain in a reasonable position given our current level of reserves and our track record of delivering savings at the earliest opportunity.

The main concern remains the on-going need to utilise reserves to meet recurring costs and how to bridge this gap once reserves are depleted, something that could occur by 2020/21.

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
Spending Review	November 2015	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		