

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 29 May 2019

2019/20 BUDGET UPDATE

Contact for further information:

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Executive Summary

The report provides an update on 2019/20 budget in respect of increased pension costs and associated grant and revised Section 31 grant calculation in respect of business rate reliefs.

Dependent upon the outcome of discussions with MHCLG the Authority is potentially looking at a net shortfall on its revised budget of £94k, which could be met from an additional drawdown of reserves.

Recommendation

Resources Committee is requested to:-

- note the final position re increased cost associated with changes to employer pension contributions, and the additional grant associated with this;
- note the position in respect of Section 31 Grant for Business Rates Relief and endorse the action taken to date;
- note the potential overall impact on the 2019/20 revenue budget and the potential need to drawdown an additional £94k of reserves;
- approve a virement to action these changes, subject to the outcome of discussions relating to the Section 31 Grant re Business Rates Relief.

Information

Pension Costs

As reported at the last Resources Committee the Home Office released the results of the valuation in March, providing details of the increase in employer contributions for each scheme as set out below:-

	92 Scheme	2006 Scheme	2015 Scheme
Previous Employer Contribution Rate	21.7%	11.9%	14.3%
New Employer Contribution Rate	37.3%	27.4%	28.8%
Increase	15.6%	15.5%	14.5%

These increases were significantly higher than the 12.6% increase that had been quoted. As a result of this all Fire Authorities suffered a significantly higher budgetary impact than initially calculated.

As such we have made representations to the Home Office stating that their additional national funding of £97m was not sufficient, as it was based on an incorrect calculation. This has been accepted by the Home Office and the Treasury, who have provided an additional £18m of grant to cover this.

In terms of Lancashire we have now had chance to fully work through the new rates, based on the actual mix of employees in each scheme. The total cost of the new employer pension contributions is £3.5m, some £0.4m higher than budgeted. However grant now stands at £3.1m, £0.5m higher than budgeted. Hence the net effect is actually a budget reduction of £0.1m.

It is worth emphasising that, as previously highlighted, no allowance has been made in the 2019/20 budget for any increased costs associated with the DCP crewing system and in particular any changes to the pensionability of the allowance. It should be noted that the cost of moving to a 30% pensionable allowance, if it was agreed, will have increased from £150k to £300k as a result of the increased pension contributions (note costs will vary slightly due to the actual mix of staff affected by a change based on the pension scheme membership at the time of any potential implementation).

As previously stated the on-going funding of this pressure will be considered as part of the Spending Review process.

Section 31 Grant in respect of Business Rates Relief

As Members are aware, part of the Authority's funding comes from business rates in the form of a locally retained share and a top-up grant.

At previous Autumn statements and Budget events, the Chancellor of the Exchequer announced various changes to the business rates system, such as small business relief. The Government has undertaken to compensate local authorities for the loss of income they suffer as a result of these changes. Compensation will be provided by means of a grant payment to authorities under section 31 of the Local Government Act 2003.

This grant is calculated based on information provided by billing authorities and on the level of top-up provided by the Government. With guidance stating:-

For the purposes of budgeting, both billing authorities and major precepting authorities will need to remember to adjust the total in line 40 for the impact of the multiplier cap on their tariff, or top-up, payments.

This is because each year, tariffs and top-ups are indexed by the change in the small business multiplier. Accordingly, capping the small business multiplier for 2014-15, 2015-16 and 2018-19, will mean that top-up authorities receive less top-up payments than would otherwise have been the case; and tariff authorities will pay less in tariff.

The purpose of making S.31 payments is to ensure that authorities will be in the same financial position that they would have been if the Autumn Statement

measures had not been made. Accordingly, in making S.31 payments, the Government will adjust the amounts at line 40, as follows:

W x (16/491)

Where;

W is the tariff or top-up payment due to/from the authority for 2019-20 (as set out in the Draft Local Government Finance Report (England) 2019-20).

We have applied this formula as follows:-

£17,656,850 (Top up)x16/49=£575,375

Hence at the time of setting the budget we built £575k of section 31 grant from the Government in respect of our top-up share.

At the end of April MHCLG wrote to Authorities setting out the annual value of Section 31 Business Rate Relief grants for the year. This quoted a figure of £302k, some £273k less than our calculation. We immediately queried this with MHCLG assuming it was an error on their part. Having chased this a number of times we have now obtained a response explaining that our method of calculation was incorrect and that the correct calculation should have deducted the element of Revenue Support Grant that was rolled into the top up funding (in our case £8.4m) before applying the relevant indexation. Giving a revised calculation as follows:-

£17,656,850 (Top up) - £8,386,086 (RSG rolled in)=£9,270,76x16/491=£302,102.

We have queried this with Lancashire County Council, Blackburn with Darwen Council and Blackpool Council, all of whom are top-up authorities in the pilot pool, all of whom have applied the same formula and all of whom, according to MHCLG, have overstated their section 31 grant. None of the authorities are aware of any guidance explaining the revised formula for pilot pools, nor are Ribble Valley, as the lead authority. We have queried where and when this additional guidance was made available and at the time of writing the report are awaiting an answer.

Until such time as we receive a response to this query we are unable to say what the next steps will be, but a worst case scenario shows the Authority suffering a funding reduction of £0.3m.

Financial Implications

The following table sets out changes to the Authority's budget position from its approval in February to the latest forecast assuming the position re Business rates relief does not change:-

Approved Budget	£56.051m
Net pension adjustments	(£0.138m)
Revised Budget Requirement	£55.931m
Approved Funding	£56.051m
Increase in Council Tax Collection Fund Surplus	£0.059m
Reduction in Section 31 Grant in respect of Business Rates relief	(£0.273m)
Revised Funding	£55.837m
Additional Reserves Drawdown Required	£0.094m

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

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