

LANCASHIRE COMBINED FIRE AUTHORITY

Meeting to be held on 19th December 2016

REVENUE BUDGET 2017/18-2021/22

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 2017/18-2021/22 and the resultant council tax implications.

Budget requirement has been re-assessed taking account of known/anticipated changes, incorporating current year-end forecast projections, and forecast vacancy factors based on anticipated recruitment.

Funding takes account of the draft 4 year settlement and assumes a cash freeze in subsequent years (2020-2022).

In terms of council tax we have modelled three scenarios:

- increasing council tax by 2% each year;
- 1% increase in council tax in 17/18 and subsequently a 2% increase thereafter;
- freezing council tax in 17/18, and subsequently increasing it by 2% thereafter.

These models produce a variety of results ranging from a breakeven position to a deficit of £0.6m in 17/18, increasing to a deficit of between £1.5m and £2.1m by the end of the four year settlement period, and thereafter increasing up to a potential gap of £3.9m by 2021/22.

Based on this it is apparent that the requirement to achieve savings is manageable over the over the remainder of the settlement period, but increasingly challenging in subsequent years (this being reflective of anticipated pay awards post the settlement period).

Reserves are in a healthy position and could be utilised to bridge any shortfall and timing issues over the remainder of the settlement period, although this would not be the case throughout the five year period based on current forecasts.

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

Recommendations

The Authority is requested to: -

1. Give initial consideration to the draft revenue budget as presented;
2. Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
3. Give further consideration to the revenue budget at their next meeting on 20 February 2017, 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 2016/17 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:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Preceding Years Draft Budget Requirement	55.6	53.9	54.5	55.8	57.5
Inflation	0.8	0.8	0.7	1.7	2.0
Other Pay Pressures	(0.7)	0.1	0.8	-	-
Committed Variations	(0.87)	(0.1)	0.1	-	-
Growth	0.4	(0.1)	(0.2)	-	-
Efficiency Savings	(1.4)	(0.1)	(0.1)	-	-
Budget Requirement	53.9	54.5	55.8	57.5	59.5

Inflation

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

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
A 1% allowance has been built in for all pay-awards for the next 3 years, based on the Governments budget proposals. The 2020/21 and 2021/22 budget allows for 3.8% pay-awards based on latest estimates.	0.4	0.4	0.4	1.4	1.7
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.3	0.3	0.3
	0.8	0.8	0.7	1.7	2.0

Other Pay Pressure

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
As referred to on a separate report on this agenda future service contributions in respect of the Local Government Pension Scheme (LGPS) have increased by 1.9%	0.1				
The Chancellor of the Exchequer has previously announced that the discount rate used in unfunded public sector pension schemes will change, which will add a further £2bn of costs to these schemes. This will be reflected in the next tri-annual valuation which will set the contribution rate payable from 1 April 2019. Whilst no details of the specific impact on any unfunded scheme are available at the present time, an allowance for a 3% increase has been built into the budget in 2019/20.	-	-	0.7	-	-
The government will introduce the apprenticeship levy in April 2017 set at a rate of 0.5% of an employer's pay bill. Whilst there is a potential for some or all of this to be drawn down to support training further work is required in this area and hence for the purpose of the budget I have not assumed any of this is used to fund apprentice training	0.2	-	-	-	-
The budget in respect of whole-time personnel has been updated to allow for:- <ul style="list-style-type: none"> • Natural wastage due to retirements • 1 early leaver per month, due to resignation, early retirement etc. • Continuing recruitment in future years, the exact timing and number of recruits required will be reviewed on an on-going basis. However the budget includes an allowance for recruitment taking us over establishment by up to 25 personnel. This ensures that we have sufficient personnel to ride fire appliances and provides 	(0.5)	0.1	0.1	-	-

<p>sufficient lead in time for recruitment campaigns and recruit courses. Furthermore it provides greater capacity to deal with new initiatives that arise in year.</p> <ul style="list-style-type: none"> • personnel being paid at development rates of pay • the final mix of personnel in each of the different FF pension schemes, each of which have different contribution rates. 					
A vacancy factor of 2.5% has been built in to reflect turnover within support staff.	(0.3)	-	-	-	-
The vacancy factor in respect of RDS personnel has been increased to 15% in line with current levels. Future recruitment campaigns may reduce this, particularly in light of any agreed changes to remuneration, and hence the budget will be monitored throughout the year with the vacancy factor adjusted accordingly. Cost reductions from personnel being paid at development rates of pay are also reflected in this budget.	(0.3)	-	-	-	-
	(0.8)	0.1	0.8	-	-

Committed Variations

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

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
In order to balance the draft capital programme the Revenue Contribution to Capital Outlay was increased in 2016/17, hence the reduction brings this back in line with future requirements, as reflected in the draft capital programme.	(0.8)	(0.2)	-	-	-
Reduction in interest receivable reflecting the historically low rate of interest and based on anticipated cash balances	0.1	-	0.1	-	-
Removal of the temporary additional budget built in last year in respect of secondees to facilitate enhanced partnership working	(0.1)	-	-	-	-

Details relating to grant in respect of New Dimensions are not yet available, however the level of grant was reduced last year, and hence a further reduction is anticipated in future years.	0.1	0.1			
	(0.7)	(0.1)	0.1	-	-

Growth

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
The budget for recruits in training has been adjusted to take account of the anticipated timing and number of recruits in each year, assuming all recruits undertake a 13 week course. The budget for the Training and Operational Review Department has also been increased to provide sufficient trainers to meet the on-going requirement.	0.2	(0.1)	(0.2)	-	-
The Service is currently reviewing its use of apprenticeships, and will report to the Resources Committee in due course. As such a provision has been set aside to meet any costs falling out of this review.	0.2				
	0.4	(0.1)	(0.2)	-	

Efficiency Savings

The Authority has a good track record of delivering efficiency savings. Between April 2011 and March 2017 we will have delivered £16.5m of savings. Further savings of £1.6m have been identified below, bring the overall level to £18m:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Full year effect of removal of whole-time appliance at Lancaster and creation of RDS unit	(0.5)	-	-	-	-
Savings identified from reviewing non-pay budgets, the main ones being <ul style="list-style-type: none"> • Fleet • Property • Utilities • Area • Smoke Detectors 	(0.6)	-	-	-	-
As referred to on a separate report on this agenda the Service has more than paid off its LGPS deficit and as such the budget has been adjusted to remove the deficit	(0.3)	-	-	-	-

recovery payments included in previous years budgets. At the present time we have assumed that the surplus is left in-situ and have therefore not built any allowance into the budget for this.					
Savings relating to transfer from Airwave to ESMCP, note the timing of the transfer is subject to review and hence the savings identified may be delayed.	-	(0.1)	(0.1)	-	-
	(1.4)	(0.1)	(0.1)	-	-

Net Budget Requirement

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

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Draft Budget Requirement	53.9	54.5	55.8	57.5	59.5
Budget (Decrease)/Increase	(3.0%)	1.0%	2.5%	3.0%	3.4%

Grant Funding

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

2016/17	
Settlement Funding Assessment (Grant)	
Revenue Support Grant, direct from the Government	£13.2m
Individual Authority Business Rates Baseline	£4.7m
Business Rates Top-Up, from the Government	£9.7m
Business Rates collection fund deficit	(£0.3m)
Section 31 Grant - Business Rates Capping	£0.5m
	£27.8m
Council Tax	
Council Tax	£27.4m
Council Tax collection fund surplus	£0.4m
	£27.8m
Total Funding	£55.6m

Future funding is based on the four year settlement figures previously identified (at the time of writing the report we had still not received any response from the Home Office in respect of our bid for 4 year funding settlement, nor has the draft Local Government Finance Settlement been published.) It is assumed that that funding is frozen in 2020/21 and beyond, although in the recent Autumn Statement the Government reaffirmed that Departmental resource (revenue) spending will continue to grow with inflation in 2020/21, as set out in Budget 2016, and that Departmental spending will also grow with inflation in 2021/22, but obviously there will be significant variation between departments due to how the overall funding is distributed.

		Reduction	
2015/16	£29.6m		
2016/17	£27.8m	£1.8m	6.4%
2017/18	£25.4m	£2.4m	8.3%
2018/19	£24.5m	£0.9m	3.8%
2019/20	£24.1m	£0.4m	1.6%
2020/21	£24.1m	-	-
2021/22	£24.1m	-	-
		£5.5m	18.7%

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

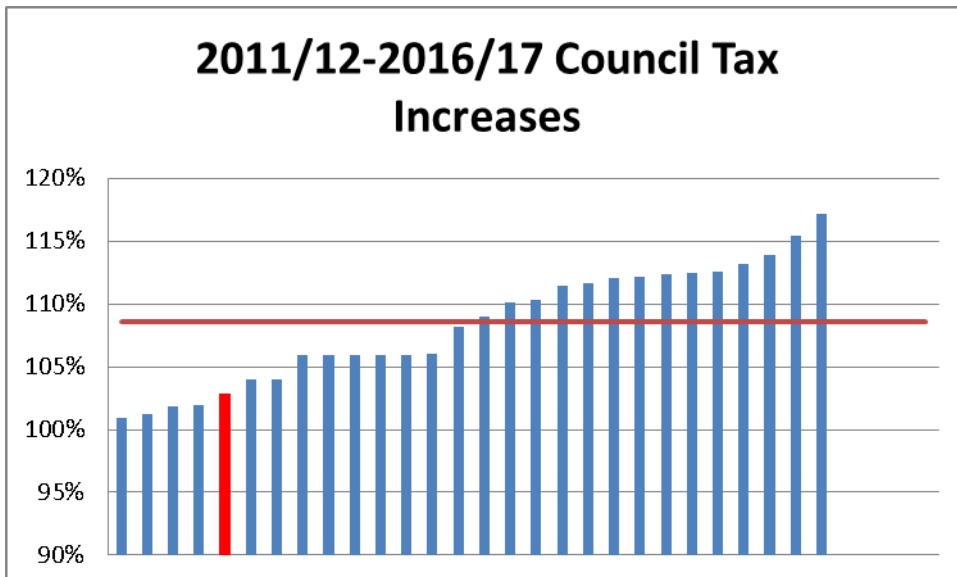
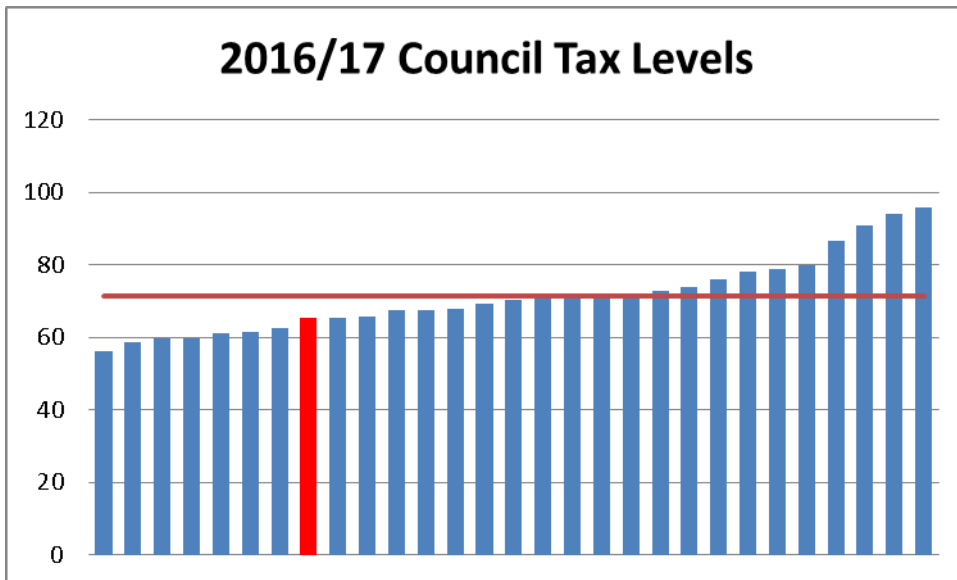
The Spending Review also confirmed that by 2020/21 Local Authorities will retain 100% of business rates, but no details are available as to how this will work and what the impact on the fire sector is, and hence for the purpose of financial planning we have assumed that this will be cost neutral.

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

Council Tax

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

The Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services, culminating in a council tax freeze between 2011/12-2014/15 and a 1.9% and 1.0% increase in the last two years. Our council tax of £65.50 is still below the national average of £71.50, and our increase of just 2.9% over the last 6 years compares with an average increase of 8.60% over the same period and is the fifth lowest of any Fire Authority.



The Government has already indicated its intention to maintain the council tax referendum limit at 2%.

Council Tax-Base

We have assumed that the council tax base continues to grow at the rate of 1% per year, which is broadly in line with historic trends.

In terms of the council tax collection fund we are still awaiting draft figures from billing authorities, and hence we have included an allowance for a £300k surplus each year. (note this is broadly in line with the last three years).

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

Draft Council Tax Requirements

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Draft Budget Requirement	53.9	54.5	55.8	57.5	59.5
Less Total Grant	(25.4)	(24.5)	(24.1)	(24.1)	(24.1)
Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Equals Precept	28.2	29.7	31.4	33.1	35.1
Estimated Number of Band D equivalent properties	422,063	426,283	430,546	434,852	439,200
Equates to Council Tax Band D Property	£66.82	£69.68	£73.05	£76.22	£79.87
Increase in Council Tax	2.0%	4.3%	4.8%	4.3%	4.8%

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

As can be seen the increase in 2017/18 is in line with the referendum limit but increases in future years are more significant and will potentially exceed the referendum limit.

As in previous years we have modelled three scenarios based on

- A 2% increase in council tax each year
- A council tax increase of 1% in 2017/18 with a 2% increase thereafter
- A council tax freeze in 2017/18 with a 2% increase thereafter

The following table sets out the funding gap based on these:-

	2017/18	2018/19	2019/20	2020/21	2021/22
A 2% increase in council tax each year	-	(£0.6m)	(£1.5m)	(£2.3m)	(£3.3m)
A council tax increase of 1% in 2016/17 with a 2% increase thereafter	(£0.3m)	(£0.9m)	(£1.8m)	(£2.6m)	(£3.6m)
A council tax freeze in 2016/17 with a 2% increase thereafter	(£0.6m)	(£1.2m)	(£2.1m)	(£2.9m)	(£3.9m)

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.

Until such time as the draft settlement has been announced it is impossible to carry out this review, 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 £3.0m last year. Based on the budget

forecast for 2016/17, and assuming any in-year underspend transfers to capital reserves, we anticipate holding £10.2m of general reserves at 31 March 2017. The draft capital programme allows for a further transfer of £2.5m from general reserve to the capital programme in 2017/18, leaving a forecast balance of £7.7m, providing scope to utilise approx. £4.7m of reserves. As such they could be used to meet the funding gap across the remainder of the four year settlement period, up to 31/3/2020.

The following table shows our anticipated reserve position based on the draft revenue and capital budget as presented and assuming that a 2% increase in council tax is agreed each year and that any funding gap is met by a drawdown of general reserves:-

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Provisions	Total Reserves & Balances
	£m	£m	£m	£m	£m
Balance 31/3/17	10.2	7.2	13.6	1.9	32.9
Change in year	(2.5)	(0.2)	(2.7)	0.0	(5.4)
Balance 31/3/18	7.7	7.0	10.9	1.9	27.5
Change in year	(0.7)	(1.2)	(4.9)	0.0	(6.8)
Balance 31/3/19	7.0	5.8	6.0	1.9	20.7
Change in year	(1.5)	(0.2)	(3.3)	0.0	(5.0)
Balance 31/3/20	5.5	5.6	2.7	1.9	15.7
Change in year	(2.3)	(0.1)	0.3	0.0	(2.1)
Balance 31/3/21	3.2	5.5	3.0	1.9	13.6
Change in year	(3.3)	(0.2)	-	0.0	(3.5)
Balance 31/3/22	(0.1)	5.3	3.0	1.9	10.1

As can be seen general reserves remain above the minimum target level until April 2021. Whilst the forecast indicate that there would not be sufficient reserves to bridge the potential funding gap in that year, it must be noted that this is based on a number of assumptions that will change over time, such as the level of savings identified in future years, pay and price inflation, future funding levels, drawdown of LGPS surplus etc., and that these forecast budgets will be subject to several revisions before that time.

Summary Council Tax options 2017/18

Based on the scenarios outlined the council tax options for 2017/18 are as follows:-

	2% Increase	1% Increase	Freeze
	£m	£m	£m
Gross Budget Requirement	53.9	53.9	53.9
Utilisation of reserves/additional savings	-	(0.3)	(0.6)
Final Budget Requirement	53.9	53.6	53.3
Less Revenue Support Grant & Baseline Funding	(25.3)	(25.3)	(25.3)
Less Section 31 Grant re Business Rates Capping	(0.4)	(0.4)	(0.4)
Add Business Rates Collection Deficit	0.3	0.3	0.3
Less Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)
Equals Precept	28.2	27.9	27.6
Estimated Number of Band D equivalent properties	422,063	422,063	422,063
Equates to Council Tax Band D Property	£66.80	£66.15	£65.50
Increase in Council Tax	2.00%	0.99%	0.00%

The increases equate to:-

- 1% is £0.65 per annum, £0.01 per week
- 2% is £1.30 per annum, £0.03 per week.

Summary

The draft budget shows the Authority being able to set a balanced budget in 2017/18, based on the draft 4 year settlement, and allowing for a 2% increase in council tax (this does not take account of any potential draw down against the LGPS surplus). This position will be updated once the actual funding settlement is announced and once billing authorities provide clarification on outstanding business rates and council tax issues.

From a medium term financial perspective the funding gap in both 2018/19 and 2019/20 could be met by either reserve utilisation or identifying further savings.

The real financial pressure comes in 2020/21 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.

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	February 2016	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		