

Safest People, Safest Places

County Durham and Darlington  
**Fire and Rescue Authority**



## **FINANCE COMMITTEE**

**29 JANUARY 2019**

### **REVENUE AND CAPITAL BUDGETS 2019/20 AND MEDIUM-TERM FINANCIAL PLAN**

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#### **REPORT OF TREASURER**

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##### **Purpose of the Report**

1. The purpose of this report is to set out details of the local government finance settlement for 2019/20 and to consider the revenue and capital budgets and medium-term financial plan (MTFP). Following consideration of the report members will be requested to agree a firm recommendation on the budget and level of council tax to the meeting of the Fire Authority on 22 February 2019.

##### **Background**

2. As part of the 2016/17 settlement, the Government stated that it would offer any local authority (including fire and rescue authorities) that wished, the opportunity to take a four-year funding settlement covering the period 2016/17 to 2019/20. The Authority agreed to accept the Government's offer which provided the Authority with the ability to plan ahead with a degree of certainty. 2019/20 is the final year of the four-year funding settlement and we currently have no indication of the likely level of government funding in future years.
3. This report sets out a draft budget for 2019/20 together with a draft medium-term financial plan (MTFP) for the four-year period covering 2019/20 to 2022/23. For the first time in a number of years, the future looks very uncertain as there are a number of significant factors affecting the MTFP which are difficult to quantify including: the level of government funding beyond 2019/20; the level of future pay awards; and the level of employers pension contributions. The draft MTFP is therefore based on a number of assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

##### **Government Funding**

4. The settlement funding assessment has been calculated by formula and is the government's assessment of the financial resources to be provided from a combination of revenue support grant, local business rates income and top-up grant. Table 1 below sets out the four-year settlement figures covering the period 2016/17 to 2019/20.

**Table 1: Settlement Funding Assessment 2016/17 – 2019/20**

Description	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Government Funding	10.853	9.836	9.325	9.024
Local Non-Domestic Rates	1.479	1.345	1.370	1.409
	<b>12.332</b>	<b>11.181</b>	<b>10.695</b>	<b>10.433</b>
<b>Reduction in Funding</b>	<b>-0.943</b>	<b>-1.151</b>	<b>-0.486</b>	<b>-0.262</b>
<b>% Reduction in Funding</b>	<b>-7.05%</b>	<b>-9.33%</b>	<b>-4.38%</b>	<b>-2.45%</b>

5. The Authority's funding from central government will reduce by a further £0.262M in 2019/20.
6. The funding position beyond 2019/20 is currently unknown. There will be a full departmental spending review during 2019 which will set out the departmental allocations across government the outcome of which will not be known until the autumn. There are likely to be extremely challenging negotiations between government departments and the Treasury during the course of this spending review as the Treasury struggles to reconcile demands for higher spending in the midst of Brexit uncertainty. The government has only committed to setting an overall path for public spending in 2020 and beyond potentially leaving departments having to bid for funding in departmental spending reviews in both 2019 and 2020. There is also a view that there will be another lean settlement for public services outside the NHS where the government has agreed to spend an additional £25bn by 2022/23.
7. The government are also in the process of undertaking a full review of how government funding is allocated and redistributed between local authorities. The 'Fair Funding Review: a review of relative needs and resources' will address concerns that the current formula is unfair, out of date and overly complex. Currently the government is working towards an implementation date of 2020/21 and at this stage the potential impact on the Authority's funding is unknown.

### Council Tax Base

8. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2019/20 and are set out in table 2 below:

**Table 2: Council Tax-base Information**

	Durham County Council	Darlington Borough Council	Total
2018/19 Tax-base	138,419.20	32,375.60	<b>170,794.80</b>
2019/20 Tax-base	139,738.80	32,873.70	<b>172,612.50</b>
Change	+1,319.60	+498.10	<b>+1,817.70</b>

9. The increase in the council tax base generates an additional £182,733 of council tax revenue based on the current Band D council tax of £100.53.

### Local Council Tax Referendum

10. The Government has also announced details of the local council tax referendum limits for 2019/20.

11. Any fire authority that wishes to increase council tax by more than 3%, as compared to the 2018/19 council tax level will be required to hold a referendum. The 3% limit is 1% higher than the 2017/18 limit of 2% and has been confirmed for 2018/19 and 2019/20 only.

### Medium Term Financial Plan Assumptions

12. A number of assumptions have been made when preparing the MTFP which are set out in table 3 below. At this stage the assumptions are believed to be prudent based upon the information that is available.

**Table 3: MTFP Assumptions**

	2019/20	2020/21	2021/22	2022/23
<b>Income Assumptions</b>				
Government Funding	-4.38%	-5.00%	-5.00%	-5.00%
Council Tax Base	+1.06%	+1.02%	+1.02%	+1.02%
Council Tax Level	+2.95%	+2.00%	+2.00%	+2.00%
<b>Expenditure Assumptions</b>				
Pay Awards	+2.00%	+2.00%	+2.00%	+2.00%
Inflation	+3.00%	+2.00%	+2.00%	+2.00%
Pensions Contribution Rate - FPS	+12.6%			

13. The assumption relating to the reduction in government funding for 2019/20 is based upon the figures provided as part of the four-year settlement. Whilst the position beyond 2019/20 is currently unknown, an assumption has been made that further reductions in funding will continue at the rate of 5% per annum.
14. The Authority's collection fund surplus (the excess council tax and business rates collected over that which was budgeted to collect) which will be received in 2019/20 amounts to £111,000. No surplus or deficit has been incorporated into the plan for future years.

### Efficiency Savings

15. Details of agreed efficiency savings are set out in the efficiency plan which was provided to the Home Office as a condition of the four-year funding settlement. The proposals include staffing reductions in command and control, corporate services and strategic/ middle management, a reduction in debt repayment and interest, further collaboration and income generation from the trading arms.
16. Details of agreed efficiency savings which have been incorporated into the 2019/20 base budget are set out in table 4 below:

**Table 4: Efficiency Savings 2019/20**

<b>Saving</b>	<b>2019/20</b>
	<b>£M</b>
<b>Staffing</b>	
Review of Control	0.350
Restructure of Strategic & Middle Managers	0.075
Restructure of Corporate Services	0.245
<b>Capital Financing</b>	
Reduction in Debt Repayments & Interest	0.300
<b>Collaboration</b>	
Collaboration initiatives with the Police and other partners	0.050
<b>Income Generation</b>	
Trading Arms Surplus	0.100
<b>Total Efficiency Savings</b>	<b>1.120</b>

17. The savings in relation to staffing and capital financing have been achieved and we are on track to deliver the collaboration and income generation savings.

### **Budget Pressures**

18. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

#### **Pay Awards**

19. The MTFP includes an allowance for pay increases of 2% in each year. Each additional 1% increase in firefighters pay costs approximately £170,000 and for the whole workforce costs in the region of £195,000. The Fire Brigades Union (FBU) are still in discussion with the national employers regarding broadening the role of firefighters in return for a significant increase in pay and have tabled a request for a 17% pay increase. Whilst the sector has made it clear that any increase in firefighter's pay above 2% would need to come with assurances of additional funding from government any unfunded pay increase above 2% would have a significant impact on the forecast deficit.

#### **Local Government Pension Scheme (LGPS)**

20. A valuation of the Pension Fund as at 31 March 2016 resulted in an increase in the employer contribution rates from 1 April 2017. In order to give employers some choice on how to budget for this increase there were two options, one with no stepping applied to employer deficit contribution payments, and one showing increases to employer deficit contributions being stepped over 3 years. In order to minimise the impact on the revenue budget we decided to opt for the stepped deficit contribution option. This resulted in an increase in employer contributions of £49,000 in 2017/18 rising to £128,000 in 2019/20.

#### **Firefighters Pension Scheme (FPS)**

21. The Government Actuary's Department has completed a valuation of the Firefighters' Pension Scheme. This has resulted in an increase of 12.6% in the average employer's contribution rate which is significantly more than the 3% increase we had included in the current MTFP. At this stage the rate of increase in

the employer's contribution rate for each of the individual firefighter's pension schemes is unknown. However, based on an average 12.6% increase, this will lead to an increase of £1.3M in the overall cost. The government have stated that grant funding will be made available towards the additional cost in 2019/20 and the position from 2020/21 onwards will be addressed as part of the forthcoming spending review.

### Medium Term Financial Plan 2019/20 to 2022/23

22. The MTFP has been revised to incorporate 2019/20 and future year's expenditure and income estimates.
23. The estimates for 2020/21 onwards are less robust as they are based on a number of assumptions therefore there is a risk that the actual position could turn out to be different. They do however provide a good indication of the level of savings which will need to be identified in future years in order to balance the budget.
24. It is important that the Authority continues to consider the MTFP as it seeks to continue to invest in capital projects to improve efficiency at a time when central government support is reducing and is likely to continue to reduce for the foreseeable future.
25. Table 5 below sets out the MTFP based on the assumptions outlined in Table 3 and incorporating the agreed efficiency savings and budget pressures outlined above. The figures are based on a 5% reduction in government funding from 2020/21 onwards and a 2.95% increase in council tax in 2019/20 followed by a 2.00% increase in 2020/21, 2021/22 and 2022/23.

**Table 5: Medium Term Financial Plan 2019/20 – 2022/23 Incorporating Agreed Efficiency Savings**

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
<b>Net Expenditure</b>	<b>29,075</b>	<b>29.516</b>	<b>30.185</b>	<b>30.889</b>
Total Government Funding*	9.300	8.849	8.420	8.013
Local Non-Domestic Rates	1.409	1.409	1.409	1.409
Council Tax	17.865	18.409	18.969	19.546
Surplus on Collection Fund	0.111	0	0	0
<b>Total Funding</b>	<b>28.685</b>	<b>28.667</b>	<b>28.798</b>	<b>28.968</b>
<b>Shortfall</b>	<b>-0.390</b>	<b>-0.849</b>	<b>-1.387</b>	<b>-1.921</b>

\* Includes Section 31 Grant in respect of 2% business rates cap of £266K per annum. This is not included in the settlement funding assessment in Table 1.

26. The MTFP in Table 5 above currently shows a shortfall in funding of £0.390M in 2019/20 rising to £1.921M in 2022/23. At the Fire Authority strategic planning day on 08 October 2018, members received an update on the Emergency Response Review which included proposals for achieving further efficiency savings in

response to ongoing reductions in the Authority's grant funding. The Authority is currently consulting with the public on some of these options via the IRMP consultation which closes on 04 February 2019. The savings options identified in the Emergency Response Review are set out in Table 6 below:

**Table 6: Emergency Response Review Options**

Option	Annual Saving
1. Reduce day crewing plus (DC+) station establishment from 14 to 13	£110K
2. Change Bishop Auckland crewing to 4:2	£280K
3. Move Durham's second appliance to Spennymoor	£110K
4. Change DC+ to day crewing only at Seaham and Newton Aycliffe	£350K
5. Ride with a crew of 4 on all appliances	£740K
6. Change Spennymoor's wholetime appliance to day crewing	£400K
7. Consett's wholetime appliance change to day crewing	£400K-£450K
8. Removal of on call second appliances at stations 08,09 and 14	£180K-£250K

27. Options 1 and 2 have been the subject of extensive trials since April 2018 and it is proposed that these options are made permanent and the savings incorporated into the 2019/20 budget and MTFP. This will produce a balanced budget for 2019/20 as illustrated in Table 7 below:

**Table 7: Medium Term Financial Plan 2018/19 – 2021/22 Incorporating Agreed Efficiency Savings and Emergency response Review Options 1 and 2**

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
<b>Net Expenditure</b>	<b>28.685</b>	<b>29.126</b>	<b>29.795</b>	<b>30.499</b>
Total Government Funding	9.300	8.849	8.420	8.013
Local Non Domestic Rates	1.409	1.409	1.409	1.409
Council Tax	17.865	18.409	18.969	19.546
Surplus on Collection Fund	0.111	0	0	0
<b>Total Funding</b>	<b>28.685</b>	<b>28.667</b>	<b>28.798</b>	<b>28.968</b>
<b>Shortfall</b>	<b>0</b>	<b>-459</b>	<b>-997</b>	<b>-1.531</b>

### Proposed Council Tax Increase

28. The MTFP assumes a council tax increase of 2.95% in 2019/20 followed by increases of 2.0% in 2020/21 and 2021/22 and 2022/23. This is the maximum increase allowed without holding a referendum. Table 8 below sets out the effect of a 2.95% council tax increase in 2019/20 on each of the property bands:

**Table 8: Effect of a 2.95% Increase in Council Tax**

Council Tax Band	Proportion of 'Basic Amount'	2018/19 Council Tax	2.95% Increase (per annum)	2019/20 Council Tax	2.95% Increase (per week)
Band A	6/9	£67.02	£1.98	£69.00	3.8p
Band B	7/9	£78.19	£2.31	£80.50	4.4p
Band C	8/9	£89.36	£2.64	£92.00	5.1p
Band D	'basic amount'	£100.53	£2.97	£103.50	5.7p
Band E	11/9	£122.87	£3.63	£126.50	7.0p
Band F	13/9	£145.20	£4.30	£149.50	8.3p
Band G	15/9	£167.54	£4.96	£172.50	9.5p
Band H	18/9	£201.05	£5.95	£207.00	11.4p

29. A 2.95% increase in council tax will generate an additional £513,000 of council tax income in 2019/20.
30. **Members are requested to give consideration to the level of council tax for 2019/20 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 22 February 2019.**

### Capital Programme

31. The capital programme includes provision for the replacement of Darlington fire station together with minor building works, vehicle and equipment renewals and ICT replacement. The revenue costs associated with the capital programme have been incorporated into the MTFP.
32. The Authority's capital programme is summarised in table 9 below.

**Table 9: Capital Programme 2019/20 – 2022/23**

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Darlington Fire Station replacement	3.750	0	0	0
Minor Works	0.250	0.250	0.250	0.250
Vehicles	1.202	0.777	0.137	0.250
Equipment	0.450	0.250	0.250	0.250
ICT	0.100	0.100	0.100	0.100
<b>Total Expenditure</b>	<b>5.752</b>	<b>1.377</b>	<b>0.737</b>	<b>0.850</b>

33. The MTFP position set out above includes the associated borrowing costs, use of reserves, revenue contributions and capital receipts to finance the capital programme.

## Risks

34. There are a number of risks associated with the MTFP that need to be considered when setting the 2019/20 budget:

### **Local Business Rates Retention**

35. The local business rates retention scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall then there will be a direct impact on the Authority's available financial resources.

### **Local Council Tax Benefit Schemes**

36. The introduction of local council tax benefit schemes by Durham County Council and Darlington Borough Council exposes the Authority to a further council tax collection rate risk.

### **Expenditure and Income Assumptions**

37. A number of assumptions have been made in relation to government funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are considered to be reasonable at this stage, there is a risk that the actual position could turn out to be different.
38. Whilst the sector has made it clear that any increase in firefighter's pay above 2% would need to come with assurances of additional funding there is a risk that the FBU could secure an increase in pay which is unfunded. This would have a significant impact on the forecast deficit position.
39. The employer costs of pensions are extremely difficult to forecast with any certainty. The outcome of the valuation exercise for the Firefighters Pension Scheme has resulted in an increase of 12.6% in the average employer's contribution rate. The government have stated that grant funding will be made available towards the additional cost in 2019/20 and the position from 2020/21 onwards will be addressed as part of the forthcoming spending review. There is a risk that the Authority does not receive sufficient funding through the spending review to meet the ongoing cost.
40. The above risks will be closely monitored and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

## Reserves

41. The revised National Framework document which sets out the priorities and objectives for fire and rescue authorities (FRA's) makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.
42. The information which FRA's are required to publish includes:
- how the level of the general reserve has been set;
  - justification for holding a general reserve larger than five percent of budget;



- whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is so committed; and
- a summary of what activities or items will be funded by each earmarked reserve, and how they support the fire and rescue authority's strategy to deliver good quality services to the public.

43. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure currently £1.425M

44. The estimated reserves position at the end of 2018/19 and for the remainder of the MTFP period is set out in table 10 below:

**Table 10: Estimated Reserves Position 2018/19 – 2022/23**

Reserve	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
<b>General Reserve</b>	<b>1.425</b>	<b>1.425</b>	<b>1.425</b>	<b>1.425</b>	<b>1.425</b>
<b>Modernisation Reserve</b>	<b>2.821</b>	<b>1.197</b>			
Use of Reserve – Capital Financing	-1.624	-1.197			
<b>Closing Balance</b>	<b>1.197</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Earmarked Reserves</b>	<b>2.309</b>	<b>2.209</b>	<b>1.250</b>	<b>1.250</b>	<b>1.250</b>
<b>TOTAL RESERVES</b>	<b>4.931</b>	<b>3.634</b>	<b>2.675</b>	<b>2.675</b>	<b>2.675</b>

## Recommendations

45. Members of the Committee are recommended to:

- consider** the information in this report;
- consider** the level of council tax for the 2019/20 financial year;
- note** the risks that have been identified as part of the budget setting process and comment accordingly;
- agree** a firm recommendation on the 2019/20 budget and level of council tax to be made to the Combined Fire Authority meeting on the 22 February 2019.

