



Report title

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## **2016/17 Budget Update**

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Meeting

Resources Committee  
Authority

Date

14 January 2016  
17 February 2016

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Report by

Director of Finance and Contractual Services

Document Number

FEP 2551

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### **Summary**

The Mayor has issued his consultation budget for 2016/17 and the budget proposals for LFEPA are as expected, reflecting the Budget Update report (FEP 2520) presented to the Authority on 2 December 2015. This report sets out the key issues for LFEPA from that consultation and provides an updated medium term financial strategy. The final budget for 2016/17 will be presented to Authority for approval in March 2016.

### **Recommendations**

That the report be noted.

### **Background**

1. The Mayor's budget guidance for 2016/17 for the Greater London Authority and the functional bodies was issued on 28 July 2015 and was reported to Resources Committee on 17 September 2015 and to the Authority on 1 October 2015 (FEP 2501). In his guidance the Mayor proposed funding for LFEPA of £382.4m for 2016/17, 2017/18 and 2018/19. The Mayor then repeated his intention to award this level of funding in his consultation letter, which was included in the Budget Update report presented to the Authority on 2 December 2015 (FEP 2520).
2. In his Supplementary Budget Guidance the Mayor noted that if the Comprehensive Spending Review and/or individual settlements for the functional bodies are lower than expected, then the funding available to each functional body will be adjusted to reflect the actual funding received from central Government. The Mayor has required that functional bodies provide an initial view on managing the impact of those changes by 12 January 2016 and a final view by 8 February 2016.
3. The Budget Update report (FEP 2520), stated that funding from the GLA of £382.4m would result in a saving requirement for LFEPA of £13.2m in 2016/17. This gap was then reduced to £11.5m, following the Fire Brigades Union's decision to suspend their strike action over a dispute

with the Government on pensions. Standing down the contingency arrangement saves LFEPA £1.7m and reduced the budget gap from £13.2m to £11.5m. The report then identified and presented new savings of £5.1m towards meeting that requirement. This left a savings gap for LFEPA of £6.4m.

4. The report then set out three options to close the remaining £6.4m budget gap. Following the decisions made by Authority at that meeting two of those options are now subject to public consultation which will close on the 1 February 2016. Option A would see two fire rescue units (FRUs), five aerial appliances and two operational support units (OSUs) being alternate crewed, along with some further departmental savings. Option B recommends the removal of the 13 fire engines that were removed from stations for business continuity purposes and reinvests some of the savings into increasing the number of staff available to crew FRUs.
5. The December Budget Update report also set out the capital programme for 2016/17 and 2017/18. This included a number of capital proposals to be funded through the sale proceeds from the disposal of stations closed following the implementation of LSP5.
6. Table 1 below sets out the timetable for the remainder of the budget process.

Table 1: Budget Process Timetable

12 January 2016	Deadline for responses to Mayor's Budget Consultation Document, including deadline for LFEPA to give an initial view on managing the impact of the CSR / Funding Settlements
14 January	Report to Resources Committee on the latest budget position. This will be reported on to the Authority in February
27 January 2016	London Assembly considers the draft consolidated budget.
February 2016	Report to Authority on the latest budget position and the outcome of the budget consultation process
8 February 2016	Deadline for LFEPA to give a final view on managing the impact of the CSR / Funding Settlements.
22 February 2016	London Assembly consideration of the final draft consolidated budget.
28 February 2016	Statutory deadline by which the GLA precept must be approved and the Mayor's statutory Capital Spending Plan published.
10 and 17 March 2016	Report to Resources Committee and Authority to agree the final LFEPA Budget 2016/17, within the overall funding limit set by the Mayor

### The Mayor's Draft GLA Group Budget

7. The Mayor published his consultation on the GLA Group Budget Proposals and Precepts for 2016/17 on 21 December 2015. This can be found on the GLA website at:

<https://www.london.gov.uk/about-us/greater-london-authority-gla/spending-money-wisely/mayors-budget>

8. LFEPA approved its budget submission to the Mayor on 2 December 2015. This submission for 2016/17 included funding for LFEPA of £382.4m, departmental savings of £5.1m and further reductions of £6.4m to be allocated following the outcome of the consultation set out in paragraph 4 above. The submission also included a planned capital spend of £58.8m in 2016/17. The Mayor's Consultation Budget reflects this submission.
9. The confirmation of £382.4m of funding for LFEPA reflects that the Mayor is not proposing to make any changes to LFEPA's overall funding as a result of the provisional funding settlement for local government. Additional information on the provisional funding settlement can be found at paragraphs 13 to 14 below.
10. The Mayor has addressed his budget consultation to the London Assembly, Functional Bodies, London Boroughs and other interested parties, and asked for any responses by 12 January 2016. As the Mayor's proposals are in line with LFEPA's budget submission, no response is proposed to this consultation by LFEPA. However, it will be possible to ensure that any matters arising from the Resources Committee and Authority's consideration of this report are reflected in the Mayor's final budget which is scheduled to be considered by the London Assembly on 22 February 2016.
11. The Mayor states in his foreword that he will reduce the GLA's council tax for a typical Band D property from £295 to £279. He states this will achieve his target to reduce the GLA precept by a total of 10% over the life of his second administration.
12. Each year the Mayor sets out one overall figure for the general funding he intends to provide to LFEPA from the resources under his control. For 2016/17 the Mayor has set proposed funding of £382.4m which includes revenue support grant funding of £128.5m, retained business rates funding of £115.7m and precept funding of £138.2m. These figures have been summarised in table 2 below and are compared against the funding levels for 2015/16 and the proposed funding levels for 2017/18 and 2018/19. A precept funding level of £138.2m equates to a council tax of £50.35 for a typical Band D property.

Table 2: LFEPA's Grant and Precept Receipts

	2015/16 Funding Levels £m	2016/17 Funding Levels £m	2017/18 Funding Levels £m	2018/19 Funding Levels £m
Revenue Support Grant	129.4	128.5	112.0	100.1
Retained Business Rates	114.7	115.7	132.2	144.1
Council Tax Requirement	138.2	138.2	138.2	138.2
<b>Net Revenue Budget</b>	<b>382.4</b>	<b>382.4</b>	<b>382.4</b>	<b>382.4</b>

### Provisional Funding Settlement

13. The Department for Communities and Local Government (DCLG) announced on 17 December 2015 the Provisional Local Government Finance Settlement for 2016/17, 2017/18 and 2018/19. The grant settlement figures posted by DCLG allocated all of the GLA Group council tax support grant to LFEPA and all the council tax freeze grant to the GLA. After adjusting for these, the revenue support grant that will be receivable by the LFEPA is £128.5m in 2016/17. This is a reduction of £0.9m for 2016/17 and then a further reduction of £16.5m in 2017/18 and £11.9m in 2018/19.

14. In his budget consultation the Mayor has stated that the proposed LFEPA budget for 2016-17 provides additional support to LFEPA to offset the impact of the additional cuts in the former fire formula grant component of the GLA's revenue support grant allocation.

### **Firefighter's Pension Scheme**

15. The Budget Update report (FEP2458) that was presented to Resources Committee on the 16 July 2015 and Authority on 1 October 2015 explained that the Government Actuary's Department (GAD) had finalised its 2012 Valuation for the Firefighters' Pension Scheme. This has resulted in revised employer contribution rates for the closed 1992 and 2006 schemes as well as a rate for the new 2015 scheme.
16. Based on these revised rates the budget requirement for 2015/16 was £3.5m less than that agreed in the 2015/16 Budget Report (FEP2410). This reduction caused a forecast underspend for the 2015/16 financial year that has been reported as part of the regular financial position reports as at the end of June (FEP2502) and September (FEP2521).
17. This full reduction of £3.5m has not been included as a saving in the 2016/17 budget process. The reason for this, as set out in the July 2015 Budget Update report (FEP2458), is that it was expected that DCLG would reduce LFEPA's Revenue Support Grant (RSG) to account for this reduction in cost. This would be consistent with how DCLG removed £0.4m from LFEPA's RSG as part of the 2015/16 Grant Settlement.
18. Following further analysis of this underspend a saving of £0.7m was subsequently included as part of the £5.1m of departmental saving proposals included in the December Budget Update report (FEP2520). This was based on the forecast budget reduction that was due to staff leaving the Firefighter Pension Scheme, and not as a result of the change in contribution rates. This reduced the potential surplus to £2.8m.
19. As discussed above the Local Government Provisional Finance settlement was announced on 17 December 2015. The funding figures for LFEPA in this announcement did not include a reduction in funding as a result of the implementation of the 2015 firefighter pension scheme. As a result this will cause a £2.8m surplus in LFEPA financial position in 2016/17. Options for the treatment of the additional funding are set out later in this report.
20. Whilst this will now cause a budget surplus in 2016/17, an actuarial valuation is currently being undertaken of the firefighter pensions scheme, and the results of this may then impact future financial years. As a result, whilst this leads to a budget surplus in 2016/17, it is currently assumed that this surplus will be removed by DCLG in 2017/18.
21. In the meantime it should be noted that this funding is subject to confirmation in the final grant settlement for 2016/17 and any consideration by the Mayor as part of the ongoing development of the GLA group budget.

### **Medium Term Forecast**

22. The Authority's medium term forecast (MTF) has been reviewed since it was last reported in December 2015 (FEP 2520) and is included as Appendix 1. A list of the changes proposed to the medium term forecast is provided in Tables 3 and 4 below. Table 3 sets out total additional costs of £1,124k and Table 4 sets out total additional reductions of £1,124k. This therefore has no net impact on LFEPA's spending requirement for 2016/17.

Table 3: Reductions to the Medium Term Forecast

	2016/17 £k	2017/18 £k	2018/19 £k
<b>Business Rates</b> This reduction reflects the inflationary increase for next year being below that forecast.	(93)		
<b>Recruitment Advertising</b> The 2016/17 budget currently includes a pressure of £35k for firefighter recruitment advertising. It is now forecast that this expenditure can be contained within existing budgets and this growth is no longer required.	(35)		
<b>Command Units</b> This additional saving is based on the introduction of a new integrated watch structure for Command Units, in 2017/18 from a reduction of 12 operational posts.		(900)	
<b>Operational Pension Scheme</b> This saving is achievable based on forecast numbers of staff in the current schemes, and the reduced costs as staff retire, leaving the closed schemes and recruits joining the new scheme.	(900)		
<b>Contingency for Inflation</b> This reduction to the contingency for inflation is achievable based on staff turnover reducing the actual cost incurred in a number of positions, since last year.	(96)		
<b>Total Additional Savings</b>	<b>(1,124)</b>	<b>(900)</b>	<b>0</b>

23. The table above includes a saving of £0.9m in 2017/18, which it is proposed can be achieved through the introduction of a new integrated watch structure for Command Units. This new structure will result in a net reduction of 12 operational posts through natural wastage and follows informal meetings with stakeholders and modelling analysis by ORH.
24. There are currently eight Command Units in operational service which this proposal will reduce to five, with an additional sixth unit held in reserve. Five command units will be staffed on a 24/7 basis with the sixth command unit only being used when operational circumstances dictate.
25. This proposal will increase minimum ridership on a Command Unit from two to three staff. This increase will enhance the delivery of command support at the initial stage of developing incidents.

Table 4: Increases to the Medium Term Forecast

	2016/17 £k	2017/18 £k	2018/19 £k
<b>Recruitment Costs</b>	300		
<b>Incident Response Unit Funding</b> This additional pressure has been provisionally added. Official confirmation for this reduction in funding is still awaited.	160	240	
<b>Apprenticeship Levy</b> In his Autumn Statement the Chancellor announced that an apprenticeship levy will come into effect in April 2017, at a rate of 0.5% of an employer's pay bill.		1,100	
<b>Gas Tight Suits (GTS)</b> This one-off growth is for the purchase of replacement GTS and follows the budget risk on this as included in the Budget Update Report (FEP2520). Following an evaluation this growth would enable the purchase of limited use modern GTS.  This type of suit can be worn between once and four times, depending on the type of suit procured and the level of contamination and/or physical damage incurred during use. Due to the limited life of these suits they cannot be classified as capital expenditure.	464	(464)	
<b>Automatic Fire Alarm (AFA) Charging</b> The December Budget Update report (FEP2520) included a budget risk against AFA charging. Following a further review of this income stream it is proposed that the current budget is reduced by £200k to £550k from 2016/17.	200		
<b>Total Additional Pressures</b>	<b>1,124</b>	<b>876</b>	<b>0</b>

26. A summary of the 2016/17 Budget Position has been set out in table 5 below for each of the 2 options out for consultation.

Table 5: Summary of the 2016/17 Budget Position

	<b>Option A £m</b>	<b>Option B £m</b>
<b>Budget Gap as Reported in the December Budget Update Report</b>	<b>6.4</b>	<b>6.4</b>
Surplus from Implementation of the 2015 Firefighters Pension Scheme	(2.8)	(2.8)
<b>Revised Budget (Surplus) / Gap</b>	<b>3.6</b>	<b>3.6</b>
Additional Pressures set out in Table 4 above	1.1	1.1
Additional Savings set out in Table 3 above	(1.1)	(1.1)
Savings from Option as set out in consultation	(6.4)	(8.1)
<b>2016/17 Budget (Surplus) / Gap</b>	<b>(2.8)</b>	<b>(4.5)</b>

27. The above table demonstrates that based on the current options that have been put forward for consultation Option A would result in a budget surplus of £2.8m, and Option B would result on a budget surplus of £4.5m. The higher surplus for Option B reflects the fact that no decision was taken about how to use the £1.7m saved as a result of the suspension of the strike action pending the outcome of the grant settlement. As stated earlier in this report it is important to note that the £2.8m additional surplus for 2016/17 is subject to confirmation of the grant settlement and the ongoing development of the GLA Group budget. It is also expected to be for one year only in contrast to the £1.7m which will be recurring.
28. Table 6 below shows the impact of the of the above changes on the budget gap for each of the three following financial years. This results in a surplus in 2016/17 of between £2.8m and £4.5m and a gap of £11.2m in 2017/18 and £7.5m in 2018/19. This is based on the assumption set out earlier in this report that the surplus as a result of the reduction in the employers contribution for the fire fighters pension scheme does not continue beyond 2016/17.

Table 6: Summary of the Medium Term Financial Position to 2018/19

	2016/17 £m	2017/18 £m	2018/19 £m
<b>Budget Gap as Reported in the December Budget Update Report</b>	<b>8.1</b>	<b>11.2</b>	<b>7.5</b>
Fire Brigades Union's decision to suspend their strike action over a dispute with the Government on pensions	(1.7)	0	0
<b>Revised Budget Gap Agreed at December Authority Meeting</b>	<b>6.4</b>	<b>11.2</b>	<b>7.5</b>
Additional Pressures set out in Table 4 above	1.1	0.9	0
Additional Savings set out in Table 3 above	(1.1)	(0.9)	0
Surplus from Implementation of the 2015 Firefighters Pension Scheme (note this reduction is for one year only)	(2.8)	0	0
Savings from Option A (6.4m) or Option B (£8.1m) following outcome of the ongoing consultation	(6.4) to (8.1)	0	0
<b>Revised Budget Gap / (Surplus)</b>	<b>(2.8) to (4.5)</b>	<b>11.2</b>	<b>7.5</b>

#### **Option A – options for utilising the surplus**

29. The proposals included in Option A to balance the budget currently show a surplus of £2.8m. This is currently expected to be available in 2016/17 only.
30. This one-off surplus of £2.8m in 2016/17 is in addition to the £1.7m saving that was included in the supplementary December Budget Update report (FEP2520A). The proposed impact of this additional saving on Option A has been set out in table 7 below.

Table 7: Proposed Impact of Budget Surplus on Option A

	Proposal Out for Consultation	Revised Proposal Including Impact of Budget Surplus
Fire Rescue Unit Alternate Crewing	2	0
Operational Support Unit Alternate Crewing	2	2
Aerial Alternate Crewing	5	4
Reserve Draw	£1.24m	£0.52m

31. Table 7 above shows that the additional £2.8m surplus could result in an amended proposal, with no alternate crewing of FRUs, the requirement to alternate crew one less Aerial Appliance, and a reduction in the required draw on reserves of £1.24m to £0.52m. The modelling for the alternate crewing options set out in Appendix 3 of the supplementary budget report to the December Authority (FEP 2520A) explained that Havering would be the borough that would be worst affected by the proposal to alternate crew five aerial appliances. The expectation is that the application of this additional funding would allow the aerial at Dagenham to be retained in order to address this.
32. This analysis is indicative only and will be dependent on the outcome of the ongoing consultation and the final funding allocation from the Mayor. It should also be noted that £2.8m of this surplus is one-off. The reduction in the total saving made in 2016/17 will therefore increase the savings target for 2017/18 from £11.2m to £14m.

#### **Option B – options for utilising the surplus.**

33. The proposals included in Option B to balance the budget currently show a surplus of £4.5m. £1.7m of this is the recurring saving expected as a result of the suspension of the strike action. This was held pending the outcome of the grant settlement and the possibility that further savings might be required. There are a number of options that are currently being developed to make use of this surplus now it has been confirmed. There is also a further £2.8m available for one year only as a result of the impact of the reduced fire fighters pension contribution as set out earlier in this report.
34. Initial details of the potential options are provided below. These will be further developed in preparation for the final budget report in March 2016, subject to the outcome of the budget consultation. It should be noted as with Option A above that the availability of the £2.8m to fund any additional proposals next year is subject to the final funding allocation from the Mayor; and that any proposal or combination of proposals that requires recurring use of that funding will result in a budget pressure for 2017/18.
- a. Potential to strengthen the response provided by the Rapid Response Team (RRT) to include a Marauding Terrorist Fire Arms (MTFA) incident. This would allow an expansion of the RRT, potentially a doubling in the size of the team to allow two teams, one based in the North and

the other in the South of the LFB area. This would be at an indicative staff cost of between £1.6m and £2.4m.

- b. Potential to introduce allowances for specialist skills to staff in the roles of firefighter to Watch Manager B, to support recruitment and retention of staff in these specialist areas. This is an issue that has been discussed with the FBU on a number of occasions but no proposals have ever been developed due to the financial implications.
  - c. Potential additional spend on pro-active community safety intervention, to support the most vulnerable in the community. This could include investment in things such as portable domestic sprinklers and fire-safe electric blankets.
  - d. Potential to re-visit the Crew Manager Plus arrangements, to ensure adequate numbers are available to perform this role. This could include the further development of the management structure on fire stations. This would be at an indicative staff cost of between £0.7m and £2.1m.
  - e. The introduction of apprenticeships to improve the diversity of new entrants to the operational workforce.
35. Members will be aware that the December Budget Update report also included a third option for closing the budget gap in 2016/17, based on the removal of 10 appliances. Whilst this option has not been taken forward for the consultation process it should be noted that the remaining budget gap of £3.6m in 2016/17 would equate to a reduction of 4 appliances, excluding any impact on trainee requirements and the number of staff on development rates of pay. This would then create an additional budget pressure in 2017/18 of £2.8m.

### **Financial Position Update**

36. The financial position as at the end of September 2015 report (FEP 2521) forecast an outturn underspend of £6.2m for the 2015/16 financial year. It should be noted that this includes significant one off underspends including £3.5m on operational pensions as a result of the implementation of the 2015 Firefighter's Pension Scheme and £1.2m on unitary charges for the new PFI fire stations.
37. This position is under continual review and includes a further analysis of LFEPA's pension budget requirement, in light of the £0.9m saving included in table 3 above. Any impact of this analysis will be incorporated in future forecasts when complete. This will be in addition to the reduction in expenditure that has resulted from the decision by the FBU to suspend their strike action, which has allowed LFEPA to stand down its contingency arrangements.

### **Reserves**

38. The latest position on reserves is set out in Tables 8 and 9 below. The first table shows the forecast outturn position for 2015/16 as at the end of September 2015, updated for an additional draw on the London Resilience reserve. The second table then shows the forecast reserve usage in 2016/17 and 2017/18.

Table 8: LFEPA Reserves for the 2015/16 Financial Year

£k	Opening Balance at 01/04/15	Previously Agreed Movements	Underspend/ (Overspend) in 2015/16	Use of Reserves in 2015/16	Transfer between Reserves	Anticipated Balance at 31/03/16
Compensation	1,000					1,000
Firefighters' Pension	652					652
Hazardous Material Protection	428			(428)		0
Hydrants	263			(37)		226
LSP6 Implementation Costs	0				5,000	5,000
London Resilience	1,496			(73)		1,423
National Operational Guidance Programme	1,045	(1,045)				0
Pension Early Release Costs	400					400
Property PFI	219	500			1,193	1,912
Review of Property Services	221			(109)		112
Review of Workwear	128	(128)				0
Sustainability	235					235
Vehicle & Equipment	461			(344)		117
General	12,652	2,411	6,199		(6,193)	15,069
<b>Total</b>	<b>19,200</b>	<b>1,738</b>	<b>6,199</b>	<b>(991)</b>	<b>0</b>	<b>26,146</b>

39. Table 5 above includes a forecast draw on the London Resilience Reserve of £73k. This reflects the payment of a special responsibility allowance (SRA) to the small group of operational officers who have volunteered to provide LFB's capability in the 'warm zone' at a Marauding Terrorism and Firearms Attack (MTFA) incident. This has been agreed for a period of 18 months whilst talks with the FBU at a local and national level about this capability continue. The full cost is estimated to be in the region of £265k which will be funded through an additional draw on this reserve of £154k in 2016/17 and £39k in 2017/18.

40. The potential change to Option A discussed at paragraphs 29 to 32 above results in a total required draw on the general reserve of £520k. This would reduce the general reserve to £14,329k at the end of the 2015/16 financial year. This is £529k above the minimum general reserve position of £13.8m, which is 3.5% of the 2015/16 annual budget of £398.1m.

Table 9: Proposed Reserves Position for the 2016/17 and 2017/18 Financial Years

£k	Anticipated Balance at 31/03/16	Use of Reserves in 2016/17	Anticipated Balance at 31/03/17	Use of Reserves in 2017/18	Anticipated Balance at 31/03/18
Compensation	1,000		1,000		1,000
Firefighters' Pension	652		652		652
Hydrants	226		226		226
LSP6 Implementation Costs	5,000		5,000		5,000
London Resilience	1,423	(154)	1,269	(39)	1,230
Pension Early Release Costs	400		400		400
Property PFI	1,912		1,912		1,912
Review of Property Services	112	(100)	12	(12)	0
Sustainability	235		235		235
Vehicle & Equipment	117		117	(117)	0
General	15,069		15,069	129	15,198
<b>Total</b>	<b>26,146</b>	<b>(254)</b>	<b>25,892</b>	<b>(39)</b>	<b>25,853</b>

### Risks and Opportunities

41. There are a range of risks and opportunities to the long-term financial position which are as yet unquantified in the estimates in this report, and these are outlined in Appendix 2. The risk related to Gas Tight Suits has been removed as this financial pressure has now been quantified and included in Table 4. The risk related to the implementation of the replacement mobilising system has also been removed, this reflects the report also on today's agenda which provides an update on replacement mobilising system (FEP 2554). In addition the risk on Automatic Fire Alarm Charging has been updated to reflect the changes to that budget included in table 4 above.

### Capital Programme and Financing Costs

42. The November Budget update report included a draft two year capital programme with a capital budget in 2016/17 of £58.8m. The final capital programme for 2016/17 will be put before Members for decision as part of the 2016/17 Budget Report in March 2016.
43. Capital proposals, totalling £9.3m (2016/17) and £32.1m (2017/18), submitted to and approved in principle by Resources Committee and then Authority are to be funded by capital receipts from the sale of sites following the implementation of LSP5. These projects are included in the £58.8m capital programme for 2016/17, and the £49.8m 2017/18 programme.
44. As part of the Local Government Finance settlement it was also announced that Authorities will also be able to spend 100% of capital receipts from asset sales, to fund cost-saving reforms. This will include the opportunity to treat revenue expenditure that meets the criteria as capital. DCLG have published guidance to assist authorities in this matter, which includes the following points.
- a. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

- b. Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- 45. The guidance on the flexible use of capital receipts states Local Authorities should prepare an Efficiency Strategy before the start of each financial year that lists each project that plans to make use of the capital receipts flexibility. This strategy should include details of the up front funding from each project alongside a cost benefit analysis. The strategy will then report on the progress of each project in later years. The guidance also states that the Strategy will need to be approved by a meeting of the full Authority.
- 46. As members are aware the draft capital programme agreed as part of the December budget report made full use of the capital receipts currently available to the Authority through a combination of funding for the original programme and a number of additional projects. This indicates that there is unlikely to be surplus receipts available to make use of this additional flexibility. However potential options are being considered to see if they would offer an improved investment for the Authority. This will be reported in the March budget report alongside an appropriate Efficiency Strategy as necessary.

### **Head of Legal and Democratic Services comments**

- 47. As referred to in Paragraph 4, two savings options are currently subject to consultation. However the Report confirms that the precise extent of the savings that will be required of the Authority is not yet clear.
- 48. It is essential that whatever options are considered when the Authority comes to make a final decision on the budget in March should have been included in the current consultation. It may be that the consultation proves to have been unnecessarily extensive and that in due course some possibilities can be removed from further consideration, or reduced in scale. What is important is that the issues that flow from those that remain should have been fully exposed to public comment and the current consultation will ensure this happens.
- 49. Accordingly the consultation remains valid despite the uncertainties relating to the final budget position. In any event amending or re-launching the consultation at this stage, and within the timescale available, would be impractical. It is essential that the current consultation is completed as planned.

### **Director of Finance and Contractual Services comments**

- 50. This report is by the Director of Finance and Contractual Services and there are no additional comments.

### **Sustainable development implications**

- 51. The Authority committed to taking on 3 apprentices per year in its Sustainable Development Strategy 2013-16 (FEP 2039). The apprenticeships levy will be used by Government to fund the training of apprentices, replacing the current funding available from the Skills Funding Agency. It is currently unknown how many apprentices the Brigade would need to take on to recoup funds equivalent to the levy that the Authority will incur. At the 0.5% rate set, the number of apprentices required would be substantially more than the current commitment of 3 per year.

Further opportunities to take on additional apprentices across the Brigade and any costs associated with those are under review.

### **Staff Side consultations undertaken**

52. Consultation with the trade unions will continue throughout the budget process.

### **Equalities implications**

53. There are no equality implications arising directly from this update report. Consideration of the potential impact of budget savings is provided in the equality analysis attached to the January Budget Update report (FEP2520A).

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### **List of Appendices to this report:**

1. Medium Term Forecast
2. Risks and Opportunities to the Financial Position

<b>LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985</b>	
<b>List of background documents</b>	
1. Budget Update – FEP2520 2. The Mayor's Budget Guidance for 2016/17 – FEP2501 3. Budget Update – FEP2458	
Proper officer	<b>Director of Finance and Contractual Services</b>
Contact officer	<b>Adrian Bloomfield</b>
Telephone	<b>020 8555 1200 Ext. 31351</b>
Email	<b>adrian.bloomfield@london-fire.gov.uk</b>

## Appendix 1 – Medium Term Forecast

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
	<b>Previous Years Funding from the GLA</b>	<b>382,400</b>	<b>382,400</b>	<b>382,400</b>	
	Previous Years Specific Grants Received	8,942	12,836	12,836	
	<b>Previous Years Budget Requirement</b>	<b>391,342</b>	<b>395,236</b>	<b>395,236</b>	
	Previous Years Use of / (Payments Into) Reserve	(936)	100	0	
	<b>Previous Years Net Expenditure</b>	<b>390,406</b>	<b>395,336</b>	<b>395,236</b>	
		<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	
<b>1</b>	<b>Central Contingency for Inflation</b>	<b>4,584</b>	<b>5,058</b>	<b>5,255</b>	This includes both staff and non staff inflation. Staff costs are based on pay awards of 1% annually in all years.
	<b>Other budget pressures</b>				
2	Pensions Auto Enrolment	0	871	871	These are potential additional employers pensions contributions from staff entering the pension schemes, as part of the governments auto enrolment scheme. This assumes that 60% of staff enrolled into the scheme stay in the scheme.
3	Firefighters Pension Scheme - Retained Firefighters	0	4,046	0	This is the provisional cost of retained firefighters becoming eligible to join the firefighters pension scheme, and represents the national impact on employers on costs of a 2.1% increase.
4	Changes to Staff on Development Rates of Pay	(1,980)	(2,162)	(636)	This reduction reflects the anticipated change in the profile of the operational workforce, which will shift in 2016/17 to include more less experienced staff on lower pay rates.
5	Removal of National Insurance Rebate	5,674	0	0	From April 2016 the state second pension will be closed and everyone will have access to a single tier pension system. As a result there will be no State Second Pension to opt out of and no rebate either for employees or employers.
6	Revaluation of Local Government Pensions Scheme	188	197	206	This is the forecast increase in cost to LFEPA as a result of the past service deficit on the Local Government Pension Scheme.

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
7	LFEPA Commissioner Appointment	(10)	83	0	This item reflects the additional funding required for the salary costs for the Commissioner's post.
8	Firefighters' Injury Pensions	0	351	395	This relates to inflation increases on injury pensions.
9	Firefighters' Ill Health Pensions	0	256	149	This is based on forecast ill health retirements.
10	Funding for Senior Lawyer	(18)	0	0	This removes the additional funding for a senior lawyer in the 2015/16 financial year.
11	Top Management Review	(136)	0	0	This saving was agreed by Authority on 29 January (FEP 2382).
12	Employment Tribunal Decision regarding holiday pay	384	0	0	Following the decision of an Employment Appeals Tribunal in November 2014, it has been confirmed that all elements of a worker's normal remuneration must be taken into account when calculating holiday pay.
13	Command Units	0	(900)	0	This additional saving is based on the introduction of a new integrated watch structure for Command Units, in 2017/18 from a reduction of 12 operational posts.
14	Operational Pension Scheme Changes	(900)	0	0	The saving in 2016/17 is achievable based on forecast numbers of staff in the current schemes, and the reduced costs as staff leave the older more expensive scheme and recruits join the new cheaper scheme. The saving in 2017/18 is achievable following the implementation of the 2015 Firefighter Pensions Scheme
15	Impact of Changes to Recruitment	1,325	975	(495)	These costs for firefighter recruitment will be reviewed following the outcome of the consultation on the 2 options to close the budget gap.
	<b>STAFF RELATED BUDGETS</b>				
16	Career Development Pathways	70	0	0	This cost relates to the development and delivery of a range of initiatives encompassing formal links to development programmes for FRS staff; accelerated career development opportunities, targeted training sponsorships linked to professional qualifications and secondment opportunities within the GLA family

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
17	Apprenticeship Levy	0	1,100	0	In his 2015 Autumn Statement the Chancellor announced that an apprenticeship levy will come into effect in April 2017, at a rate of 0.5% of an employer's pay bill.
18	Local Government Pension Scheme	0	700	0	The revaluation of the LGPS will be carried out as at 21 March 2016. This review is likely to materially increase the amount paid by LFEPA towards the cost of the past service deficit, the cost of which is £4.2m in 2015/16.
	<b>PREMISES BUDGETS</b>				
19	Business Rates	(93)	1,438	276	The rates revaluation assessment scheduled for 2015 was postponed and has been rescheduled for 2017. This could result in a significant increase in rateable values at all premises in 17/18. The Estates Management consultant has advised that the increase could be in the region of £1,438k (15%) and this allows for transitional arrangements. Actual cost implications should be confirmed in September 2016 by the Valuation Office. A 2.5% increase has been allowed for 18/19 and following years, but this is the minimum value as there is potential for a higher increase resulting from the revaluation having to be phased over a number of years.
20	Energy Costs	53	71	78	This increase is based on the RPI index.
21	Property PFI - Business Rates	473	0	0	The nine new PFI stations will be larger buildings and will incur a higher rateable value. The estates management consultant has estimated the potential rateable value for each new station but the actual cost will not be confirmed until the completed buildings have been assessed by the Valuation Office. Seven stations are scheduled to be completed during 2015/16.
22	Property PFI - Project costs	(288)	(153)	0	Once all of the stations are operational the team is expected to reduce in 2016/17. This reflects the estimated revenue costs as set out in FEP 1662 for Business Continuity Arrangements. It is forecast that £75k will be required in 16/17 due to a delay in the construction schedule.

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
23	Property PFI Unitary Payment	2,036	40	40	The figures shown here reflect the payments required for the Property PFI properties as they are completed. From 17/18 an annual price review is applicable to the variable element of Unitary Charge based on RPIx. The standard RPIx has been applied to this value from 17/18.
24	Hydrants Repair Permits	(100)	0	0	This reflects a lower than expected cost of road work permits charged by London Boroughs to water companies, and then recharged to LFEPA.
25	Rent Review at Union Street	1,298	0	0	A rent review for 169 Union Street is due in December 2015, and the resulting increase in cost may be significant. This potential increase reflects the fact that the Authority is currently paying considerably below market rent for 169 Union Street. This rent review may bring the Authority rent into line with the market rate. The increase shown here is provisional and the actual pressure will be dependant both on prevailing market conditions in December 2015 and negotiations with the landlord. This pressure in 2016/17 is in addition to a £480k pressure in the 2015/16 budget.
26	New Premises contracts (hard and soft FM services)	610	350	380	The Property Services Review Report FEP2430 (item 39) identified the potential for a significant increase in costs for the provision of all works/services when tendering for new contracts. These increases are in addition to the 'inflationary pressures' submitted for Premises budgets.
27	Lease renewals - Working and Heathrow	40	0	0	The estates consultant is negotiating the renewal of leases for Heathrow fire station and IT disaster recovery service with TFL. The additional cost is forecast to be £40k per year.
28	Temporary rent for West Norwood Fire Station	(50)	0	0	This follows on from the Build of West Norwood Fire Station report (FEP 1933). This is the £50k annual rental cost which was payable from completion of the sale of the old station until relocation to the new station. This will therefore no longer be required from 2016/17.

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
29	Business Rates - Southwark site	75	(75)	0	The report on the disposal of 8 Albert embankment (FEP2467) agreed that the Museum should be permanently relocated from Southwark Training Centre to 8 Albert Embankment. This £75k pressure will be sufficient to cover rates costs incurred in 2016/17 for STC, before the Museum is vacated.
30	Security Provision at LSP5 sites	(221)	(148)	0	This assumes sale of all LSP5 sites is completed by 31/3/16 with the exception of the Southwark site.
	<b>TRANSPORT BUDGETS</b>				
31	Emergency Fire Crew Capability Training Vehicles and Equipment	4	0	0	As set out in the Vehicles and Equipment Contract and Emergency Fire Crews Contract Update report (FEP 2289), there is an annual service charge for the maintenance of 5 Emergency Fire Crew training vehicles. This increase is in respect of those costs and expected equipment maintenance costs.
32	Emergency Fire Crew Capability (EFCC) contract First Aid Recertification training	0	76	48	As is outlined in FEP 2321, the EFCC contract attracts an additional charge in Years 1 and 4 for first aid recertification. Year 4 of the contract spans parts of FY 2017/18 and FY 2018/19, hence the total (unindexed) charge of £199,836.36 has been allocated across these two periods.
33	Vehicle and Equipment Passthrough Costs	(31)	0	0	This reduction is achievable based on the current forecast underspend as set out the Financial Position report as at the end of September 2015.
34	Travel budgets	(50)	0	0	This is achievable based on current underspends.
	<b>SUPPLIES AND SERVICES BUDGETS</b>				
35	ICT Equipment Replacement Holiday	0	0	278	Savings were made from taking a 'holiday' from the ongoing replacement programme in 2012/13, as set out in the Budget Update Report (FEP 1742). This funding is now being returned.
36	Replacement BA radio interface equipment (BARIE) project	10	(10)	0	This is the revenue cost of replacing breathing apparatus radio interface equipment.

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
37	Gas Tight Suits	464	(464)	0	This one-off growth is for the purchase of replacement GTS and follows the budget risk on this as included in the Budget Update Report (FEP2520). Following an evaluation this growth would enable the purchase of limited use modern GTS.
38	Extension and Re-procurement of the Personal Protective Equipment (PPE) Contract (FEP2381)	0	(640)	270	By extending the current contract with Bristol Uniforms by an additional two years from October 2016, the Authority is forecast to generate one-off savings of £271k in 2016/17, £640k in 2017/18 and £370k in 2018/19. This will result in a total saving of £1,281k over the two contract years and will be used to fund the re-procurement project. Once the total cost of the re-procurement project has been assessed the remaining funds from the £1,281k saving will be built into the budget process on a one-off basis. (It should be noted that the Chair of the Resources Committee is proposing to use £140k of the saving in 2016/17 to support the budget).
39	WAN and ISP Increased Revenue Costs	537	(287)	0	Procurement of a Wide Area Network (WAN) and Internet Service Provider (ISP) – as set out in FEP 2313.
40	Replacement of Extended Duration Breathing Apparatus (EDBA) cylinders	0	161	(87)	This is the progressive replacement of EDBA cylinders as they reach the end of their maximum design life to maintain the authorities operational capacity.
41	Safeguarding Functional Delivery	33	0	0	£33k to support the infrastructure and reflect the increase in safeguarding referrals carried out by the Brigade and for further partnership action as part of local safeguarding boards.
42	LFB Website	283	(250)	0	This expenditure will allow the development and delivery of a new external website.
	<b>CAPITAL FINANCING BUDGETS</b>				
43	Borrowing Costs	(219)	(294)	(268)	This estimate is based on no additional borrowing and that the capital programme is funded from the sale of the LSP5 properties.

	Description	2016/17	2017/18	2018/19	Comments
		£k	£k	£k	
44	Fleet Capital Financing	0	313	1,578	These are the additional borrowing costs that will be incurred based on the latest forecast capital purchase requirements for the replacement of LFEPA's fleet. As stated in FEP2237, which awarded the new contract, LEFPA will purchase the vehicles due to the Authority's ability to access cheaper borrowing than alternative sources.
	<b>Total other budget pressures</b>	<b>9,461</b>	<b>5,646</b>	<b>3,083</b>	
	<b>INCOME BUDGETS</b>				
45	Insurance Company Income	(975)	(800)	(825)	These increases assume growth of 3.5% per annum going forward.
46	Interest Receivable	(20)	(241)	0	This forecast is based on the interest rates received on our cash deposits increasing in 2016/17 and again in 2017/18.
47	Reduction in Incident Response Unit Funding	160	240	0	This pressure has been provisionally added and reflects a potential reduction in funding for IRUs from DCLG. Official confirmation for this reduction in funding is still awaited.
48	Reduction in AFA charging	200	0	0	The December Budget Update report (FEP2520) included a budget risk against AFA charging. Following a further review of this income stream it is proposed that the current budget is reduced by £337k to £413k from 2016/17, to reflect current forecasts.
49	Union Street Space Rental	(154)	0	0	This represents the latest forecast income levels from the lease of space at Union Street. The forecast income has increased by £85k on agreement completed with 4th tenant. Some agreements are short term with expiry dates in 16/17, but it is currently assumed that these agreements will be renewed.
	<b>Total income</b>	<b>(789)</b>	<b>(801)</b>	<b>(825)</b>	
	<b>Total Unavoidable Pressures and Savings identified</b>	<b>13,257</b>	<b>9,903</b>	<b>7,512</b>	
50	<b>Change in Expenditure funded from Reserves and Specific Grants</b>	<b>3,191</b>	<b>(100)</b>	<b>0</b>	

Description	2016/17	2017/18	2018/19	Comments
	£k	£k	£k	
<b>Revised Net Revenue Expenditure</b>	<b>406,854</b>	<b>405,139</b>	<b>402,748</b>	
Savings Proposals Included in November Budget Update	(5,116)	1,308	0	
Surplus from Implementation of the 2015 Firefighters Pension Scheme	(2,843)	0	0	
Savings Gap	(3,559)	(11,211)	(7,512)	The savings gap in 2016/17 will be closed through either of the two options open to consultation.
<b>Proposed Net Revenue Expenditure</b>	<b>395,336</b>	<b>395,236</b>	<b>395,236</b>	
Add Payment to General Reserve	0	0	0	
Less Use of Earmarked Reserve	(100)	0	0	
<b>Financing Requirement</b>	<b>395,236</b>	<b>395,236</b>	<b>395,236</b>	
Specific Grants	12,836	12,836	12,836	
<b>Financing Requirement after use of Specific Grants</b>	<b>382,400</b>	<b>382,400</b>	<b>382,400</b>	

## Appendix 2 – Risks and Opportunities to the Financial Position

- a) The new employers' pension contribution rates announced as part of the 2015 Firefighters Pension Scheme are forecast to reduce LFEPA's costs by £3.5m. This will cause an underspend in the 2015/16 financial year. However in later years it is likely DCLG will reduce LFEPA's Revenue Support Grant to account for this windfall. £0.7m of this reduction forms part of the budget savings proposals included in this report. This is the estimation of the reduction that is due to staff who have left the scheme. This leaves a £2.8m surplus in 2016/17 that it is assumed DCLG will account for in the grant settlement.
- b) Telecommunications income in respect of radio masts may be reduced in the future due to a reduction in the number of operators in the industry and a potential change to legislation on access to land by operators.
- c) Forecast income figures from space rental at Union Street assumes that the tenants do not give notice to vacate early, and, for the two to which it relates, that they remain in occupation beyond their current proposed expiry date.
- d) DCLG will replace the existing Airwave contracts, which expire between 2016 and 2020 as part of the Emergency Services Mobile Communications Programme. There could be significant financial pressures to LFEPA under any new contract provision. The current contract is subsidised and DCLG have notified LFEPA that its share of this will be £0.9m in 2015/16. DCLG may be unwilling to continue to subsidise any future system.
- e) The Property PFI project – Financial Close and Contract Award Report (FEP 2042) noted that the Authority retains the risk of unforeseen ground conditions, contamination and archaeological finds beneath the existing buildings. The Authority also retains the risk for asbestos within the existing buildings not identified in the contract surveys. This risk of expenditure applies throughout the construction phase. During the first phase of the construction programme asbestos has been discovered at three of the stations during demolition. During the second phase asbestos has been discovered at a further three stations along with two underground tanks. LFEPA is in discussion regarding compensation claims with Blue3 on these items. A reserve of £0.5m was created in the 2015/16 Budget Report (FEP2410) to address this risk.
- f) The FBU has been taking industrial action as part of the dispute with Government over pensions. The total cost of industrial action since September 2013 is now forecast at £16.2m. Any further strike action could increase the net cost dependent on the length and number of strikes called. The FBU has given an undertaking there will be no further strike action under this dispute until June 2017.
- g) Currently six of the LSP5 sites have been disposed of, with a further two having exchanged contracts. It is difficult to anticipate exactly when the remaining sites will be disposed of. However if the disposal of these properties is delayed into 2016/17 this could result in additional security costs for those sites.
- h) A rent review for 169 Union Street is due to begin in December 2015, and the resulting increase in cost may be significant as demand for accommodation in London continues to be high. The actual pressure will be dependant both on prevailing market conditions in December 2015 and negotiations with the landlord.

- i) LFEPA has made a budget provision for a 1% pay award for all staff in 2014/15 and 2015/16. A 1% pay award has been agreed for Operational and Control staff. FRS staff have agreed a pay award of 1% or £310, whichever is the greater. Discussions regarding the London Weighting Allowance award for 2014/15 are still ongoing with the FBU.
- j) The London Pensions Fund Authority (LPFA) has notified the Authority that it has shifted its strategic focus to eliminating its pension fund deficit, by taking greater ownership of asset liability management. This means the LPFA will, over time, be moving away from the provision of administration services. The LPFA will however remain responsible for the administration of its own pension fund, and has recently announced the creation of an asset and liability management partnership with the Lancashire County Pension Fund. This partnership aims to offer improved solutions to its current administration clients. Officers will continue to meet with LPFA officers to discuss the developing position. The Authority currently pays the LPFA £261k pa under a shared service arrangement to provide administration services for the firefighter pension scheme.
- k) Capital projects can be subject to re-phasing or deferral due to a number of unforeseen issues, such as failure or default on the part of the contractor or exceptionally adverse weather conditions. This can also impact on funding requirements which in turn may have a debt charge (cost of borrowing) revenue impact.
- l) The debt charges arising from the capital programme have been calculated using the current forecast PWLB rates. Headway has been included in the revenue budget for future debt charges should interest rates rise at a rate higher than today's projections. No allowance has been made in the capital programme for potential future capital grants or contributions and LFEPA will bid for any available capital resources as and when such opportunities arise.
- m) This report includes a part year saving of £472k in 2016/17 for implementation of the Property Services Integrator and, which includes an estimate of savings that can be achieved on LFEPA's supply chain. This saving will be updated once the contract negotiations have concluded and the savings on the supply chain have been fully costed after mobilisation.
- n) In addition to the auto enrolment date in October 2017 there will also be an earlier auto enrolment date for April 2016 for staff who have opted out of the scheme in the last three financial years. As this auto enrolment date will only affect staff who have made a recent decision to leave the scheme this is not expected to result in a financial pressure to the Authority. This position will be kept under review.
- o) This report explains that the Mayor has set indicative funding allocations for LFEPA covering the next three financial years. However there is considerably uncertainty about the level of funding for future years. Factors include the Mayoral Elections in 2016, and also the level of reductions required by the Chancellor in order to meet the UK Budget deficit over the coming years. Fire Service funding is provided by DCLG which as an unprotected department is required to exemplify savings at 25% and 40% over the years to 2019/20. For each 1% reduction in the funding received by LFEPA through the Mayor, LFEPA's budget gap would increase by £3.8m.
- p) As previously reported (FEP2502), there are a number of organisations that have made no payment for AFA charges since the charging regime was introduced in January 2014 as part of LSP5. A review has been undertaken by an expert in fire alarm engineering, and further work is ongoing to develop revised charging processes that build on the success already achieved in

reducing AFA numbers and address challenges in current processes, and it is expected this will be developed further as part of LSP6. It is anticipated that the review will lead to some types of charges not now being pursued and a provision has been established to meet any potential costs. A pressure of £200k has also been added to the budget for 2016/17 to better reflect the level of actual charges in the last two years, and this will be further reviewed as the new charging regime develops.

- q) The Fire Brigade Union has notified LFEPA, along with 49 other Fire and Rescue Authorities, of a potential discrimination claim in connection with the transitional arrangements applicable to the 2015 Firefighters Pension Scheme, as explained in FEP2506. That report recommends that the Resources Committee endorse the decision to set up a joint representation and cost sharing arrangement amongst Fire and Rescue Authorities, in order to co-ordinate the employer defence. Any increase in the numbers receiving protection under the transitional arrangements may lead to a budget pressure. Any changes may also have an impact on other public sector pensions, including the LGPS.
- r) LFEPA currently budgets for total income from Automatic Fire Alarm and Shut in Lift charging of £1.1m. As organisations improve their processes to avoid incurring this charge, this income may decrease in future years.
- s) The current contract for the managed service provision of Personal Protective Equipment with Bristol Uniforms Ltd has been extended until 15 October 2018 (FEP2381). The Authority is currently participating in a collaborative procurement with Kent Fire and Rescue Service in order to deliver a new PPE contract once the existing contract expires. The current planning assumption is that the new contract will be within the existing budget, but there is a risk that costs may be higher, particularly if the arrangement is with a new supplier and London is an early adopter.