

Report title

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## **Budget Update**

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Meeting	Date
Resources Committee	12 January 2018
Authority	24 January 2018
Report by	Document Number
Director of Finance and Contractual Services	FEP 2809

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### **Summary**

The Mayor has issued his consultation budget for 2018/19. The budget proposals for LFEPA include additional funding to that set out in the Budget Update report (FEP2790) presented to the Authority on 23 November 2017. This report sets out the impact of that change and the key issues for LFEPA from the consultation and provides an update to the medium term forecast and budget proposals for next year. The final budget for 2018/19 will be presented to Authority for approval in March 2018.

### **Recommendation**

That the report be noted.

### **Background**

1. The Mayor's budget guidance for 2018/19 for the Greater London Authority and its functional bodies was issued on 13 June 2017 and was reported to Resources Committee on 22 June 2017 (FEP2733). In his guidance the Mayor proposed funding for LFEPA of £382.4m for 2018/19 and indicative allocations in each of 2019/20, 2020/21 and 2021/22 also of £382.4m. 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 23 November 2016 (FEP2790).
2. The November Budget Update report stated that funding from the GLA of £382.4m in each of the next four financial years would result in a saving requirement for LFEPA of £21.5m by 2021/22. The report then identified and presented new savings over that period of £2.5m and new growth of £0.9m. This left a savings gap for LFEPA of £19.9m over those years. However, as a result of the timing of the budget pressures and proposals for savings and growth, there was a forecast budget surplus in 2018/19 with a budget gap in the later years. That planned surplus in 2018/19 was to be added to the existing funds in the Budget Flexibility reserve and used to smooth the impact of the saving requirement in future years. Table 1 below summarises the budget position as reported in November.

Table 1: Budget Summary Position Reported in November Budget Update (FEP2790)

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
<b>Cumulative Budget Gap before Saving and Growth Proposals</b>	<b>(0.5)</b>	<b>15.6</b>	<b>17.1</b>	<b>21.5</b>
Saving Proposals	(1.8)	(1.9)	(2.0)	(2.5)
Growth Proposals	0.9	0.9	0.9	0.9
<b>Revised Budget Gap / (Surplus)</b>	<b>(1.3)</b>	<b>14.7</b>	<b>16.1</b>	<b>19.9</b>
(Draw)/ Payment on Budget Flexibility Reserve	1.3	(12.8)	0.0	0.0
<b>Budget Gap after use of Budget Flexibility Reserve</b>	<b>0.0</b>	<b>1.9</b>	<b>16.1</b>	<b>19.9</b>

Note: The revised budget gap figures in 2020/21 and 2021/22 assume that no additional savings are made to close the budget gaps in the previous years.

### Provisional Funding Settlement

3. On 19 December 2017 the Secretary of State for Communities and Local Government (DCLG) gave his statement on the local government finance settlement. In his statement the Secretary of State confirmed the proposed funding figures for 2018/19, the third year of the four year settlement. As a result the settlement is as expected.
4. On council tax a major change was announced to allow council tax increases of up to 2.99% in 2018/19 and 2019/20, before a local referendum would need to be called. It was also announced that police precepts could be increased by up to £12.
5. The Communities Secretary also announced the Government's aim to increase the local share of business rates retention to 75% in 2020/21. This will be through incorporating existing grants into business rate retention including the Revenue Support Grant, and the Public Health Grant. London is currently part of a pilot which will be based on a 100% local share of business rates.

### The Mayor's Draft GLA Group Budget

6. The Mayor published his Consultation Budget on the GLA Group Budget Proposals and Precepts for 2018/19 on 22 December 2017. This can be found on the GLA website at:

<https://www.london.gov.uk/sites/default/files/mayorsconsultationbudget2018-19final.pdf>

7. LFEPA approved its 2018/19 budget submission to the Mayor on 23 November 2017. That submission included funding for LFEPA of £382.4m, departmental savings of £2.9m and growth of £0.9m for the 2018/19 financial year. The submission also included a planned capital spend of £41.7m in 2018/19. The Mayor's Consultation Budget reflects expenditure plans set out in that submission, but includes a higher level of proposed funding for LFEPA over the next four years.
8. Under Key Deliverables the report includes the item to "ensure that the first and second fire engines to arrive quickly at emergency incidents, within six and eight minutes respectively, on average across London". This is in line with the key headline targets in LFEPA's London Safety Plan.

9. On Council Tax the Mayor has proposed to increase the Band D precept paid by residents of the 32 London Boroughs by £14.20 in 2018/19 to £294.22, an increase of 5.1% overall. This change includes an increase of £12 to the policing element of the precept or 5.8%, which is the maximum allowed by the Home Secretary. The Mayor is also proposing to increase the non policing precept by the maximum permitted, without a referendum, of £2.20 or 2.99%, and to share the proceeds between MOPAC and LFEPA. He has done this by a reallocation from LFEPA's retained business rates funding to MOPAC. The Mayor has proposed that LFEPA's Council Tax precept increases to £147.5m in 2018/19, which equates to £50.21 for a Band D property. This is an increase of £4.20 from the Band D rate of £48.01 in 2017/18. . The Mayor is then proposing to further increase the council tax by 1.99% from 2019/19 to 2021/22. The revised funding amounts for each year are set out in Table 2 below

Table 2: Funding from the Mayor

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Previous Retained Business Rates	244.2	244.2	244.2	244.2
Revised Retained Business Rates	239.3	236.4	233.5	230.4
Change	(4.9)	(7.8)	(10.7)	(13.8)
Previous Council Tax	138.2	138.2	138.2	138.2
Revised Council Tax	147.5	154.9	162.7	170.9
Change	9.3	16.7	24.5	32.7
Previous Funding from Mayor	382.4	382.4	382.4	382.4
Total Funding from Mayor	386.8	391.3	396.2	401.3
<b>Cumulative change in Funding</b>	<b>4.4</b>	<b>8.9</b>	<b>13.8</b>	<b>18.9</b>

10. This table shows that this additional funding will reduce LFEPA's structural budget gap from £19.9m over the next four years to £1m. The remaining gap and any shortfall in each year due to the timing of the additional funding and existing pressures can then be met by the balance on the Budget Flexibility Reserve. This means that LFEPA would have a forecast balanced budget in each of the next four financial years, and a forecast balance on the Budget Flexibility Reserve of £8m at the end of the four year planning period. There still however remains more for the Brigade to do to manage the risks and uncertainties outlined in Appendix 2, which of course include the ongoing national pay negotiations. Officers will continue to look for efficiencies and better ways of working as part of the annual budget process.
11. 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 2018.
12. As the Mayor's expenditure proposals were in line with LFEPA's budget submission, and the Mayors funding proposals exceed previous expectations, it is not planned to respond to this consultation. 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 20 February 2018.

13. The Consultation Budget notes that the Government has approved a 100 per cent business rates retention pilot involving the GLA and the 33 London billing authorities for the 2018/19 financial year. This pilot will allow London government to share 100 per cent of the additional business rates growth generated through the pool. This offers a significant financial benefit to the capital's local authorities. This additional funding will be applied to fund strategic investment projects.
14. Finally it should be noted that the report states that there remains a risk of a significant degree of potential variation between the forecasts set out in the Mayor's consultation budget and the final budget confirmed in February 2018. This is because while the GLA's higher share of council tax gives an opportunity to generate additional revenues it also exposes the GLA to a higher degree of risk due to the ongoing uncertainties around business rates appeals.

### Medium Term Forecast

15. The Authority's medium term forecast (MTF) has been reviewed since it was last reported in November 2017 (FEP2790) and is included at Appendix 1. A list of the changes proposed to the medium term forecast is provided in Table 3 below and described in more detail in the paragraphs below. This includes offsetting changes that have no overall impact on the budget position in 2018/19 and a budget saving of £0.4m over the four year period.

Table 3: Changes to the Medium Term Forecast

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Integrated Equipment and Logistics	0.4	(0.1)	(0.1)	0.0	<b>0.2</b>
Fleet Insurance	0.2	0.0	0.0	0.0	<b>0.2</b>
Recruitment and Assessment Centre	0.1	0.0	0.0	0.0	<b>0.1</b>
Childcare	0.05	0.0	0.0	0.0	<b>0.05</b>
MFB Act Income	(0.8)	(0.02)	(0.04)	(0.07)	<b>(0.9)</b>
<b>Total Changes to the Medium Term</b>	<b>0.0</b>	<b>(0.2)</b>	<b>(0.04)</b>	<b>(0.07)</b>	<b>(0.4)</b>

### Integrated Equipment and Logistics Project (IELP)

16. The IELP report on part 2 of today's agenda (FEP 2812X) notes the budget adjustments required as a result of securing the new premises for PEG and the BDC. This is within the benchmark financial estimates agreed in July (FEP 2757X).

### Fleet Insurance

17. As noted in the Financial Position report as at the end of September (FEP2792), there is a forecast overspend on fleet insurance of £219k due to increases in insurance premium tax and as a result of the change in the discount rate applied to future losses. Although the Government has stated that it will further review the discount rate, no timescale has been set for this, therefore these additional pressures are forecast into future financial years.

## Recruitment and Assessment Centre

18. This pressure reflects the increase in trainee firefighter recruitment with £54k for advertising and £18k in lost income as it is no longer possible to rent out the Hammersmith Assessment centre due to brigade requirements. These additional pressures are forecast into future financial years.

## Childcare

19. The Brigade operates a scheme to assist eligible employees with a contribution to their childcare costs. This is forecast to overspend by £39k in 2017/18. The budget is expected to be put under further pressure as a result of the increased recruitment and the use of this benefit to help in attracting candidates with young families.

## **Saving and Growth Proposals**

20. The savings and growth proposals included in the November Budget Update report (FEP2790) have also been kept under review and Table 4 sets out the results of that review. These changes result in no overall change in LFEPA's saving requirement over the next four years, but with some minor changes to the savings required in each year.

Table 4: Changes to Saving and Growth Proposals

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Occupational Health Contract	(0.04)	0.05	0.05	0.05	<b>0.1</b>
Telecommunications Income	(0.1)	0.0	0.0	0.0	<b>(0.1)</b>
Rates Rebate	0.5	(0.5)	0.0	0.0	<b>0.0</b>
<b>Changes to Saving and Growth Proposals</b>	<b>0.3</b>	<b>(0.4)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>

21. The changes over the next four years set out in Table 4 are described in more detail in the paragraphs below.

## Occupational Health Contract

22. The results of the retender of this contract have now been agreed by Resources Committee (FEP 2794), with the impact of an additional saving in 2018/19 and then a reduction to the forecast saving in subsequent years.

## Telecommunications Income

23. This additional saving on telecommunications reflects additional income received as part of a recent agreement.

## Rates Rebate

24. This removal of a one off saving of £0.5m in 2018/19 reflects that it is now expected to be achieved earlier in 2017/18, and as a result will be reported as part of the quarterly financial

position reports. It is also now likely that the rebate will be substantially above the £0.5m originally proposed.

#### Four Year Budget Summary

25. Table 5 below sets out a summary of the impact on the budget position from the changes to the Medium Term Forecast and Saving and Growth proposals discussed in the above two sections. This table is presented on a cumulative basis.

Table 5: Summary of the Budget Position

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
<b>Cumulative Budget Gap / (surplus) – before draw on budget flexibility reserve</b>	<b>(1.3)</b>	<b>14.7</b>	<b>16.1</b>	<b>19.9</b>
Additional funding from the Mayor	(4.4)	(8.9)	(13.8)	(18.9)
Changes to the Medium Term Forecast	0.0	(0.2)	(0.3)	(0.4)
Changes to Saving and Growth proposals	0.3	(0.1)	(0.1)	(0.0)
<b>Revised Budget Gap / (Surplus)</b>	<b>(5.4)</b>	<b>5.5</b>	<b>1.9</b>	<b>0.6</b>
Payment into / (Draw from) Budget Flexibility Reserve	5.4	(5.5)	(1.9)	(0.6)
Budget Flexibility Reserve Balance	16.9	11.4	9.4	8.8

26. The above table demonstrates that the four year budget gap has reduced from £19.9m to £0.6m before use of reserves, and after the application of reserves that LFEPA would have a balanced budget in each of the next four financial years. The table also shows that the budget surplus of £5.4m in 2018/19 will be transferred into a Budget Flexibility Reserve. That reserve will then be used to reduce the budget gap in the subsequent financial years.

#### Financial Position Update

27. The financial position report as at the end of September 2017 (FEP2792) forecast an outturn underspend of £5.3m for the 2017/18 financial year. This position is under continual review and a further update on the forecast outturn position, as at the end of December 2017, will be provided to the Resources Committee in March.

#### Reserves

28. The latest position on reserves is set out in Tables 6 and 7 below. The first table shows the forecast outturn position for 2017/18, as at the end of September 2017. The second table then shows the forecast reserve usage from 2018/19 to 2021/22.

Table 6: LFEPA Reserves for the 2017/18 Financial Year

£000s	Opening Balance at 01/04/17	Approved Movements	Underspend/ (Overspend) in 2017/18	Use of Reserves in 2017/18	New Payments/ Transfers	Anticipated Balance at 31/03/18
Additional Resilience Requirements	0	6,757		(1,034)		5,723
Community Safety Investment Fund	602			(602)		0

£000s	Opening Balance at 01/04/17	Approved Movements	Underspend/ (Overspend) in 2017/18	Use of Reserves in 2017/18	New Payments/ Transfers	Anticipated Balance at 31/03/18
Compensation	1,000					1,000
Emergency Services Mobile Communication Programme	356			(200)		155
Emergency Medical Response	0				830	830
Firefighters' Pension	1,172					1,172
Fire Safety and Youth Engagement	338			(200)		138
Hazardous Material Protection	203			(203)		0
Hydrants	462					462
ICT Development Reserve	668			(268)		400
London Resilience	1,281					1,281
LSP2017 Implementation	5,000			(409)		4,591
New Governance Arrangements	100				200	300
Pension Early Release Costs	400					400
Property PFI	1,912					1,912
Recruitment/ Outreach	600			(250)		350
Review of Property Services	85	(85)				0
Sustainability	235					235
Vehicle & Equipment Reserve	1,163					1,163
Budget Flexibility	0	4,953		6,160	356	11,469
General	21,489	(11,625)	5,285		(1,386)	13,763
<b>Total</b>	<b>37,065</b>	<b>0</b>	<b>5,285</b>	<b>2,995</b>	<b>0</b>	<b>45,344</b>

29. Table 7 below sets out the proposed reserve position for each of the next four financial years to 2021/22. This table shows the revised payments and use of the budget flexibility reserve as described earlier in the report.

Table 7: Proposed Reserves Position for the 2018/19 to 2021/22 Financial Years

£000s	Anticipated Balance at 01/04/18	Use of Reserves in 2018/19	Use of Reserves in 2019/20	Use of Reserves in 2020/21	Use of Reserves in 2021/22	Anticipated Balance at 31/03/22
Additional Resilience Requirements	5,723					5,723
Community Safety Investment Fund	0					0
Compensation	1,000					1,000
Emergency Services Mobile Communication Programme	155	(57)	(99)			0
Emergency Medical Response	830	(147)	(147)			536

£000s	Anticipated Balance at 01/04/18	Use of Reserves in 2018/19	Use of Reserves in 2019/20	Use of Reserves in 2020/21	Use of Reserves in 2021/22	Anticipated Balance at 31/03/22
Firefighters' Pension	1,172					1,172
Fire Safety and Youth Engagement	138		(138)			0
Hazardous Material Protection	0					0
Hydrants	462					462
ICT Development Reserve	400	(100)	(100)	(100)	(100)	0
London Resilience	1,281					1,281
LSP2017 Implementation	4,591	(516)	(146)	(146)	(49)	3,734
New Governance Arrangements	300	(300)				0
Pension Early Release Costs	400					400
Property PFI	1,912					1,912
Recruitment/ Outreach	350	(350)				0
Review of Property Services	0					0
Sustainability	235	(235)				0
Vehicle & Equipment Reserve	1,163	(1,091)	(72)			0
Budget Flexibility	11,469	5,427	(5,530)	(1,925)	(609)	8,832
General	13,763					13,763
<b>Total</b>	<b>45,344</b>	<b>2,631</b>	<b>(6,232)</b>	<b>(2,171)</b>	<b>(758)</b>	<b>38,815</b>

### Risks and Opportunities

30. 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. There are a number of minor changes to the risks as included in the report in the November Budget Update report (FEP2790). The only material change is the removal of the risk relating to the Integrated Equipment and Logistics Project (IELP) as a report (FEP2812X) setting out the position on this is also on today's agenda, and therefore the budget for this has now been included in this report.

### Capital Programme and Financing Costs

31. The November Budget Update report included a draft four year capital programme with a capital budget in 2017/18 of £18.0m, £41.7m in 2018/19, £41.2m in 2019/20, £22.5m in 2020/21 and £21.4m in 2021/22. Since this time there has been the following changes

- An increase of £550k in the budget for the new PEG/BDC development as detailed in the IELP report (FEP2812X) also on today's agenda.

32. The revised draft four year capital budget is now £18.2m in 2017/18, £41.8m in 2018/19, £41.5m in 2019/20, £20.9m in 2020/21 and £23.1m in 2021/22. Detailed as follows;-



Budget Year	2017-18	2018-19	2019-20	2020-21	2021-22
ICT	1,375	3,525	600	2,360	2,000
Fleet	12,904	14,773	16,595	10,488	11,680
Property	6,458	5,880	12,909	6,297	9,410
LSP5 Funded Projects	4,106	17,574	11,348	1,795	0
Contingency	(6,686)	0	0	0	0
<b>Revised Capital Programme</b>	<b>18,157</b>	<b>41,752</b>	<b>41,452</b>	<b>20,940</b>	<b>23,090</b>

33. The capital financing costs are within the debt charges budgets detailed in this report.

### **Budget Process Timetable**

34. Table 8 below sets out the timetable for the remainder of the budget process.

Table 8: Budget Process Timetable

12 and 24 January 2018	Resources Committee and Authority receive an update on the budget position.
25 January 2018	London Assembly to consider draft consolidated budget.
22 February 2018	London Assembly to consider final draft consolidated budget.
28 February 2018	Statutory deadline by which the GLA precept must be approved and the Mayor's statutory Capital Spending Plan published.
16 and 29 March 2018	Resources Committee and Authority to agree the final LFEP Budget 2018/19, within the overall funding limit set by the Mayor.

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

35. The Head of Legal and Democratic Services has reviewed this report and has no comments.

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

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

### **Sustainable development implications**

37. There are no sustainable development implications.

### **Staff Side consultations undertaken**

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

## **Equalities implications**

39. 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 November Budget Update report (FEP2790).

## **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 – FEP2790 2. Budget Update – FEP2773 3. Budget Update – Additional Resourcing Requirements – FEP2763 4. The Mayor's Budget Guidance – FEP2733 5. 2017/18 Budget Report – FEP2708	
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## Appendix 1 – Medium Term Forecast

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
	<b>Previous Years Net Expenditure</b>	<b>391,124</b>	<b>396,416</b>	<b>409,780</b>	<b>410,619</b>	
<b>1</b>	<b>Central Contingency for Inflation</b>	<b>7,376</b>	<b>4,836</b>	<b>4,196</b>	<b>3,934</b>	This includes both staff and non staff inflation. Staff costs are based on pay awards of 2% in 2017/18 for operational and control staff then 1% annually in all subsequent years. FRS pay awards are based on a 1% award in all years.
	<b>Other budget pressures</b>					
2	Pensions Auto Enrolment	(274)	481	160	0	There are potential additional employers pensions contributions from staff entering the pension schemes, as part of the governments auto enrolment scheme. This assumes that 40% of staff enrolled into the scheme stay in the scheme.
3	Firefighters Pension Scheme - Retained Firefighters	0	910	0	0	This is the provisional cost of retained firefighters becoming eligible to join the firefighters pension scheme, and buyback past service, and represents the national impact on employers on-costs of a 0.5% increase in employer contribution rates.
4	Funding Reduction Following Implementation of the 2015 Firefighter's Pension Scheme	0	2,843	0	0	As set out in the March 2016/17 Budget report, the implementation of the 2015 Firefighter Pension Scheme in 2015/16 resulted in a budget reduction of £2.8m. It is now expected that this surplus will be removed from LFEPA's funding when the results of the 2016 actuarial pension revaluation are implemented in 2019/20.
5	Changes to Staff on Development Rates of Pay	(1,402)	(1,233)	(394)	0	This reduction reflects the anticipated change in the profile of the operational workforce, which will shift to include more less experienced staff on lower pay rates, following increased recruitment levels.
6	Local Government Pensions Scheme - Past Service Deficit	206	215	224	0	This is the forecast 'inflationary' increase in the cost of the past service deficit payments on the

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						Local Government Pension Scheme.
7	Local Government Pensions Scheme - 2017 Valuation	(108)	(115)	(122)	0	Savings following the valuation on LFEPA's LGPS pension fund.
8	Firefighters' Injury Pensions	(44)	279	245	250	This relates to inflation increases on injury pensions and assumptions around numbers in receipts of injury pensions.
9	Command Units	465	0	0	0	The reduction of Command Units has been postponed due to the increase in terrorist incidents world-wide since the original decision to make a saving was taken, and concerns about resilience if the proposal were to be implemented. A further review will be carried out to explore any changes to the delivery model.
10	Operational Staff Vacancy Margin	(1,390)	3,724	0	0	This savings is achievable based on operational staff numbers expected given current recruitment and leaver forecasts.
11	Operational Pension Scheme Changes	(247)	(228)	(228)	0	This saving is achievable based on forecast numbers of staff in the current schemes, and the reduced costs as staff leave the older schemes and recruits join the new scheme.
12	Trainee Firefighter Recruitment	412	0	0	0	These costs reflect the anticipated salary cost of trainee firefighters in each year.
13	MTFA Requirements	354	0	0	0	This pressure reflects additional staff related and equipment costs for the delivery of the MTFA capability.
14	Additional Resilience Requirements	4,356	1,851	(641)	0	Additional items included in FEP2763
	<b>STAFF RELATED BUDGETS</b>					
15	Apprenticeship Levy	0	(1,115)	0	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. This saving reflects the use of the levy to train additional apprentices.
16	Recruitment and Assessment Centre	72	0	0	0	This pressure reflects the increase in trainee firefighter recruitment

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						with £54k for advertising and £18k in lost income as it is no longer possible to rent out the Hammersmith Assessment centre due to Brigade requirements.
17	Childcare Allowance	45	0	0	0	The Brigade operates a scheme to assist employees with a contribution to their childcare costs. The Childcare allowance is available to staff up to the role/grade of crew manager, FRS C and control room officers. Individuals can claim up to £65 per month towards the actual cost of either an Ofsted registered nursery or child minder for children up to the age of five years. Spend in recent years has been over budget. As the Brigade is actively recruiting to fill 400 firefighter vacancies by April 2019, help with childcare costs is a benefit which will attract candidates with young families so costs could increase further as a result.
18	Additional Payments into the Local Government Pension Scheme (LGPS) Fund and resulting on-going savings	108	115	(1,481)	0	In light of the impact of the actuarial revaluation of the LGPS, it is proposed that the new savings generated are re-invested back into the scheme in order to reduce the deficit further. These payments would then result in additional savings following the outcome of the next revaluation in 2020/21. If the savings are used in this way they would result in a £3.1m additional payment against the deficit by 2019/20, with a forecast saving of £350k from 2020/21.
19	Firefighter Pension Scheme - Change to Discount Rate	0	5,100	0	0	In his March 2016 Budget Announcement the Chancellor stated that unfunded public sector employer pension contributions will increase from 2019 by an estimated £2bn per annum. This was as a result of the regular revaluation of the discount rate. This policy change will therefore impact directly on Fire Authority Budgets from 2019/20. The pressure of £5.1m has been

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						calculated based on Firefighter pension receiving a pro-rata increase at the same rate as the other unfunded schemes.
20	Flooding Response Capability	(120)	0	0	0	The 2017/18 budget included the purchase of flood response equipment to widen LFB's flood response capability. This reduction is removing that one-off funding.
21	Training Contract	(3,280)	(1,423)	(297)	245	As stated in the Future Options for Training report (FEP1829X) the fixed fee element of the Training Contract will reduce after the first six years of the contract.
22	Driver Training	118	0	0	0	This budget will pay for a full cycle of refresher driver training and reassessment within four years for the LFB's 2,967 drivers to ensure that LFB can comply with section 19 of Road Safety Act 2006, which is due to be brought into force after a delay to allow emergency services time to ensure compliance.
	<b>PREMISES BUDGETS</b>					
23	Business Rates	(232)	(162)	(49)	59	The new rateable values notified by the Valuation Office after the 2017 Revaluation were below the forecasts provided by the Estates Management Consultant used to set the future year budget requirement during the 17/18 budget process. The new rate demands received for 17/18 match the revised forecast provided by the consultant for this year and therefore the reductions forecast for future years should be accurate. The forecast are based on 17/18 approved budget of £9.053m.
24	Energy Costs	51	52	54	54	This increase is based on RPI.
25	New Technical Logistics Centre	407	(129)	(100)0	0	The figures shown are based on the rates, rents and other running costs required to run the two logistics centres while the new Technical Logistics Centre is set up. The increase in the on-going cost is largely due to higher rent for the new centre. This cost is considered

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						to be reasonable by the Authority's agents bearing in mind current market conditions and the type of lease agreed.
26	Property PFI Unitary Payment	40	50	50	50	The figures shown here reflect the payments required for the Property PFI fire stations. From 2017/18 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 2017/18.
27	New Premises contracts (hard and soft FM services)	372	387	149	158	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.
28	Proposed third training centre	0	300	300	0	The report on the Third Training Centre (FEP 2646) for the project now renamed "LFB Training Centre Croydon" states that there would be an ongoing revenue pressure of £0.6m in running costs and £0.2m in lost income. The financial impact of the running costs, set out here, is based on occupation by October 2019.
	<b>TRANSPORT BUDGETS</b>					
29	Reserve Vehicle for BDC	6	0	0	0	A vehicle to cover planned and unplanned maintenance periods for the BDC LRL (London Resilience Lorry) is required. This reflects the slot price or potential hire charge
30	Fleet Insurance	242	0	0	0	Recent developments in the insurance industry have driven up the cost of premiums. This includes an increase in insurance premium tax: in 2015 the rate was 6% and in 2017 it is now 12% and an increase in the rate per vehicle, from £900 in 2015 up to £1350 in 2017. The rate has increased considerably this year because the Discount Rate applied to future losses in personal injury

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						claims was amended by the Government in March 2017 from 2.5% to minus 0.75%. The effect of the change is that multipliers applied to future losses will increase significantly and a Claimant's future losses will increase as a result. This has already been reported as an overspend in the 2017/18 Financial Position reports and will continue to be reviewed as part of the normal monitoring process.
31	EFCC contract First Aid Recertification training	48	(126)	0	0	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 £126k has been allocated across these two periods, and reversed in 2019/20.
	<b>SUPPLIES AND SERVICES BUDGETS</b>					
32	ICT Equipment Replacement Holiday	278	(278)	0	0	Moving to Union Street allowed a move from a rolling programme of replacements to a more defined cycle as the equipment has a defined life. This represents the periodic re-instatement of that budget to update the equipment at Union Street, This would include wireless access points, physical servers and some desktop equipment.
33	Business Intelligence platform	0	231	0	0	The Resources Committee agreed capital funding for this project in March 2016 (FEP 2578). There are associated revenue cost to cover the licensing of the products to be deployed. To achieve maximum benefit it is likely that the licensing will need to enable full interaction with the product which is licensed on an individual basis. The figures included here represent the middle ground in terms of deployment options. Discussions are underway with Microsoft regarding an adaptation of the licensing model to reflect the watch based nature of



	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						LFB. This does not yet take into account any savings that may be realised from this project, which could help offset this additional cost. The overall position will be kept under review.
34	Skype for Business	24	0	0	0	This is to fund the scope of the Skype roll out beyond the staff that were initially to be provided with this service. This has increased the overall costs of the solution as this is a subscription based product.
35	Resilient circuit upgrade	36	0	0	0	It has been necessary to upgrade the circuit that connects Stratford to Union Street as Union Street is no longer a solely administrative building from an organisational resilience perspective.
36	Increase in Bandwidth to support Wi-Fi use.	30	0	0	0	Access to Wi-Fi is a priority to support a variety of more agile working approaches. In order to facilitate this the capacity of the system needs to be increased.
37	e-Recruitment	0	20	0	0	This is to fund the additional cost of the replacement e-Recruitment system (support for the existing system has been withdrawn). The current budget for the existing solution is £24.5k whereas the annual support fees for the new solution is £44k, a shortfall of £19.5kpa.
38	Health and safety System	0	36	0	0	This is to extend reporting facilities for the new hosted system to all users. The current budget for the existing solution is £12k whereas the annual support fees for the new solution is £48.5k, a shortfall of £36.5kpa.
39	MDT Support following removal of Airwave support	112	23	23	0	Whilst the removal of this service from the Airwave was anticipated it was envisaged that this would result in a cost saving against the contract which could be re purposed to support the new MDTs. However, the re negotiated Airwave contract has increased overall costs whilst removing this element of the service - this increase has been included in

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						the inflationary pressures return. As a consequence there is now an additional requirement for the ongoing support of the new devices deployed to the fleet which has been estimated based on the failure rate of the existing MDTs flexed to reflect the changes in the nature of their use and the expansion of the provision to include tablet devices and satnavs. The first year provision has been reduced due to part year implementation. The increase over time reflects the increase anticipated to reflect the failures due to age and use of the equipment.
40	Extension and Re-procurement of the Personal Protective Equipment (PPE) Contract (FEP2381)	270	370	0	0	By extending the current contract with Bristol Uniforms by an additional two years from October 2016, the Authority generated one-off savings of £640k in 2017/18 and £370k in 2018/19. The adjustment shown reduces the saving in 2018/19 and removes it from the budget in 2019/20.
41	Replacement of Extended Duration Breathing Apparatus (EDBA) cylinders	(87)	(4)	26	0	This is the reversal of one off spend in 2017/18 on the progressive replacement of EDBA cylinders as they reach the end of their maximum design life, to maintain the authorities operational capacity.
42	Cold Cutting Technological Solution	(100)	0	0	0	This is the reversal of one off spend in 2017/18 to purchase a cold cutting technological solution to improve firefighter safety in dangerous conditions.
43	National Operational Guidance (NOG) Integration	(850)	(56)	0	0	This is the reversal of one off funding of £0.9m in 2017/18, for the implementation of the NOG project for LFEPA. The majority of the budget is removed in 2018/19, with the balance in 2019/20.
	<b>CAPITAL FINANCING BUDGETS</b>					
44	Borrowing Costs	262	613	909	1,061	This estimate is based on the borrowing costs required for the current capital programme. It is subject to review, both in respect of

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
						the forecast level of capital receipts and the actual expenditure requirements as individual projects are progressed.
	<b>Total other budget pressures</b>	<b>178</b>	<b>12,731</b>	<b>(1,173)</b>	<b>1,877</b>	
	<b>INCOME BUDGETS</b>					
45	Insurance Company Income	(1,710)	(970)	(1,020)	(1,070)	These increases assume growth of 3.5% per annum going forward. This is in addition to savings that were agreed as part of the 2017/18 budget setting process.
46	Mutual assistance	205	0	0	0	LFB has moved from being a net provider of appliances to county Brigades to a net receiver of appliances. As a consequence the income budget of £178k this has moved to expenditure of £27k resulting in a requirement for £205k.
47	Interest Receivable	195	80	0	0	This forecast is based on the interest rates received on our cash deposits and reflects a reduction in our forecast cash balances and thus the interest earned .
48	Reduction in Shut in Lift charging	10	10	10	10	This adjustment reflects observed decreases in income and as the aim of this charge, to reduce demand, is realised.
	<b>Total income</b>	<b>(1,300)</b>	<b>(880)</b>	<b>(1,010)</b>	<b>(1,060)</b>	
	<b>Total Unavoidable Pressures and Savings identified</b>	<b>6,254</b>	<b>16,687</b>	<b>2,013</b>	<b>4,751</b>	
49	Change in Expenditure funded from Specific Grants and Reserves	187	(2,093)	(456)	(98)	
	<b>Revised Net Revenue Expenditure</b>	<b>397,566</b>	<b>411,010</b>	<b>411,338</b>	<b>415,273</b>	
50	2017/18 Savings and Growth Proposals (FEP2708)	(569)	(690)	(690)	(519)	

	Description	2018/19	2019/20	2020/21	2021/22	Comments
		£k	£k	£k	£k	
51	2018/19 Savings Proposals	(1,525)	(515)	(29)	(448)	
52	2018/19 Growth Proposals	945	(25)	0	0	
53	Budget Surplus/ (Deficit)	0	0	0	0	
	<b>Proposed Net Revenue Expenditure</b>	<b>396,416</b>	<b>409,780</b>	<b>410,619</b>	<b>414,305</b>	
	Use of Budget Flexibility Reserve	5,427	(5,530)	(1,925)	(609)	
	Use of Earmarked Reserves	(2,795)	(702)	(246)	(149)	
	<b>Financing Requirement</b>	<b>399,048</b>	<b>403,548</b>	<b>408,448</b>	<b>413,548</b>	
	Specific Grants	12,248	12,248	12,248	12,248	
	<b>Financing Requirement after use of Specific Grants</b>	<b>386,800</b>	<b>391,300</b>	<b>396,200</b>	<b>401,300</b>	
	Retained Business Rates	239,300	236,400	233,500	230,400	
	LFEPA Element of Precept	147,500	154,900	162,700	170,900	

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

### 1. Firefighter and Local Government Pension Schemes

- 1.1. The results of the 2016 valuation of the firefighters pension scheme, which are to be implemented with new **pension contribution rates** from 2019/20, are not yet available. There are a number of assumptions in the budget plans for changes to costs to be implemented through the valuation, but the Authority is only able to provide estimates of these at this time. These estimates in particular relate to changes to the discount rate for public sector pensions, the inclusion of retained firefighters in the pension scheme (with the opportunity to buyback past service), the impact of the contributions holiday for staff reaching 30 years (maximum) service before age 50 (minimum retirement age), and the expected reduction in RSG as a result of reductions in employer contribution rates from the introduction of the 2015 scheme.
- 1.2. 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. 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. Although the Employment Tribunal (ET) has determined that the transitional (protection) arrangements, which were designed to protect those within ten years of normal pension age are objectively justified and do not amount to unlawful discrimination, this risk remains as the FBU have challenged the ruling.
- 1.3. The Authority's next stage of **pensions auto enrolment** implementation is set for June 2019 when staff that have opted out will be enrolled into a pension scheme. It is currently assumed that 40% of staff who are enrolled in this way will remain in the scheme, with additional employer pension contributions of £641k. Any variation to this forecast may have a budget impact for LFEPA.

### 2. London Pensions Fund Authority (LPFA) Pensions Administration

- 2.1. The London Pensions Fund Authority (LPFA) and Lancashire County Pension Fund have formed a partnership and from April 2016 have created a wholly owned company, **Local Pensions Partnership** (LPP), to manage pension fund investment activities (only on the Local Government Pension Scheme (LGPS)) and also to provide pensions administration services, including to third party clients on the LGPS and the Firefighters' Pension Scheme. On 16 September 2016 the Resources Committee agreed (FEP2644) that the Director of Finance and Contractual Services is to continue the current shared service arrangement with the LPFA for the administration of the Firefighters' Pension Scheme but with the LPFA then sub-contracting to the LPP. This allows for a trial period using the LPP services whilst officers consider market testing of the Firefighters' Pension Scheme administration to seek the best solution to the Authority's requirements going forward. This could lead to an increased cost to the service. The Authority currently pays the LPFA £272k pa under a shared service arrangement to provide administration services for the firefighter pension scheme.

### 3. Pay and Inflation

- 3.1. An **apprenticeship levy** was introduced from 6 April 2017 and is charged at 0.5% of payroll. A budget pressure was identified for this of £1.1m, and therefore treats this as an additional cost from the 2017/18 financial year. The value of the levy, topped up by a 10% government contribution, is added to an employer's digital account and is available to be used to pay for the costs of apprenticeship training. Officers are investigating how use is made of apprenticeship schemes, to potentially allow access to the funding available in the digital account. It is

currently forecast that that LFEPA will be able to apply £1.1m annually from the digital account from 2019/20, but the actual amount may be higher or lower.

- 3.2. The outcome of the **EU referendum** has led to some significant economic uncertainty. The impact of this is currently unclear, and so preparing forecasts for increases in general inflation remains difficult.
- 3.3. LFEPA has made a budget provision for a 2% basic **pay award** for operational and control staff and 1% for all other staff in 2017/18, and then 1% in subsequent years for all staff. Negotiations are ongoing on the national firefighters pay award for 2017, and there is increasing pressure on the public sector pay cap.
4. Capital Expenditure and Financing
  - 4.1. The capital budget is subject to change during the year. Initial project specification is key as it is important to keep variations to projects to a minimum, as change once a project has been agreed and commenced may result in additional costs. However even a well managed project 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.
  - 4.2. All capital projects will require **third party collaboration** to varying degrees over the project life. The programme depends heavily on external factors and therefore can be subject to variation with the potential for delays in project delivery and revised cash flow requirements. The capital programme is managed on a monthly basis and is reported quarterly to the CAPS group (Capital, Approval, Planning and Strategy Group, chaired by the Director of Finance & Contractual Services) where all changes to the programme are reviewed and substitution projects or re-financing proposals are assessed and agreed.
  - 4.3. The debt charges arising from the capital programme have been calculated using the current forecast Public Works Loans Board (PWLB) rates. No allowance has been made in the capital programme for potential future **capital grants or contributions** and LFEPA will bid for available capital resources as and when such opportunities arise.
  - 4.4. The Capital Programme for 2017/18 previously included a forecast capital receipt of £10m for the sale of **Clerkenwell Fire Station**. This receipt has now been deferred to 2018/19 and the future financing costs have been revised to reflect this change. If this property is not sold in 2018/19 this could result in an increased borrowing requirement and resulting capital financing costs estimated at £857k. This is based upon the current forecast capital programme and doesn't take account of any re-phasing or slippage that might occur.
  - 4.5. A capital receipt of £26.7m was previously included in the 2017/18 budget for the former **Southwark Fire Station**. This receipt has now been deferred to 2018/19 and the future financing costs have been revised to reflect this change. The sale is dependant on planning permission being received and accordingly, this receipt may slip into future years, which could result in further additional debt charges, depending on the future capital programme.
5. Property Services
  - 5.1. Of the 10 LSP5 sites, eight have been sold. It is not known exactly when the remaining sites will be disposed of and delays will result in additional **security costs** for those sites.
  - 5.2. The 2017/18 budget report (FEP2708) included material savings for **energy budgets**. This budget has underspent in recent years, in part because of the prudent assumptions used when calculating the budget requirement. These additional savings will therefore set the budget at a

less cautious level, and as a result this will increase the risk of overspends in subsequent years, for example because of a colder than average winter.

- 5.3. The cost of **replacement property contracts** are now likely to be above that previously forecast. The procurement approach for these contracts is currently being finalised and the budget will be updated once the prices are known.

## 6. Funding from the Mayor and Central Government

- 6.1. The report on the Mayor's Budget Guidance (FEP 2733), now updated for the Mayor's consultation budget 2018/19, explained that the Mayor set indicative funding allocations for LFEPA for planning purposes covering the next four financial years. However there is uncertainty about the level of funding for future years in part due to a number of risks on **retained business rates**.
- 6.2. The Medium Term Forecast in this report includes a pressure of £240k in 2017/18 based on a forecast reduction in LFEPA specific grant income for **Incident Response Unit funding**. Confirmation of this reduction is still awaited, and if it is not implemented then this will create a budget surplus for LFEPA.

## 7. Collaboration, New Initiatives and Service Improvements

- 7.1. It is intended to review the way **London resilience** (including MTFA) challenges are addressed within LFB. To provide safe systems of work and to address new/developing risks it is likely substantial costs will be required for personal protective equipment, other relevant resources and training. This roll out will be affected / influenced by the outcome of the national joint council negotiations which include MTFA.
- 7.2. **Co-responding** has previously been piloted in four London Boroughs by LFEPA. If co-responding is later re-introduced across London this may result in additional financial costs, if additional funding is not provided.
- 7.3. Any **collaboration with the London Ambulance Service** at the Authority's London Operations Centre would require works to the existing building. The cost of this is not currently included in LFEPA's medium term forecasts.
- 7.4. Discussions between officers and the FBU have now agreed a new watch structure in order to further improve the resilience of the Brigade by simplifying, yet strengthening, the **officer structure at stations** with the intention to reduce officer out duties and improve appliance availability. This will resolve some longstanding issues around appliance redeployment, address the issue of WMAs working alongside WMBs on the same watch and achieve some general efficiency improvements. This will ensure that watches are less reliant on staff from other stations to keep their appliances available for the shift through a more sequential use of acting up, out duties and redeployment of appliances. This would give a greater level of appliance availability throughout the shift, which when combined with the new approach to direct standbys, will maximise the resources we currently have. Work is now taking place to fully assess any implementation costs of the new structure.

## 8. Emergency Services Mobile Communications Programme (ESMCP)

- 8.1. DCLG will replace the existing **Airwave contracts**, which expire in the period up to 2020 as part of the ESMCP. There could be significant financial pressures to LFEPA under any new contract provision. The current contract is subsidised and DCLG may be unwilling to continue to subsidise any future system. The budget plans also include a saving of £519k in 2021/22 for disbanding the project team. It is now clear that the forecast dates for the programme will change, work is continuing within the Home Office to update both the project timeline and the

Full Business Case. It is currently expected that the revised timeline together with any impact on funding arrangements should be made known early in 2018. Once received the budget forecasts will be updated accordingly.

9. Contractual Pressures/ Risks

- 9.1. Significant demand continues to be placed on the **Information and Communications Technology Department** to meet new requirements and aid in the development of smarter systems for the Authority. This is at a time where resources are limited and as a result there is a risk that development of information technology solutions may be constrained.
- 9.2. The company that provided and supported the Authority's **Command Support Unit system** software has ceased trading. Whilst there is now a supplier in place supporting the system and interim arrangements have been agreed there is no formal arrangement yet in place to support the deployed version other than on a time and materials basis.

10. Changes to Income

- 10.1. **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.
- 10.2. The saving proposals for 2017/18 included material savings for income generated through the **MFB Act**. This budget has recovered more income than budgeted and caused an underspend in recent years, in part because of the prudent assumptions used when calculating the budget requirement. These additional savings will therefore set the budget at a less cautious level, and as a result this will increase the risk of overspends in subsequent years.