

Lancashire Combined Fire Authority

Resources Committee

Meeting to be held on Monday 29 June 2026

Financial Monitoring - Provisional Outturn 2025-26

(Appendix A - D refers)

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Executive Summary

This report presents the financial outturn position for 2025-26, and the impact of this on the general reserve. The revenue outturn position shows an underspend of (£0.268 million) after proposed transfers to earmarked reserves. The Capital outturn expenditure for the year is £6.151 million which is also in line with the previous forecast.

Recommendation

The Committee is asked to:

- Note the Revenue Budget provisional revenue outturn set out in paragraph 2.
- Note the Capital Budget provisional outturn set out in paragraph 12.
- Note and endorse the revised Capital Budget for 2025-26 set out in paragraph 12.
- Approve the transfer of 2025-26 slippage to the 2026-27 capital budget set out in paragraph 12.
- Approve the transfer to earmarked reserves set out in paragraph 11 and year end reserve levels.
- Note the actions to be taken to mitigate the 2026-27 inflationary pressures set out in paragraph 5.

1. This report presents the financial outturn position for 2025-26, and the impact of this on usable reserves. The draft 2025-26 financial statements have been prepared using this provisional information and presented to the External Auditors following the Audit Committee meeting.

Revenue Provisional Outturn

2. The annual budget for the year was set at £77.511 million. The provisional outturn position shows net expenditure of £77.243 million, giving a total underspend for the financial year of (£0.268 million). The detailed provisional revenue outturn is set out in Appendix A, the major variances of note shown separately in the table below:

Area £ million	Year to Date (under) or over	Reason
Service Delivery - Pay	0.352	The variance is due to a number of factors; the pay award of 3.2% from July 2025 is 0.2% above our budgeted assumptions, and higher than budgeted activity levels for on call staff.
Prevention and Protection - Pay	(0.411)	As previously reported to the Committee vacant posts have remained throughout the year until completion of the service review.

Area £ million	Year to Date (under) or over	Reason
Leadership and Development Centre – Non-Pay	(0.197)	The underspend mainly reflects lower spend on external training course providers than in previous years, particularly in quarter 4.
Digital Data and Technology (DDAT) - Non-Pay	(0.173)	Efficiencies were made across a number of equipment and communication budgets resulting in the underspend.
Non devolved financial management (DFM) - Insurance Liability	0.588	The net overspend mainly reflects one-off pension and liability costs in the year, partly offset by lower ill-health retirement costs and one-off income. Overall, these offsets reduced, but did not remove, the underlying pressure.

Table 1 – Major variances of note

Future Pressures

3. Although the 2026-27 budget and Medium Term Financial Strategy (MTFS) include prudent allowances for pay and price inflation (including 4% for pay in 2026-27 and 3.8% general inflation in 2026-27, reducing to 2% thereafter), the continued conflict risk in the Middle East increases the likelihood of inflation remaining higher for longer and becoming more volatile across key cost drivers, particularly energy and supply chain dependent goods and services. In-year indicators already show this volatility, with utility costs tracking materially above the planning assumption. The Authority has previously established a utility volatility reserve of £0.600 million to help manage short-term movements in energy costs above budget, alongside other in-year mitigations and monitoring. However, the most significant longer-term risk relates to pay: national pay negotiations for Green Book (from April 2026) and Grey Book (from July 2026) remain unresolved and there is a risk they settle above the budgeted assumption; each additional 1% adds around £0.600 million of in-year cost pressure (circa £0.500 million Grey Book and £0.100 million Green Book) and, because pay awards are cumulative, any above-assumption settlement creates an ongoing baseline pressure that is not fully offset by Consumer Price Index (CPI) linked income in later years and would therefore need to be funded through additional recurring savings or service redesign. An Inflation Sensitivity Assessment is provided at Appendix D.
4. The assessment concludes that, based on the credible sources reviewed, Scenario B (extended disruption) is the most consistent with current central expectations: this means an inflation shock is likely, that is material but time-limited (circa 12–18 months), with CPI peaking at a little over circa 3.5% around then end of 2026 before easing back towards the 2% target over time. By contrast, non-pay volatility (particularly utilities) is expected to be more manageable.
5. The specific actions to be taken include:
 - use of the £0.6 million utility volatility reserve to help manage short-term movements in energy costs above budget;
 - appropriate vacancy management as work progresses on the service review;
 - supporting cost saving initiatives including digital efficiencies and projects through the Modern Ways of Working Forum;

- active management of contract indexation, including checking, challenging and validating inflation-related uplifts where appropriate;
 - re-profiling discretionary non-pay spend where required to help contain in-year pressures;
 - enhanced financial monitoring and exception reporting where forecast pressures exceed agreed triggers; and
 - working through sector bodies and other channels to lobby Government for recognition of inflation pressures and any appropriate funding support.
6. At this stage, no budget adjustment is sought. The purpose of this section is to alert Members to the scale and nature of the potential inflation exposure, confirm the mitigations already in place, and explain how any material deterioration will be reported through normal financial monitoring.

Savings Targets

7. To deliver the £0.5 million savings required for 2025-26 the Dynamic Resource Management (DRM) policy came into effect on 1 July which provides steps which can be taken prior to using overtime to fill shortfalls and redistributing the crew from second pumps at two pump wholetime stations where there is adequate fire cover in the area.
8. The Productivity and Efficiency Plan for 2026-27 includes £0.569 million of savings delivered in 2025-26; the delivery of £0.5 million has been explained above, the balance relates to some smaller initiatives such as procurement savings. In addition, £1.078 million of non-recurring efficiency savings have been realised in 2025-26, these largely relate to procurement savings of £0.827 million, the most significant element being the savings realised on the purchase of new Breathing Apparatus sets, and various initiatives to reduce the capital requirement which are outlined in the Lancashire Combined Fire Authority Productivity and Efficiency Plan 2026-27.

General Reserve

9. The General Reserve exists to cover unforeseen risks and expenditure that may be incurred outside of planned budgets. In February 2026 the Authority approved the minimum level of General Reserve as advised by the Treasurer at £4 million.
10. Following the provisional outturn the level of the General Reserve at 31 March 2026 is £5.989 million as set out in the table below, this is above the £4 million minimum level of General Reserve set by the Authority in February 2026.

	£ million
Opening balance of LFRS general fund	(5.721)
Forecast revenue underspend	(0.268)
Forecast closing balance of general fund	(5.989)

Table 2 – level of general reserve

Earmarked Reserves

11. Earmarked reserves are all funds that have been identified for a specific purpose. Appendix B sets out the proposed transfers to earmarked reserves of £1.665 million, this includes one off grant monies received in advance. The balance of all the earmarked reserves is £29.012 million as at the 31 March 2026; this includes the

Capital Reserve of £18.331 million and Private Finance Initiative (PFI) reserves of £5.290 million.

Capital Budget Provisional Outturn

12. The Capital Programme for 2025-26 was approved by the Authority at £6.971 million, after £0.080 million was transferred from the Kings Trust, the revised budget was £7.051 million. A total of £6.151 million has been spent resulting in net slippage of (£0.885 million), that is proposed to be transferred to the 2026-27 budget, and a small overspend of £0.015 million. A summary of the programme is set out in the table below and in more detail in Appendix C.

Area (£ million)	Detail	Budget	Outturn
Operational Vehicles Budget	Investment in frontline operational vehicles, mainly the replacement and renewal of fire appliances, with some related specialist vehicle provision also progressing.	0.719	1.203
Other vehicles Budget	Replacement of operational support vehicles, including officer cars, vans and other vehicles needed to support frontline response and staff welfare.	1.200	1.027
Operational Equipment Budget	Purchase of key operational equipment to support firefighter safety and response capability, including breathing apparatus, vehicle-based equipment and other specialist operational kit.	0.961	0.601
Building Modifications Budget	Building works to improve training facilities and fire stations, including drill towers, station upgrades and wider estate improvement works.	3.273	2.722
IT systems Budget	Investment in ICT infrastructure and systems, including network and security upgrades, operational systems and digital tools to support service delivery.	0.898	0.598
		7.051	6.151

Table 3 - Capital Programme for 2025-26

13. The approved 2026-27 capital programme included £0.500 million for two Type A smaller pumps and £0.195 million for a prime mover. Following the tender exercise for the Type A requirement, tendered costs were above budget and did not represent value for money when compared with the larger Type B appliance option. A review of fleet requirements also identified a stronger operational need for a water carrier, which is a specialist vehicle designed to transport and supply large volumes of water to support firefighting at major or prolonged incidents where hydrant access or water pressure may be limited. It is therefore proposed that the existing budgets for the Type A appliances and prime mover are reallocated to fund the purchase of one Type B appliance and one water carrier, with the 2026-27 capital programme amended accordingly. The new Water Carrier will be a dual-purpose vehicle used by driver training, resulting in the Type B fleet reducing by 1. The Service is still keen to explore smaller pumping appliances and work is ongoing in this regard.

Potential Financial Risks

14. Throughout the year some sensitivity analysis was undertaken of several potential scenarios that have not been reflected in the monitoring report that, if they materialise, may give rise to an increase in revenue and capital expenditure. As this report presents the provisional outturn for 2025-26, there are no further in-year budget risks affecting the reported position. However, the figures remain subject to completion of the external audit process and may change if any material audit adjustments are identified. Any such changes will be reported back to Members.

Financial Implications

15. The financial implications are set out in the body of the report and appendices. These include the provisional 2025-26 revenue and capital outturn positions, the proposed transfers to earmarked reserves, the impact on the General Reserve, and the proposed reprofiling of slippage into the 2026-27 capital programme.

Legal Implications

16. There are no specific legal implications arising directly from this report.

Business Risk Implications

17. The report itself presents the provisional outturn position for 2025-26, but it also highlights a number of financial planning and affordability risks which will continue to require monitoring, particularly in relation to inflation, utilities, pay awards and delivery of future savings. These risks are described in the report and will continue to be managed through financial monitoring and the Authority's reserves and medium-term planning arrangements.

Environmental Impact

18. There are no specific environmental implications arising directly from this outturn report.

Equality and Diversity Implications

19. There are no specific equality or diversity implications arising directly from this report

Human Resource Implications

20. There are no direct human resource implications arising from the recommendations in this report. Workforce-related cost pressures, including pay inflation, are referred to in the body of the report as part of the Authority's wider financial planning context

Local Government (Access to Information) Act 1985

List of background papers N/A

Reason for inclusion in Part 2 if appropriate: N/A

Appendix A: Revenue Budget Monitoring Statement

Appendix B: Transfers to Earmarked Reserves

Appendix C: Capital Budget Monitoring Statement

Appendix D: Inflation Sensitivity Analysis

Appendix A

Revenue Budget Provisional Outturn

Area £ million	Revised Budget	Year to Date Total *	Year to Date Variance	Year to Date Variance Pay	Year to Date Variance Non-Pay
Service Delivery	-	-	-	-	-
Service Delivery	44.557	44.930	0.373	0.352	0.021
Prevention and Protection	3.914	3.501	(0.413)	(0.411)	(0.002)
Control	2.237	2.201	(0.036)	0.000	(0.036)
Youth Engagement (including Kings Trust)	0.022	0.006	(0.016)	0.004	(0.020)
Special Projects (International Search and Rescue (ISAR))	0.002	(0.001)	(0.003)	0.000	(0.003)
Strategy and Planning	-	-	-	-	-
Service Improvement	2.607	2.600	(0.008)	0.021	(0.029)
Leadership and Development Centre	4.568	4.309	(0.259)	(0.062)	(0.197)
Fleet and Technical Services	3.582	3.620	0.038	0.015	0.023
Digital Data and Technology (DDAT)	4.576	4.378	(0.198)	(0.024)	(0.173)
People and Development	-	-	-	-	-
Human Resources	1.007	1.000	(0.008)	0.012	(0.020)
Occupational Health Unit	0.372	0.287	(0.085)	(0.011)	(0.075)
Corporate Communications	0.479	0.445	(0.034)	(0.030)	(0.005)
Safety Health and Environment	0.335	0.388	0.053	0.019	0.034
Corporate Services	-	-	-	-	-
Executive Board	1.197	1.240	0.042	0.044	(0.002)
Central Admin Office	0.716	0.605	(0.111)	(0.096)	(0.015)
Finance and Procurement	1.352	1.338	(0.014)	(0.030)	0.016
Property	3.414	3.326	(0.088)	(0.088)	(0.000)
Total DFM Expenditure	74.939	74.171	(0.768)	(0.284)	(0.483)
Non DFM Expenditure	-	-	-	-	-
Pensions Expenditure	1.552	2.176	0.624	0.036	0.588
Other Non-DFM Expenditure	1.021	0.896	(0.125)	(0.020)	(0.105)
non-DFM expenditure	2.572	3.072	0.500	0.016	0.483
Net Budget	77.511	77.243	(0.268)	(0.268)	(0.000)

Appendix B

Transfers to Earmarked Reserves

These are one-off resources being earmarked to meet specific known or reasonably foreseeable future cost pressures:

Transfers to Budget Holders Earmarked Reserves	£ million
Digital, Data and Technology – committed expenditure in relation to Microsoft 365 fixed term contract with extension	0.100
Digital, Data and Technology – committed expenditure in relation to Desktop and iPad replacement project	0.100
<p>Airwave – budget underspend to transfer to an earmarked reserve.</p> <p>Airwave is the national radio system used by the emergency services for secure operational communications. It will eventually be replaced by the new Emergency Services Network (ESN).</p> <p>Historically, Airwave costs were funded partly from the Authority’s own budget and partly from a separate Firelink grant of £0.2 million. That grant has now ended. At the same time, the Competition and Markets Authority (CMA) intervened because Airwave is effectively supplied in a monopoly market. This led to lower charges and credits being returned to fire and rescue services.</p> <p>For Lancashire, this has produced two one-off benefits in 2025-26: an underspend of £0.282 million on the Airwave budget because charges were lower than expected, and a separate rebate of £0.412 million returned to the Authority.</p> <p>However, the future cost of moving from Airwave to ESN remains uncertain. National scrutiny has highlighted that local transition costs may still fall on emergency services, and there is no certainty that all future costs will be fully funded by government. For that reason, it is proposed that both the £0.282 million underspend and the £0.412 million rebate are transferred into an ‘ESN transition and Airwave price volatility earmarked reserve’ so that these one-off gains can be held to meet future communications and transition cost pressures.</p>	0.282
Airwave Income to Earmarked Reserve – as above, Airwave rebate.	0.412
<p>Drone Grant to Earmarked Reserves</p> <p>This relates to a £0.440 million grant awarded to Lancashire Fire and Rescue Service by the Ministry of Housing, Communities and Local Government to support work on heavy-lift drone capability.</p> <p>The funding is intended to support the development of drone capability, particularly for wildfire and other operational uses where larger or more specialist unmanned aircraft can improve situational awareness, operational effectiveness and sector learning.</p> <p>As this is specific grant funding for a defined purpose and may be spent over a longer period than a single financial year, it is proposed that the £0.440 million is transferred to an earmarked reserve. This will ensure the funding is retained and applied to the approved drone-related work as that programme develops</p>	0.440

Transfers to Budget Holders Earmarked Reserves	£ million
Property – delay in committed planned maintenance works	0.231
<p data-bbox="181 277 655 309">Property – Utility volatility reserve</p> <p data-bbox="181 349 1310 456">A £0.100 million underspend on utilities in 2025-26 is proposed to be transferred to a utility volatility reserve. The underspend has arisen because in-year utility costs were lower than budgeted.</p> <p data-bbox="181 497 1305 640">However, utility markets remain volatile and prices can change quickly. Current projections indicate that utility costs are likely to increase in 2026-27 compared with the level seen in 2025-26, reflecting higher energy prices and wider market uncertainty.</p> <p data-bbox="181 680 1267 824">For that reason, rather than treating the 2025-26 underspend as a one-off saving, it is proposed that it is held in reserve and then utilised in 2026-27, if required, to help manage higher utility costs and smooth the impact of price volatility on the revenue budget.</p>	0.100
	1.665

Appendix C

Capital Budget Monitoring Statement 2025-26

£ million	Budget	Transfer to Capital from Kings Trust	Revised Budget	Actual as at March 2026	(Slippage) or accelerated spend	Over or (Under) Spend
Vehicles	-	-	-	-	-	-
Operational Vehicles	0.719	-	0.719	1.203	0.484	(0.000)
Support Vehicles	1.120	0.080	1.200	1.027	(0.185)	0.012
-	1.839	0.080	1.919	2.230	0.299	0.012
Operational Equipment	-	-	-	-	-	-
Operational Equipment	0.961	-	0.961	0.601	(0.479)	0.119
-	0.961	-	0.961	0.601	(0.479)	0.119
Buildings Modifications	-	-	-	-	-	-
Update Preston Facilities	0.433	-	0.433	0.166	(0.184)	(0.083)
Blackpool Dormitory	0.498	-	0.498	0.542	(0.017)	0.061
Drill tower replacements	1.381	-	1.381	1.105	(0.189)	(0.087)
Wylfa Prop	0.175	-	0.175	0.206		0.031
Estate Improvement Provision	0.786	-	0.786	0.703	(0.099)	0.016
-	3.273	-	3.273	2.722	(0.489)	(0.062)
ICT	-	-	-	-	-	-
IT Systems	0.898	-	0.898	0.598	(0.216)	(0.084)
-	0.898	-	0.898	0.598	(0.216)	(0.084)
-						
Total	6.971	0.080	7.051	6.151	(0.885)	0.015
-	-	-	-	-	-	-
Funding	-	-	-	-	-	-
Revenue Contributions	2.500	0.080	2.580	2.500	-	(0.080)
Capital Reserves	4.471	-	4.471	3.650	(0.885)	0.064
Total Capital Funding	6.971	0.080	7.051	6.151	(0.885)	(0.015)

Appendix D

Inflation Sensitivity Assessment

Purpose and context

At the Combined Fire Authority meeting, the Chair requested that the Director of Corporate Services (Section 151 Officer) review the possible impact of inflationary pressures associated with geopolitical conflict and report findings to Party Leaders. This appendix provides that assessment, aligned to the Authority's approved 2026-27 budget, medium-term financial strategy, capital strategy and reserves strategy.

Baseline financial assumptions

The Authority's medium-term plans include inflation assumptions:

- Pay awards: 2026-27 estimated at 4%, then 2% thereafter (with separate uniformed and non-uniformed assumptions within the medium-term financial strategy).
- General (non-pay) inflation: budgets uplifted by 3.8% in 2026-27 and 2% thereafter.
- Capital programme inflation: the capital strategy includes an explicit inflation allowance, consistent with 2% on relevant projects funded from revenue.
- Resilience: the reserves strategy forecasts a General Reserve of £5.989 million for 2026-27 and advises a minimum level of £4.0 million (reflecting circa 5% of the net revenue budget as a broad benchmark, adjusted for local risk).

These assumptions mean the budget is not unprotected; however, there remains a financial risk if actual inflation differs materially from the planning rates, particularly in energy and fuel, and in construction markets, or persists for longer than assumed.

How inflation impacts costs

Inflationary shocks typically affect costs through several channels:

Pay and workforce costs

Above-assumption national pay settlements (Green Book from April and Grey Book from July) increase the pay and overtime bill. As set out in the budget report, each additional 1% on pay awards adds approximately £0.6 million of in-year cost pressure (circa £0.5 million Grey Book and £0.1 million Green Book).

Importantly, pay pressures differ from most non-pay inflation: a pay award above the 4% budget assumption increases the baseline pay bill on an ongoing basis. In year pressures may be absorbed by the General Reserve however, there is no identified recurrent funding stream within the current medium-term plan to absorb pay awards above the approved assumption; therefore, any above-assumption settlement is likely to create a future structural medium-term financial strategy pressure that must be funded through additional and recurring savings (or longer-term service redesign), rather than being managed solely through one-off reserve use.

Non-pay (revenue) budgets

Energy and utilities (often volatile), fuel, uniforms and Personal Protective Equipment (PPE), ICT contracts, and wider supplier contract indexation (for example Retail Price Index (RPI) or CPI-linked clauses) can increase faster than headline CPI. Utilities are currently tracking above the planning assumption, creating a risk of in-year 2026-27 pressure.

Capital programme and consequential revenue impacts

Estates, vehicles and ICT can be exposed to construction and materials inflation and supply-chain disruption, increasing tender prices and/or causing delays that create time-related costs and re-procurement risk.

In year capital costs are funded through reserves and borrowing but this may put pressure on future borrowing costs, which is expected later in the MTF5 period through higher financing costs (interest and repayment provision).

Income and funding indexation (partial offset)

While the scenarios focus on expenditure pressures, it is important to recognise that parts of the Authority's funding are expected to rise with inflation. In particular, Government grant funding and business rates income for 2027-28 are typically linked to the prevailing CPI measure in September (such as there is an in-built lagged indexation mechanism). This means that an inflation spike in 2026-27 would be expected to flow through to some additional income in 2027-28, partially offsetting longer-term impacts. However, council tax increases are subject to referendum limits and, in practice, are not assumed to rise beyond the budgeted cash increase of £5 which equates to circa 5.5%. As a result, the medium-term risk is reduced but not removed: any portion of costs that are higher than the CPI-linked uplift, or that crystallise before indexation takes effect, must still be managed through in-year mitigations, reserves, and/or future savings.

Timing lag and 'ratchet' risk

- Timing lag: where funding is updated by the prevailing September CPI for the following year, a 2026-27 inflation spike is not fully reflected in income until 2027-28. This creates a short-term gap in 2026-27 that must be managed through in-year mitigations or reserves.
- 'Ratchet' risk: even if headline CPI falls back, some expenditure lines may not return to their previous cash level. The most material example is pay, because settlements are cumulative and therefore permanently lift the pay baseline. By contrast, some non-pay pressures (for example energy) may reduce back towards baseline as markets normalise, although they can remain volatile and some contract prices may re-base at renewal.
- Inflation shocks, if they coincide with changes in incident patterns and supplier lead times, can put pressure on repairs and maintenance costs and operational consumption. This is a risk to be monitored rather than a quantified forecast in this appendix.

Purpose of the sensitivity assessment

This inflation sensitivity assessment is not intended to be a single forecast. It is a structured stress test of the Authority's approved financial plans against a range of credible macroeconomic outcomes arising from geopolitical disruption. It translates those outcomes into the Authority's main exposure areas: pay, non-pay (particularly energy or fuel and indexed contracts) and capital procurement (tender price inflation). The purpose is to quantify potential in-year and medium-term pressures, test reserve headroom, and inform mitigations and monitoring arrangements.

The baseline assumptions mean the financial plan already contains inflation provision. The sensitivity analysis therefore focuses on the risk of inflation being higher or more persistent than the baseline, particularly where energy and tender prices diverge from headline CPI.

Credible sources informing the scenario ranges (macroeconomic inflation and persistence)

To ensure the scenario ranges are robust, the analysis draws on published sources that explicitly consider inflation risks in the context of energy-led shocks and conflict-related uncertainty.

Bank of England (BoE)

- The BoE's Monetary Policy Report provides the central inflation outlook and confirms that the path of inflation depends on evolving economic conditions and risks.
- Reporting on the BoE's approach during heightened Middle East uncertainty describes a three-scenario structure, ranging from limited disruption (inflation peaking a little over 3.5% at end-2026 and returning towards target) to a more inflationary scenario (inflation peaking above 6% in early-2027 with greater persistence). This provides a credible template for framing Scenarios A, B and C (see overleaf) by duration and the strength of second-round effects.

Most likely scenario (based on published central expectations)

Across the credible sources reviewed, the central expectation is for an energy-led inflation shock to be material but not permanently self-sustaining. The Bank of England's April 2026 Monetary Policy Report uses three scenarios to reflect uncertainty and, in its 'A' and 'B' cases, inflation peaks at a little over 3.5% at end-2026 and then falls back towards 2% over time; only the most adverse case assumes a much more prolonged energy shock with stronger second-round effects. In addition, the International Monetary Fund's (IMF's) baseline case assumes the conflict remains limited in duration and scope, with inflation rising in 2026 and resuming its decline in 2027, and HM Treasury's compilation of independent forecasts points to inflation easing towards lower levels through 2027. Taken together, this is most consistent with Scenario B (extended disruption) as the central planning case for this appendix, with Scenario A representing a more benign outcome and Scenario C retained as a tail-risk for resilience planning.

Office for Budget Responsibility (OBR) – inflation drivers

The OBR's inflation commentary highlights how energy and regulated prices can materially influence inflation movements, including through volatility and "base effects". This is relevant because the risk being assessed in this appendix is specifically an energy-led shock translating into wider prices and pay dynamics.

Credible sources informing capital and tender price inflation (distinct from CPI)

Because capital cost risk is more closely linked to tender price inflation than headline CPI, the capital scenario range is informed by construction-specific sources.

- Building cost information service (BCIS) construction forecast notes that geopolitical developments can unsettle energy markets and cloud the outlook, with construction exposed through fuel, transport and energy-intensive materials. It forecasts building costs and tender prices continuing to rise and flags that prolonged elevated energy prices could sustain wider inflationary pressures.
- Colliers tender price update (quarter 1 2026) forecasts tender price inflation of around 3.15% for 2026 and highlights geopolitical risk and energy volatility as factors influencing contractor pricing and behaviour.

These sources support using capital inflation sensitivities above the Authority's internal 2% allowance under the higher-risk scenarios, particularly where procurement is time-critical or supply chains are disrupted.

Local evidence and why exposure can differ from headline CPI

Local monitoring already indicates that key cost drivers may diverge from headline assumptions. Utilities are tracking materially above planning assumptions and notes that continued volatility could increase pressures on fuel, utilities, supply-chain-dependent non-pay budgets, and the cost and timing of capital projects.

Scenario assumptions adopted for A, B and C

Based on the evidence above, the scenarios are framed around Scenario B is treated as the central 'planning' case, with Scenario A and Scenario C providing lower and upper bounds for sensitivity and resilience. The scenarios consider:

- Duration of the disruption (short, medium or prolonged).
- Severity of second-round effects (limited, modest or material), consistent with the BoE scenario framing.

The assumptions below are expressed as increments above the Authority's approved baseline assumptions (medium-term financial strategy and budget). They are intended to be plausible stress-test uplifts that reflect external scenario ranges. The scenarios assume that headline inflation may reduce over time, but they also allow for persistence and 'stickiness' in specific cost drivers (particularly utilities, indexed contracts, and tender prices) and for cumulative effects on pay. This is important because, even where CPI falls back, not all costs return to their prior cash level.

Scenario A – Contained disruption (6–9 months)

- Non-pay uplift: +1.0 percentage point in 2026-27 only (short-lived, energy-led price shock with limited persistence).
- Pay uplift: +0.5 percentage point in 2026-27 only (some upward pressure on settlements but limited second-round effects).
- Capital uplift (tender prices): +3.0 percentage points in 2027-28 only (modest tender-price spill-over above the 2% allowance).

Scenario B – Extended disruption (12–18 months)

- Non-pay uplift: +2.0 percentage points in 2026-27 and +1.0 percentage point in 2027-28 (higher-for-longer energy impacts and contract indexation extending beyond one year).
- Pay uplift: +1.0 percentage point in 2026-27 and +0.5 percentage point in 2027-28 (greater risk of pay responding to elevated inflation expectations, without full second-round dynamics).
- Capital uplift (tender prices): +3.0 percentage points in 2027-28 and 2028-29 (risk of tender prices tracking above the 2% allowance over a multi-year procurement window).

Scenario C – Prolonged disruption (24–36 months)

- Non-pay uplift: +4.0 percentage points in 2026-27, +3.0 in 2027-28, and +2.0 in 2028-29 (sustained shock with greater persistence).
- Pay uplift: +2.0 percentage points in 2026-27, +1.0 in 2027-28, and +1.0 in 2028-29 (material risk of above-assumption settlements and second-round effects).
- Capital uplift (tender prices): +5.0 percentage points in 2027-28 and 2028-29, +4.0 in 2029-30, and +3.0 in 2030-31 (sustained construction cost pressure and tender risk over a longer delivery window).

The scenario uplifts above are then applied to:

- Pay: using the Authority's stated sensitivity of approximately £0.6 million per additional 1% above the pay assumption.
- Non-pay: applied to the inflation-sensitive non-pay base implicit in the medium-term financial strategy general inflation provision (such as budgets routinely uplifted using CPI assumptions).
- Capital: applied as an additional tender price pressure above the Authority's embedded inflation allowance, informed by construction sector forecasts and commentary.

Note: This appendix quantifies the sensitivity of expenditure to higher inflation and pay outcomes. Potential income offsets (for example CPI-linked increases in grant and business rates in 2027-28) are described qualitatively because the size and timing of future settlements and referendum limits on council tax are uncertain and can vary by year. These assumptions will be kept under review and updated through future financial monitoring as new information becomes available (for example BoE or OBR updates, movements in energy prices, tender returns and contract indexation evidence).

Quantified sensitivity

In-year (2026/27) revenue pressure and illustrative General Reserve impact (unmitigated)

Scenario	Pay pressure (£ million)	Non-pay CPI pressure (£ million)	Total revenue pressure 2026-27 (£ million)	Illustrative General Reserve after pressure (£ million)*	Headroom above £4.0 million minimum (£ million)**
A: Contained (6–9 months)	0.300	0.153	0.453	5.565	1.565
B: Extended (12–18 months)	0.600	0.307	0.907	5.111	1.111
C: Prolonged (24–36 months)	1.200	0.614	1.814	4.204	0.204

* Based on the reserves strategy 2026-27 General Reserve forecast of £6.018 million.

** Minimum General Reserve advised at £4.0 million.

Interpretation: The table above illustrates the potential in-year (2026-27) expenditure pressure under each scenario, shown gross of any income changes. In practice, an inflation shock in 2026-27 would be expected to feed into some additional funding in 2027-28 where grant and business rates are indexed to the prevailing September CPI; however, that indexation creates a timing lag, meaning the Authority must still manage the in-year gap in 2026-27. For non-pay volatility (particularly utilities), the Authority can draw on targeted earmarked reserves (such as the utility volatility reserve) alongside in-year mitigations. However, pay awards above the 4% budget assumption are different: they

create a recurring increase in the baseline pay bill and therefore represent the most significant long-term risk channel in this appendix.

Medium-term cumulative pressures (illustrative, 2026-27–2028-29)

The table below summarises the cumulative additional pressure over the first three medium-term financial strategy years under each scenario (pay, non-pay and an illustration of additional capital cost above the capital inflation allowance).

Scenario	Cumulative pay pressure (£ million)	Cumulative non-pay CPI pressure (£ million)	Illustrative additional capital cost pressure (£ million)	Total additional pressure 2026-27–2028-29 (£ million)
A: Contained	0.300	0.153	0.159	0.612
B: Extended	0.900	0.443	0.408	1.751
C: Prolonged	2.400	1.512	0.680	4.592

Interpretation: The longer disruption persists, the more the risk shifts from an in-year management issue to a medium-term affordability issue. The Authority is not fully exposed on the income side because grant funding and business rates are typically CPI-linked (using the September CPI for the following year), so part of a 2026-27 inflation shock may be reflected in higher income in 2027-28. This mechanism is more likely to partially offset general (non-pay) inflation over time than it is to resolve pay pressures. Pay awards above the 4% assumption create a structural uplift to the ongoing pay baseline, and there is no identified dedicated recurrent funding in the medium-term plan to meet that uplift. **As a result, above-assumption pay settlements are the key driver of longer-term financial pressure and would be expected to require additional recurring savings or workforce or service redesign.** By contrast, many non-pay pressures (particularly utilities) may be more amenable to management through targeted reserves, in-year mitigation and reversion towards baseline as markets stabilise, albeit with ongoing volatility risk.

Mitigation and management strategy

A robust response needs to combine monitoring, operational and procurement mitigations, financial mitigations, and external engagement.

Monitoring and reporting

- Introduce a standing inflation dashboard within financial monitoring, separating pay, utilities and energy, fuel, key indexed contracts, and capital tender inflation or contingency usage.
- Provide exception reporting to Resources Committee where forecast inflation variance exceeds an agreed trigger (for example, less than £0.25 million net pressure or where General Reserve headroom approaches the advised minimum).

In-year revenue mitigations

- The Authority has established a utility volatility reserve (£0.6 million) to help manage short-term movements in energy costs above the budget assumption. Where utility costs increase materially during 2026-27, the reserve can be applied (subject to normal governance and reporting through financial monitoring) to reduce the immediate pressure on the revenue budget and protect the General Reserve.

- Review and re-profile discretionary non-pay spend (for example training, supplies and non-urgent maintenance) to create in-year capacity where inflation pressures crystallise, while protecting statutory and operational delivery.
- Pay: given the structural nature of above-assumption pay awards, develop early options for recurring mitigation (for example workforce establishment controls, productivity measures and planned savings) so that any settlement above 4% is reflected promptly in the medium-term financial strategy rather than being treated as an in-year issue only.
- Actively manage contract indexation clauses (challenge and verify indices, timing and scope; use framework leverage; negotiate caps where appropriate) to reduce avoidable inflation exposure.

Capital mitigations

- Apply enhanced gateway control for major tenders: re-validate cost plans, include market testing, confirm contingency, and ensure programme sequencing reduces exposure to peak inflation periods.
- Where inflation materially increases project costs, prioritise mitigations in this order: (1) value engineering and scope control, (2) re-profiling of delivery, (3) review the funding approach (for example use of reserves versus borrowing), and (4) only then seek additional budget approval.

Reserves and resilience actions

- Maintain the principle that General Reserve is for one-off shocks rather than recurring pressures, but recognise that short-term inflation spikes may require a temporary draw, supported by a recovery plan.
- Continue targeted earmarking where volatility is evidenced (for example, the proposed transfer to a utility volatility reserve), and keep earmarked reserves under review to ensure alignment to the medium-term risk profile.

External engagement

- Coordinate with sector bodies and partners to press for recognition of inflation impacts in future settlements, sector-wide capital support, and any targeted support for energy-intensive public services if markets remain volatile.

Conclusions

- Based on the credible sources reviewed, Scenario B (extended disruption) is the most consistent with current 'central' expectations (material but time-limited inflation shock), with Scenario A representing a more benign outcome and Scenario C retained as a tail-risk for resilience planning.
- The most significant long-term risk is a national pay award above the 4% budget assumption. Each additional 1% adds circa £0.6 million of cost pressure and, because pay is cumulative, this becomes an ongoing baseline pressure that is unlikely to be fully offset by CPI-linked income and would therefore need to be funded through additional recurring savings and/or service redesign.
- Most non-pay inflation pressures (particularly utilities) are expected to be more time-limited and can be managed through targeted in-year action, active contract management, and the planned use of earmarked reserves (including the £0.6 million utility volatility reserve), recognising that volatility and some 're-basing' risk remain. The recommended approach is therefore: enhanced monitoring with clear triggers; early use of targeted mitigations/reserves for non-pay; and a clear focus on

pay settlement monitoring and early development of recurring savings options to protect medium-term sustainability.