

## **LANCASHIRE COMBINED FIRE AUTHORITY**

Meeting to be held on 18 February 2019

### **REVENUE BUDGET 2019/20-2023/24**

(Appendix 1 – Detailed Council Tax Resolution)

(Appendix 2 – Analysis of Budget by Service Area)

(Appendix 3 – Analysis of Budget by Type of Expenditure)

(Appendix 4 – Budget Scenarios)

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#### **Executive Summary**

The final proposed gross revenue budget for 2019/20 is £56.5m, an increase of 3.2%. This majority of the increase in costs relate to forecast pay awards and revised pension contributions all of which is partly offset by the identification of £1.2m of efficiency savings/budget reductions. As highlighted the budget allows for a 2% pay award for grey book personnel in 19/20, whilst the current pay claim from the FBU is for 17%, clearly the outcome of pay discussions will have a significant impact on this, and future years budgets.

The Local Government Finance Settlement confirmed funding was in line with the 4-year settlement figures, at £23.8m a reduction of £0.5m (2.0%), and that the council tax referendum level remains at 3.0%.

Based on the council tax referendum limit the Authority has a funding gap of £0.5m and will need to either identify additional savings or utilise reserves to set a balanced budget. Doing so will result in a net budget of £56.0m, and a council tax requirement of £69.48 per Band D property, an increase of 2.99% (£2.02 per annum, 4p per week). It is proposed that an unidentified saving target of £0.2m is agreed and that £0.3m of reserves are utilised to deliver a balanced budget in 19/20.

Until such time as the outcome of next year's Spending review is published it is impossible to provide any meaningful funding forecast, however for the purpose of medium term financial planning we have assumed that funding is frozen in subsequent years. Assuming council tax is increased in line with current referendum principle of 3% in future years the Authority is still faced with a recurring funding gap of approx. £0.3m-£0.5m, if the referendum principle is set at 2% in future years the gap varies between. £0.9m in 20/21 increasing to £1.7m in 23/24.

Looking at the medium-term plans it is clear that the key variables remain pay awards, pension costs and funding. Any significant increase in pay award over and above the 2%-2.5% built into the budget or in the increase in pension costs over and above the £0.7m budgeted (net of additional grant) will add in significant financial pressures. Similarly should the settlement in 2020/21 and beyond be worse than the cash freeze budgeted for then the level of deficit will increase accordingly.

Currently the Authority remains in a good financial position with reserves able to offset the financial challenges next year. The position becomes more challenging thereafter however by that time the Authority should have greater certainty on future funding, pay awards and future referendum limits, which will enable it to deliver a more reliable medium term financial plan in order to address any funding gap that exists.

### Recommendation

The Combined Fire Authority is asked to agree the detailed resolutions set out in appendix 1.

### Information

In line with the Authority's objective to deliver affordable, value for money services the Authority's Budget Strategy remains one of:-

- Maintaining future council tax increases at reasonable levels, reducing if possible;
- Continuing to deliver efficiencies in line with targets;
- Continuing to invest in improvements in service delivery;
- Continuing to invest in improving facilities;
- Setting a robust budget;
- Maintaining an adequate level of reserves.

### Draft Budget

In order to determine the future budget requirement, the Authority has used the approved 2018/19 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Preceding Years Draft Net Budget Requirement	54.8	56.5	58.0	59.5	61.0
Add back previous years unidentified savings target	0.3	-	-	-	-
Add back previous years Vacancy Factors	1.8	1.0	1.2	1.2	1.1
Inflation	0.9	1.5	1.5	1.5	1.5
Other Pay Pressures	0.4	0.5	0.2	-	(0.1)
Committed Variations	0.1	(0.1)	-	(0.1)	-
Growth	0.4	(0.2)	-	-	-
Efficiency Savings	(1.2)	(0.1)	(0.2)	-	0.1
Gross Budget Requirement	57.5	59.2	60.6	62.1	63.6
Vacancy Factors	(1.0)	(1.2)	(1.2)	(1.1)	(1.1)
Net Budget Requirement	56.5	58.0	59.4	61.0	62.5

## Inflation

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Removal of over-provision relating to July 17 pay award budgeted at 2% but agreed at 1%	(0.3)	-	-	-	-
A 2% allowance has been built in for all pay-awards for 2019/20 Future budget assume a 2.5% pay award each year.	0.9	1.2	1.2	1.2	1.2
Non-pay inflation, average of 2.5% each year	0.3	0.3	0.3	0.3	0.3
	0.9	1.5	1.5	1.5	1.5

Each 1% pay award in excess of the above assumptions equates to an additional cost of £340k per year for grey book personnel, and if this is mirrored for green book personnel and additional £70k. The current FBU pay claim is for a 17% increase, significantly higher than the budgeted allowance, and in order to give a flavour for the potential impact of this, a 5% pay award would add in a further £1.0m on an annual basis year compared with the budgeted allowance.

## Other Pay Pressure

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Pay has been recosted taking account of the impact of recruits on numbers of personnel in development rates of pay, the number of personnel in receipt of CPD payments, and the mix of personnel in the old and new FF pension scheme.	(0.3)	0.3	0.2	-	(0.1)
The latest valuation of the FF pension's scheme has identified an average increase of 12.6% in employer contribution rate (moving from 17.6% to 30.2%), this is due to combination of changing factors, the most significant of which is the revised discount rate used in unfunded public sector pension schemes will change. It should be noted that the split by individual pension scheme has not been provided, only the average, and hence the actual additional cost will vary according to the mix of personnel in each pension scheme. This equates to an additional cost of £3.3m However the Government has allowed an additional £2.6m of funding in 19/20 to offset some of this pressure (hence the net additional cost of £0.7m shown). The additional cost pressure in future years will be considered as part of the next Spending Review, hence for medium term planning	0.7	-	-	-	-

we have assumed that the additional £2.6m grant will continue.					
The next actuarial review of the LGPS scheme is due in 12 months' time, which will result in updated contribution rates being applicable in 2020/21. The latest indications are that employer contribution in respect of future service are likely to increase but that the funding position of the scheme will have improved since its last review and hence, in our case, it should remain in surplus. As such the future budget has been adjusted to allow for a 3% increase in employer contribution but with the on-going £325k drawdown of our surplus continuing for the duration of this budget period. (It must be noted that this is only indicative at this point in time, actual figures will not be known until the next valuation is completed.)	-	0.2	-	-	-
	0.4	0.5	0.2	-	(0.1)

### Committed Variations

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
The budget for pension costs has been increased to reflect the increased number of ill health retirements forecast for 18/19. Whereby the costs are spread over a three year period, hence the offsetting reduction in 21/22.	0.1	-	(0.1)	-	-
Last year's PPE budget was increased to reflect the roll out of new Helmets and Gloves. Hence this additional funding has been removed in 19/20.	(0.1)	-	-	-	-
The budget assumes that the grant in respect of New Dimensions will continue to fall in 19/20, in line with previous years reductions, although it should be noted that the actual grant is not announced until after the start of the financial year.	0.1	-	-	-	-
The budget for interest receivable has been amended to reflect the increase in interest rates, and the level of fixed term investments held.	(0.1)	-	-	-	-
The budget for operational equipment needs to be increased in 21/22 reflecting the anticipated replacement cycle, and particularly the cost of replacing PPV fans in year. (The one off funding being removed the following year	-	-	0.1	(0.1)	-

As members are aware Lancashire successfully bid to be a pilot authority for 75% business rate retention. We currently anticipate retaining an additional £213k of business rate growth in 19/20 (which is reflected in the funding forecasts set out later in the report). However of this £11k will be held back as a contribution towards a Lancashire wide risk reserve and £53k towards a Lancashire wide growth fund. It is assumed that the additional growth, and hence the contributions, are both one offs, hence no allowance has been built in to the budget in subsequent years.	0.1	(0.1)			
	0.1	(0.1)	-	(0.1)	-

No allowance has been made for any increased costs associated with the DCP crewing system and in particular any changes to the pension ability of the allowance. It should be noted that moving to a 30% pensionable allowance is likely to increase costs by £150k.

### Growth

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
The budget allows for an increase in the number of Home Fire Safety Checks/Safe & Well Visits and associated costs	0.1	-	-	-	-
Fleet and Engineering Services have identified a need for an 'R&D' budget to facilitate the introduction of new equipment. Whilst there is an earmarked innovation reserve of £500k this is to cover significant new investment, such as the roll out of new duty rig. Hence an additional £100k has been allowed for in the budget to provide a recurring R&D budget.	0.1	-	-	-	-
The budget also includes a one off allowance in 19/20 for the introduction of new duty rig	0.2	(0.2)	-	-	-
	0.4	(0.2)	-	-	-

### Efficiency Savings

The Authority has a good track record of delivering efficiency savings, with the following savings identified below:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
The budget for whole-time recruitment/apprentices has been amended to reflect anticipated number of recruits in each of the next 5 years:- <ul style="list-style-type: none"> <li>• 19/20 – 18 apprentices</li> <li>• 20/21 – 24 apprentices</li> <li>• 21/22 – 24 apprentices</li> <li>• 22/23 – 30 apprentices</li> <li>• 23/24 – 42 apprentices</li> </ul>	(0.8)	-	-	-	0.1
Reduction in Associate Trainer budget, reflecting reduction in number of trainer days	(0.1)	-	-	-	-
Removal of temporary posts	(0.2)	(0.1)	(0.2)	-	-
Reduction in various non-pay budgets	(0.1)	-	-	-	-
	(1.2)	(0.1)	(0.2)	-	0.1

### Gross Net Budget Requirement

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Draft Gross Budget Requirement	57.5	59.2	60.6	62.1	63.6

### Vacancy Factors

The budget needs to take account of forecast vacancy factors arising from retirement and recruitment profiles:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
The vacancy factor for whole-time has also been updated based on current staffing profiles and anticipated recruitment numbers as referred to above. This shows a broadly balanced position but with marginal overprovision in 19/20, 22/23 and 23/24.	0.1	-	-	0.2	0.2
RDS vacancy factors has been reduced to 18% reflecting the current level of staffing	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Support staff vacancy factor has remained at 2.5%. The current vacancy factor over the last 2 years has been in excess of 5% but this is due to one or two problem areas such as ICT and Service Development, the successful recruitment into these two areas would have a significant impact on the overall vacancy factor, bringing this down to 2.5%, hence the decision to leave at this level.	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
	(1.0)	(1.2)	(1.2)	(1.1)	(1.1)

## Net Budget Requirement

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Draft Budget Requirement	56.5	58.0	59.4	61.0	62.5
Budget (Decrease)/Increase	3.2%	2.5%	2.5%	2.6%	2.5%

## Funding

2019/20 is the final year of the four year settlement, hence next year's funding is based on figures previously identified, and confirmed in the 2019/20 Local Government Finance Settlement resulted in a £0.5m reduction in funding (£5.5m/19% over the four year period). Given we are now part of the 75% business rate retention pilot pool this funding is now comprised of Locally Retained Business Rates - £6.0m and Top Up Grant - £17.7m.

This does not include the additional £2.6m of one off funding in respect of the increase in employer pension contributions, as highlighted earlier, as we have allowed for this in the net budget requirement reported above.

Funding in 2020 and beyond will be determined by the Governments overall budget and the 2019 Spending Review. The Budget will set overall total for public sector spending which will then be allocated out to departments as part of the Spending Review. Until such time as the outcome of this is known it is impossible to accurately predict future funding levels, however the recent budget included some indicators of Governments current thinking:-

- The Chancellor said that austerity was coming to an end
- The Chancellor told the Today programme that:-
  - Public spending will go up by 1.2%, but most of that will go to the health service
  - Once you take out the commitment made to health it gives a flat real spending available for all other departments
  - He did not deny that some departments could face cuts but that the other option was that everybody would get a 0% increase in funding once inflation was taken into account

From a Fire perspective the two big pressures are pay-awards and pensions contributions. If the government is to meet the increase in employer pension contributions and potential pay awards in future years, then it appears unlikely they will fund any other pressures.

In addition to this uncertainty there are also questions as to how the Fair Funding review will impact the Authority and what, if any, impact the move to 75% retention of business rates in April 2020 will have (The Government has indicated that this change should be cost neutral). There is also a possibility of a further change with the potential to move to 100% business rate retention (again we would expect this to be cost neutral).

Hence taking account of the above we have assumed that the settlement will be frozen throughout the 4 year period. This is reflective of the uncertainty in terms of any distribution of funding.

### **Business Rate Adjustments**

Funding as set out above is adjusted to reflect Section 31 Grants in respect of business rate reliefs, £1.6m and the surplus/deficit on the business rate collection fund, which stands at £8k surplus. Future planning assumptions have been updated to reflect this.

As members are aware Lancashire successfully submitted a bid to be a pilot authority for 75% business rate retention. We currently anticipate retaining an additional £213k of business rate growth in 19/20, which is reflected in the overall funding figures. (As referred to earlier £11k will be held back as a contribution towards a Lancashire wide risk reserve and £53k towards a Lancashire wide growth fund, hence giving net additional growth of £149k retained by the Authority.) It is assumed that this is a one-off increase, hence this has been removed in subsequent years.

### **Council Tax**

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

The 2019/20 Local Government Finance Settlement maintains the council tax referendum principle of any increase in excess of 3% triggering a referendum. Last year's settlement included provision for the council tax referendum principle to be maintained at 3% for two years (18/19 and 19/20) as such we assume that this will return to 2% in future years (although given the uncertainty we have also shown figures based on 3% increases for completeness).

### **Council Tax-Base**

Billing authorities have also provided final council tax base figures and the council tax collection fund figures. The tax base has increased by 1.3%, which is the lowest increase since 2014/15 and considerably lower than the 1.8% averaged over the last 4 years. However this increase still generates an additional £0.4m of precept.

Billing Authorities have also confirmed a final council tax collection fund surplus of £0.3m, which is also the lowest surplus since 2014/15.

Future planning assumptions have been updated to reflect a rolling 5 year average, giving future council tax-base growth of 1.7% and maintaining a collection fund surplus of £0.4m.

### **Draft Council Tax Requirements**

Based on the assumptions outlined the budget requirement would result in a council tax increase of 4.7%, exceeding the referendum limit, and as such the Authority will



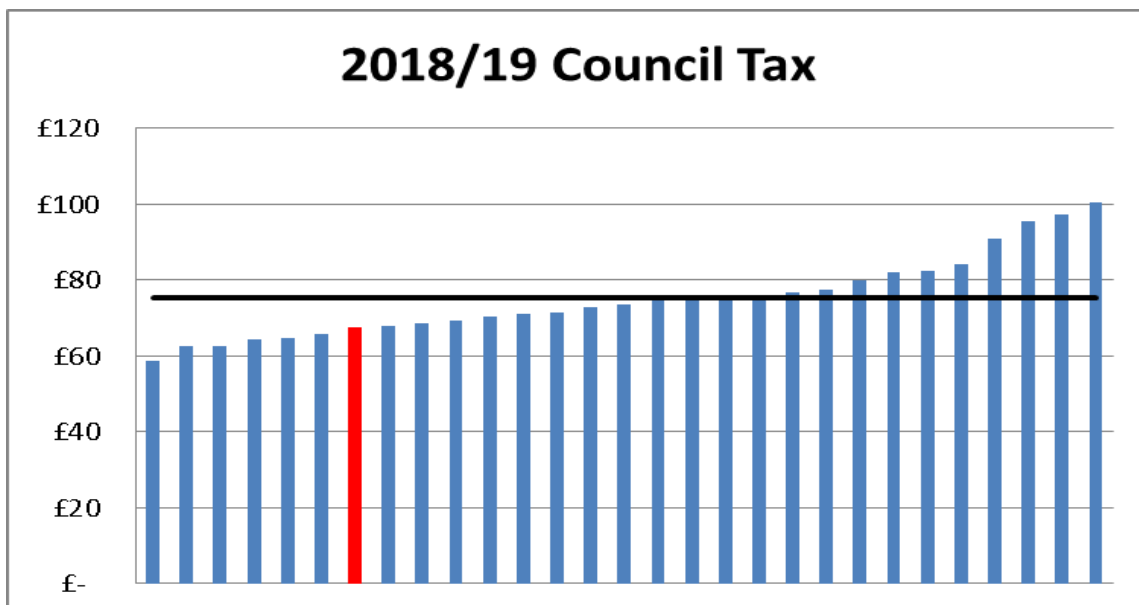
need to reduce the budget requirement. A reduction of £0.5m being required if council tax is increased by 3% and £1.4m if council tax is frozen:-

	Raw Budget	Budget based on Referendum Limit	Budget based on Council Tax Freeze
	£m	£m	£m
Raw Budget Requirement	56.5	56.5	56.5
Budget Reduction	-	(0.5)	(1.4)
Net Budget Requirement	56.5	56.0	55.1
Less Business Rates	(6.0)	(6.0)	(6.0)
Less Top Up	(17.7)	(17.7)	(17.7)
Less Section 31 Grant re Business Rates Reliefs etc.	(1.6)	(1.6)	(1.6)
Less Business Rates Collection Surplus	-	-	-
Less Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)
Equals Precept	30.9	30.4	29.6
Estimated Number of Band D equivalent properties	438,138	438,138	438,138
Equates to Council Tax Band D Property	£70.61	£69.48	£67.46
Increase in Council Tax	4.67%	2.99%	Freeze

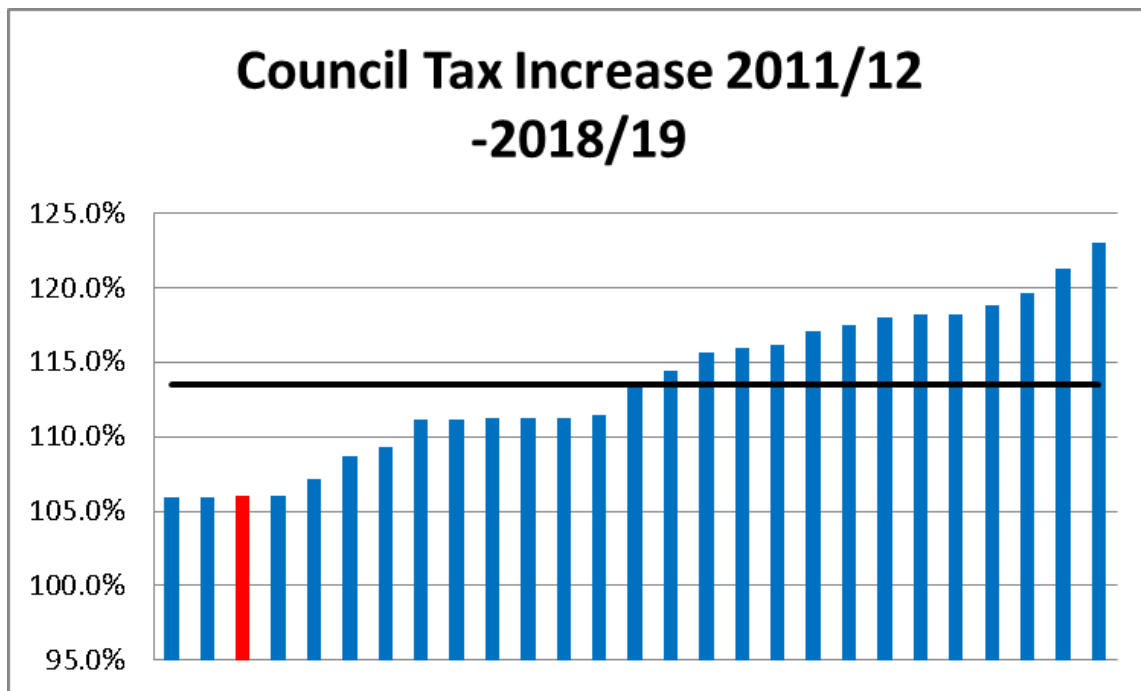
Each 1% increase in council tax in 19/20 generates an additional £0.3m of precept, and equates to a £0.67 increase in the annual council tax figure:-

- 3% increase equates to £2.02 per annum, less than 4p per week but generates approx. £0.9m of additional precept
- 2% increase equates to £1.34 per annum, less than 3p per week, and generates approx. £0.6m of additional precept
- 1% increase equates to £0.67 per annum, just over 1p per week, and generates approx. £0.3m of additional precept

It is worth re-iterating that our budget increases have been constrained by capping/referendum principles as well as the Authorities desire to deliver value for money services, hence our current council tax of £67.46 is below the national average of £75.15.



Furthermore, our increase of just 6.0% since 2010/11 compares with an average increase of 13.5% over the same period and is the joint lowest of any Fire Authority.



It is also worth noting that Fire accounts for less than 5% of the overall council tax charged in Lancashire.

### Further Savings Opportunities

As highlighted earlier the Authority has been extremely successful at delivering efficiency savings, delivering £19m between April 2011 and March 2019. This budget has identified further savings of £1.2m in 19/20 and £0.2m in future years. However it is clear that the scope to deliver further savings is extremely limited, with the majority of departments struggling to balance demands against capacity.

As such it may be possible to deliver further in year savings in future years by delaying expenditure and targeting an in-year underspend offsetting some of the funding shortfall, but the scope to utilise this to balance future budgets appears limited.

### Reserves and Balances

As set out in the Reserves and Balances Policy reported elsewhere on this agenda, a reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, industrial dispute etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement and to smooth out large fluctuations in spending requirements and/or funding available.

In line with guidance issued by CIPFA a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority's financial management arrangements. The assessment focuses on both medium and long-term requirements, taking account of the Medium Term Financial Strategy and the draft budgets.

This has identified:-

- A minimum target reserve level of £3.2m, 5.7% of the 2019/20 net revenue budget, higher than last year which reflects an increasing level of uncertainty, particularly as this is the last year of the four year finding settlement, the grey book pay claim significantly exceeds budget provision and there remains a great deal of uncertainty around additional funding to support the increase in pension costs, and general economic uncertainty that exists at the moment
- the maximum reserve limit is maintained at £10.0m

At 31 March 2019 we anticipate holding £8.0m, providing scope to utilise approx. £4.8m of reserves. As such reserves could be used to deliver a balanced budget in 2019/20, as well as offset some of the gap in future years. It should be noted that utilising reserves in this way means they are being used to fund recurring expenditure and hence this can only be a short term solution, with recurring savings being required in the longer term to offset the shortfall. However having reviewed the level of general reserves required and the anticipated utilisation of these, the Treasurer considers these are at an appropriate level to meet future expenditure requirements in 2019/20. The level of these will be reviewed again as part of the year end outturn process and reported on to the Resources Committee.

In addition to the general reserves the Authority also holds earmarked reserves, created for specific purposes to meet known or anticipated future liabilities, capital reserves and receipts, to provide additional funding to support the capital programme in future years, and provisions for outstanding insurance claims and potential business rate appeals. Further details relating to these are included in the reserves policy and based on the professional opinion of the Treasurer these are adequate to meet future requirements in the medium term.

### **Council tax 2020/21 and beyond**

As highlighted earlier funding up to and including 2019/20 forms part of the multi-year. Funding beyond this period is unknown, but is assumed to be frozen, with any increase in Local Business Rates being offset by a reduction in Top Up grant.

Based on this the draft budget as presented, and allowing for a 3% increase in council tax in 19/20, delivers the following council tax increases in future years:-

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Draft Budget Requirement	58.0	59.4	61.0	62.5
Less Business Rates/Top Up Grant and Section 31 Grant	(25.1)	(25.1)	(25.1)	(25.1)
Less Business Rates Collection Surplus	-	-	-	-
Less Council Tax Collection Surplus	(0.4)	(0.4)	(0.4)	(0.4)
Equals Precept	32.5	33.9	35.5	37.0
Estimated Number of Band D equivalent properties	445,709	453,412	461,247	469,218
Equates to Council Tax Band D Property	£72.79	£74.81	£76.87	£78.84
Increase in Council Tax	4.8%	2.8%	2.8%	2.6%

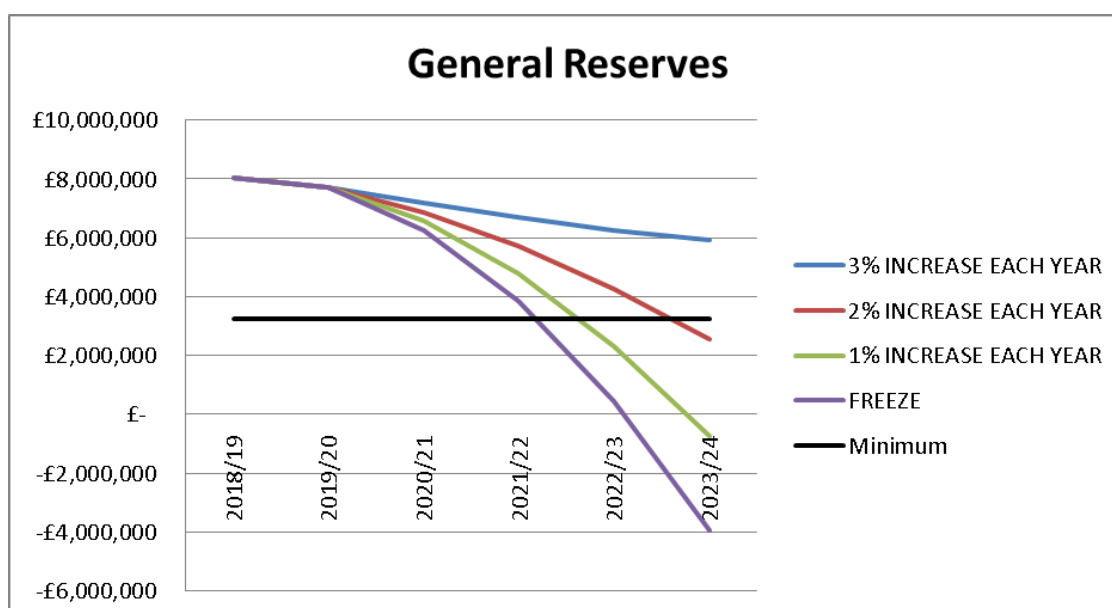
As previously advised holding a referendum is extremely expensive, costing in excess of £1m, and is unlikely to deliver an increase in excess of the referendum threshold. As such we will need to either deliver additional savings or utilise reserves in order to balance the budget in future years, the extent of which is dependent upon current and future council tax decisions, and the accuracy of expenditure and funding forecasts.

As in previous years we have modelled the funding gap based on different council tax scenarios in future years:-

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
3% increase in council tax each year	(0.5)	(0.5)	(0.4)	(0.3)
2% increase in council tax each year	(0.9)	(1.2)	(1.5)	(1.7)
1% increase in council tax each year	(1.2)	(1.8)	(2.4)	(3.1)
Council tax freeze each year	(1.5)	(2.4)	(3.4)	(4.4)

It must be stressed that there are a whole host of assumptions underpinning these projections, particularly around vacancy profiles, pension costs, future inflation, pay awards and funding beyond March 2020.

Assuming reserves were used to balance the overall position results in the following impact on general reserves:-



As can be seen general reserves are sufficient to balance the budget next year. However they are only a short term solution, and based on the current assumptions included in the budget, even allowing for a 2% council tax increase each year, they will fall below our minimum level during 2023/24. Furthermore the utilisation of reserves will still leave a recurring funding gap that will need to be offset by savings at a future point in time, and as highlighted earlier the scope to do so is limited.

### **Robustness of the Revenue Budget 2019/20**

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer is required to make a statement about the robustness of the budget.

The professional opinion of the Treasurer is that the budget has been prepared on a robust basis for the following reasons:

- The budget is reflective of existing service plans;
- The budget takes account of the anticipated on-going revenue impact of current and future capital programmes;
- The allowances included for inflation and pay awards represent a best estimate of the likely cost of this, at

	2019/20	2020/21- 2023/24
Uniformed Pay Award	2.0%	2.5%
Non Uniformed Pay Award	2.0%	2.5%
Non Pay Inflation	2.5%	2.5%

- As part of the budget setting process all estimates, including savings and income forecast, are assessed for reasonableness;
- The situation in respect of future funding, and in particular the outcome of next year's Spending Review will be kept under review and reported to the Authority in due course.
- The level of and appropriateness of reserves has been reviewed by the Treasurer, based on the potential risks faced by the Authority (note the real challenge in terms of the level of reserves comes in years 2022/23 and beyond, by which time we should have greater certainty in terms of funding , inflation and pay awards);
- The following significant financial risks have all been assessed and the Treasurer feels that these are adequately covered within the budget estimates presented or within the level of reserves currently held:-
  - Reductions in funding levels over and above those forecast;
  - Reduction in funding via Business Rates retention scheme;
  - Reduction in council tax funding due to changes in localisation of council tax support, reducing tax base and/or council tax referendum limits;
  - Higher than anticipated inflation;
  - Larger increases in future pension costs/contributions;
  - Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;
  - Increased cost of partnership arrangements;
  - Inadequacy of insurance arrangements

## Comments on the Draft Budget

At the time of writing the report we had not received any responses to the budget consultation exercise, if any are received a verbal update will be given.

## Summary and Conclusions

In considering its council tax requirements for 2019/20 the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

- deliver services as outlined in the Risk Management Plan and other plans;
- maintain future council tax increases at reasonable levels;
- continue to deliver efficiencies in line with targets;
- continue to invest in improvements in service delivery and facilities;
- set a robust budget that takes account of known and anticipated pressures;
- maintain an adequate level of reserves.

The draft budget as set out in this report achieves these objectives, but shows a budget reduction required of £0.5m in order to deliver a balanced budget based on a 3% increase in council tax. This can be achieved by delivering £0.2m more savings and drawing down £0.3m of general reserves to offset the shortfall in 19/20:-

	2019/20
	£m
Raw Budget Requirement	56.5
Unidentified Savings Target	(0.2)
Draw down of Reserves	(0.3)
Net Budget Requirement	56.0
Less Locally Retained Business Rates	(6.0)
Less Top Up	(17.7)
Less Section 31 Grant re Business Rates Reliefs etc.	(1.6)
Less Business Rates Collection Surplus	-
Less Council Tax Collection Surplus	(0.3)
Equals Precept	30.4
Estimated Number of Band D equivalent properties	438,138
Equates to Council Tax Band D Property	£69.48
Increase in Council Tax	2.99%

The council tax of £69.48, represents a 2.99% increase (£2.02 per annum, 4p per week).

If any of the assumptions outlined in the report prove to be inaccurate further review will be required, which may include both the use of reserves and the identification of additional savings in order to deliver a sustainable budget.

Until such time as the outcome of next year's Spending Review is published it is impossible to provide any meaningful funding forecast, however for the purpose of medium term financial planning we have assumed that funding is frozen in subsequent years, based on this, and assuming council tax is increased in line with 2% council tax increase referendum principles in future years the Authority is still faced with a

funding gap of £0.9m in 20/21 increasing to £1.7m in 23/24 (or higher if council tax is not increased by the maximum amount permissible).

Looking at the medium-term plans it is clear that the key variables remain pay awards, pension costs and funding. As such additional scenarios are presented in appendix 4 showing the potential impact of the full cost of the employer's pension contributions falling on the Authority, increased pay awards, and future funding falling as opposed to freezing. These range from a £2.6m increase relating to the pension contributions up to £5m for a 15% pay award. As can be seen all of these have a significant impact on 19/20 budget and the remainder of the medium term strategy.

Currently the Authority remains in a good financial position with reserves able to offset the financial challenges next year. The position becomes more challenging thereafter however by that time the Authority should have greater certainty on future funding, pay awards and future referendum limits, which will enable it to deliver more reliable medium term financial plans in order to address any gap that exists.

### **Financial Implications**

As outlined in the report.

### **Human Resource Implications**

None

### **Equality & Diversity Resource Implications**

The budget as set should enable the Authority to continue to make progress against its equality and diversity targets.

### **Environmental Implications**

The budget as set takes account of the need to invest in environmental issues.

### **Business Risk**

The final approved budget forms a key element of the Authority's risk management process, as it is designed to minimise any financial risks, which the Authority may face.

The Treasurer feels that the budget has been prepared in a robust manner and that the level of reserves held is sufficient to meet any potential risks.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		

**Resolution based on a council tax increase of 2.99%, £2.02, resulting in a council tax of £69.48**

The Combined Fire Authority is requested to: -

1. note the Treasurer's advice on the robustness of the budget
2. note the Treasurer's advice on the appropriate level of reserves/balances
3. agree the revised budget requirement of £56.051m for 2019/20
4. note the section 31 grant of £1.602m due in respect of the business rate reliefs
5. note the level of Business Rates Retention Top Up Funding £17.657m
6. note the level of Local Business Rates Retention Funding £6.032m
7. note the business rate tax collection fund surplus of £0.008m
8. note the council tax collection fund surplus of £0.311m
9. agree the council tax requirement, calculated in accordance with Section 42A(4) of the Localism Act of £30.442m
10. note the council tax base of 438,138 determined for the purposes of Section 42B of the Local Government Finance Act 1992
11. agree a council tax band D equivalent of £69.48, an increase of £2.02 (2.99%), calculated by the Authority under Section 42B of the Local Government Finance Act 1992 agree, on the basis of the fixed ratios between valuation bands set by the Government, council tax for each band as follows:

Band A	£46.32
Band B	£54.04
Band C	£61.76
Band D	£69.48
Band E	£84.92
Band F	£100.36
Band G	£115.80
Band H	£138.96



12. agree, based on each district and unitary councils share of the total band D equivalent tax base of 438,138, the share of the total LCFA precept of £30.442m levied on each council as follows:

Blackburn With Darwen Borough Council	£2,420,651
Blackpool Borough Council	£2,537,480
Burnley Borough Council	£1,611,311
Chorley Borough Council	£2,580,098
Fylde Borough Council	£2,089,125
Hyndburn Borough Council	£1,454,495
Lancaster City Council	£2,876,472
Pendle Borough Council	£1,671,780
Preston City Council	£2,673,730
Ribble Valley Borough Council	£1,612,562
Rosendale Borough Council	£1,417,115
South Ribble Borough Council	£2,486,509
West Lancashire District Council	£2,449,610
Wyre Borough Council	£2,560,876
TOTAL	£30,441,814

**Analysis of Budget by Service Area**

	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
	£m	£m	£m	£m	£m	£m
Central Admin Hub	0.798	0.810	0.849	0.850	0.871	0.892
Control	1.183	1.191	1.251	1.313	1.379	1.448
Corporate Communications	0.299	0.310	0.324	0.332	0.340	0.349
Executive Board	1.014	1.096	1.129	1.158	1.189	1.219
Finance	0.143	0.140	0.147	0.151	0.155	0.158
Fleet Services	2.216	2.602	2.475	2.603	2.618	2.683
Health & Safety	0.219	0.197	0.192	0.197	0.175	0.166
Human Resources	0.694	0.656	0.641	0.657	0.673	0.690
ICT	2.511	2.558	2.638	2.588	2.659	2.731
Occupational Health	0.257	0.268	0.277	0.284	0.291	0.298
Procurement	0.796	0.893	0.921	0.944	0.968	0.992
Property	1.304	1.339	1.379	1.415	1.453	1.492
Areas	30.750	34.249	35.405	36.558	37.589	38.516
Service Development	3.887	4.139	4.249	4.297	4.417	4.529
Special Projects	0.041	0.035	0.036	0.038	0.040	0.042
Training	4.069	3.895	3.897	3.998	4.151	4.343
Pensions Expenditure	1.188	1.323	1.349	1.228	1.253	1.280
Other Non-DFM Expenditure	3.688	0.844	0.803	0.829	0.757	0.684
<b>Gross Budget Requirement</b>	<b>55.057</b>	<b>56.546</b>	<b>57.961</b>	<b>59.439</b>	<b>60.976</b>	<b>62.512</b>
Unidentified Savings	(0.287)	(0.195)				
Use of Reserves		(0.300)				
<b>Net Budget Requirement</b>	<b>54.770</b>	<b>56.051</b>	<b>57.961</b>	<b>59.439</b>	<b>60.976</b>	<b>62.512</b>

**Analysis of Budget by Type of Expenditure**

	2018/19 Budget £m	2019/20 Budget £m	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
<b>Employee</b>						
Uniformed	34.193	37.420	38.455	39.502	40.623	41.664
Support staff	6.748	6.867	7.148	7.178	7.331	7.501
Pensions	1.188	1.323	1.349	1.228	1.253	1.280
Other Employee Related Exp	0.088	0.121	0.109	0.111	0.114	0.116
	<b>42.217</b>	<b>45.732</b>	<b>47.060</b>	<b>48.018</b>	<b>49.321</b>	<b>50.561</b>
<b>Premises</b>						
R&M	0.855	0.876	0.898	0.920	0.943	0.967
Utilities	0.576	0.590	0.605	0.620	0.636	0.651
Cleaning	0.292	0.268	0.275	0.282	0.289	0.296
PFI	0.666	0.683	0.699	0.707	0.707	0.707
Other	0.052	0.053	0.054	0.056	0.057	0.058
Rent/Rates	1.230	1.311	1.376	1.444	1.515	1.590
	<b>3.670</b>	<b>3.781</b>	<b>3.907</b>	<b>4.028</b>	<b>4.146</b>	<b>4.268</b>
<b>Transport</b>						
Repairs	0.849	0.675	0.692	0.709	0.727	0.745
Running Costs	0.383	0.401	0.411	0.421	0.432	0.442
Travel costs	0.657	0.655	0.671	0.687	0.704	0.722
insurance	0.193	0.178	0.182	0.186	0.191	0.196
Other	0.004	0.005	0.005	0.005	0.005	0.005
	<b>2.087</b>	<b>1.913</b>	<b>1.960</b>	<b>2.009</b>	<b>2.059</b>	<b>2.110</b>
<b>Supplies &amp; Services</b>						
Hydrants	0.109	0.111	0.114	0.117	0.120	0.123
Operational equipment	0.406	0.588	0.602	0.683	0.649	0.665
Clothing & Uniform	0.702	0.891	0.613	0.628	0.643	0.658
Printing, stationery, postage	0.221	0.151	0.154	0.158	0.162	0.165
Comms-Network Costs	1.066	0.996	1.021	1.046	1.072	1.099
Telephony	0.174	0.190	0.195	0.199	0.204	0.209
Computers	0.876	1.079	1.106	1.133	1.162	1.191
Subsistence	0.071	0.072	0.074	0.076	0.077	0.079
Fire Safet Expenses	0.212	0.320	0.328	0.336	0.345	0.354
Training Expenses	0.446	0.457	0.468	0.480	0.492	0.504
insurance	0.276	0.282	0.288	0.293	0.300	0.306
Members Expenses	0.160	0.164	0.168	0.172	0.176	0.180
Misc Equipment	0.094	0.096	0.099	0.101	0.103	0.106
Other	1.814	1.686	1.796	1.996	2.077	2.161
Catering	0.105	0.082	0.084	0.086	0.088	0.090
PTV Residential	0.091	0.093	0.095	0.098	0.100	0.103
	<b>6.821</b>	<b>7.257</b>	<b>7.204</b>	<b>7.602</b>	<b>7.769</b>	<b>7.992</b>
<b>Other</b>						
Contracted Services	0.744	0.767	0.786	0.806	0.826	0.847
Other	0.004	0.004	0.004	0.004	0.004	0.004
	<b>0.747</b>	<b>0.770</b>	<b>0.790</b>	<b>0.810</b>	<b>0.830</b>	<b>0.851</b>
<b>Capital Financing Costs</b>						
Capital Financing Costs	2.100	2.100	2.100	2.100	2.100	2.100
	<b>2.100</b>	<b>2.100</b>	<b>2.100</b>	<b>2.100</b>	<b>2.100</b>	<b>2.100</b>
<b>Income</b>						
Income	(2.586)	(5.006)	(5.060)	(5.128)	(5.248)	(5.370)
	<b>(2.586)</b>	<b>(5.006)</b>	<b>(5.060)</b>	<b>(5.128)</b>	<b>(5.248)</b>	<b>(5.370)</b>
<b>Gross Budget Requirement</b>	<b>55.057</b>	<b>56.546</b>	<b>57.961</b>	<b>59.439</b>	<b>60.976</b>	<b>62.512</b>
Unidentified Savings	(0.287)	(0.195)				
Use of Reserves		(0.300)				
<b>Net Budget Requirement</b>	<b>54.770</b>	<b>56.051</b>	<b>57.961</b>	<b>59.439</b>	<b>60.976</b>	<b>62.512</b>

## Appendix 4

### Budget Scenarios

		2019/20	2020/21	2021/22	2022/23	2023/24
Current 3% council tax increase	Original Funding Gap	<b>(£494,680)</b>	<b>(£547,205)</b>	<b>(£503,213)</b>	<b>(£444,173)</b>	<b>(£309,568)</b>
Pension Increase of 12.6% only funded in 19/20	Add deficit		(£2,600,000)	(£2,600,000)	(£2,600,000)	(£2,600,000)
	Revised Funding Gap	<b>(£494,680)</b>	<b>(£3,147,205)</b>	<b>(£3,103,213)</b>	<b>(£3,044,173)</b>	<b>(£2,909,568)</b>
5% grey book pay award 19/20	Add deficit	(£869,247)	(£1,182,176)	(£1,205,820)	(£1,229,936)	(£1,254,535)
	Revised Funding Gap	<b>(£1,363,928)</b>	<b>(£1,729,381)</b>	<b>(£1,709,033)</b>	<b>(£1,674,110)</b>	<b>(£1,564,103)</b>
10% grey book pay award 19/20	Add deficit	(£2,317,993)	(£3,152,470)	(£3,215,520)	(£3,279,830)	(£3,345,427)
	Revised Funding Gap	<b>(£2,812,673)</b>	<b>(£3,699,675)</b>	<b>(£3,718,733)</b>	<b>(£3,724,003)</b>	<b>(£3,654,995)</b>
15% grey book pay award 19/20	Add deficit	(£3,766,739)	(£5,122,764)	(£5,225,220)	(£5,329,724)	(£5,436,319)
	Revised Funding Gap	<b>(£4,261,419)</b>	<b>(£5,669,969)</b>	<b>(£5,728,433)</b>	<b>(£5,773,897)</b>	<b>(£5,745,887)</b>
10% funding cut in next Sending Review	Add deficit		(£595,405)	(£1,190,810)	(£1,786,215)	(£2,381,619)
	Revised Funding Gap	<b>(£494,680)</b>	<b>(£1,142,609)</b>	<b>(£1,694,023)</b>	<b>(£2,230,388)</b>	<b>(£2,691,188)</b>
20% funding cut in next Sending Review	Add deficit		(£1,190,810)	(£2,381,619)	(£3,572,429)	(£4,763,239)
	Revised Funding Gap	<b>(£494,680)</b>	<b>(£1,738,014)</b>	<b>(£2,884,833)</b>	<b>(£4,016,602)</b>	<b>(£5,072,807)</b>