

## Medium Term Financial Strategy

### Introduction

1. The purpose of the Medium Term Financial Strategy (MTFS) is to provide the Authority, staff, the public and other stakeholders with information on the financial outlook and the estimated available funding over the next five years. The MTFS takes into account future high level, potential revenue and capital expenditure over the period based upon current known information and estimates.
2. The MTFS forms part of our financial strategies, they are part of our strategic planning activity and governance framework which sets out the direction of the Service and how we will achieve our aim of making Lancashire safer. These financial strategies are one of six core strategies that set out how we will provide services in line with the following priorities in our five-year Community Risk Management Plan (CRMP):
  - Valuing our people.
  - Preventing fires.
  - Protecting people and property.
  - Responding to fires and other emergencies.
  - Delivering value for money.

### The Budget Strategy

3. The purpose of the budget strategy is to provide a basis for determining:
  - The level of funding available in the future to deliver national and local priorities.
  - The future demands upon the revenue budget.
  - The impact of external factors.
  - The financial implications of collaborations, partnerships etc.
  - The amount of capital investment which is required to achieve corporate objectives.
  - The revenue consequences of such capital investment.
  - The future reserve levels.
  - The impact of additional demands on the level of council tax that is required.
  - The potential impact of the main financial risks facing the organisation.
4. The above helps to establish the anticipated level of funding and demands on finances over the MTFS period enabling strategic financial planning processes to address the challenges and outcomes. The following sets out the key principles for that planning process:

- Ensure that plans contribute to improved outcomes in support of set priorities within the CRMP.
- Set a comprehensive, timely, balanced and realistic budget.
- Take into account pay and price inflation and achievability of savings.
- Ensure compliance with the approved capital strategy.
- Ensure compliance with the approved reserves strategy.
- Ensure compliance with the approved treasury management strategy.
- Raise awareness of and communicate key financial messages both internally and externally.
- Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term.
- Demonstrate that all spending plans achieve value for money.
- Agree spending only when the necessary funding is identified and approved.
- Seek external funding wherever it can be used in a sustainable manner that does not lead to unforeseen costs.
- Publicise significant budget proposals and where appropriate consult with key stakeholders.

### **Financial Scenario**

5. It is imperative that the MTFs takes account of the local, regional, national and global economies. This provides a basis for the estimates and assumptions used.
6. The Authority receives its main funding from three sources – Government grants, business rates and local council tax (known as a precept). Council Tax and Business Rates represents over 80% of our funding.
7. Prior to the Autumn Budget and finance settlement the National Fire Chiefs Council (NFCC) and Lancashire Fire and Rescue Service (LFRS) asked Government to consider increased council tax precept flexibility, protect grant funding in real terms, and providing suitable capital grant funding.
8. The Autumn 2024 Budget announced the Government's intention to pursue a comprehensive set of reforms to place local government in a more sustainable position, and the Autumn Budget promised a deprivation-based approach in 2025/26, followed by broader reform through a multi-year settlement from 2026/27. On 18 December 2024, the Minister of State (Minister for Local Government and English Devolution) released the provisional local government finance settlement for 2025/26. The main headlines for the 2025/26 budget are:
  - Fire and Rescue Authorities will be able to raise council tax (for a band D property) by up to £5 (for information the threshold for Police will rise to £14).

- The Funding Guarantee Grant received in 2023/24 will not continue (for LFRS this was £0.9m in 2023/24). For information this grant was designed to ensure that no local authority would see a reduction in their Core Spending Power compared to the previous year.
  - Standalone FRAs are not eligible for the one-off Recovery Grant; this grant is designed to support local authorities in managing financial pressures and ensuring the continuity of essential services.
  - The September Consumer Price Index (CPI) figure of 1.7% has been applied to increase business rates grants Revenue Support grant funding; last year this was an increase of 6.7%. The increase is below the current CPI rate which is 2.5% at the time of writing.
  - The Autumn Budget included an increase to employer's National Insurance contributions with a commitment that additional funding will be provided for the public sector to help manage the increased costs. The provisional finance settlement provided guidance on this additional funding and for LFRS there is a funding shortfall that results in an unfunded pressure of £0.7m.
  - No capital grant funding was provided for in the provisional settlement.
9. Government measure the resources available to local authorities to fund service delivery through a mechanism called Core Spending Power (CSP), it doesn't exactly mirror spending but is a useful measure when considering spend across the sector. Following the settlement, and assuming all fire authorities increase council tax by £5, Government have confirmed that CSP for the fire sector has increased by 2.8%, which is broadly in line with current CPI inflation, for LFRS the increase is 3.2%. After taking into account of the shortfall in national insurance funding this results in an increase of just 2.2%, which is below inflation and creates additional financial strain for the Authority.
10. Against the NFCC and LFRS budget asks of government; for increased council tax precept flexibility, to protect grant funding in real terms, and providing suitable capital grant funding, only the precept flexibility has been delivered (assuming the £5 precept is agreed by the CFA), and ultimately this settlement represents a real term reduction in funding for LFRS.

### Funding Reform

11. For almost a decade local government funding reform has been on the horizon and presented both a risk and an opportunity for authorities. The recent national election has brought about some renewed momentum in this area:
- Alongside the Provisional Settlement Government published a consultation on funding reform. The funding formula has not been updated since 2013/14 and there is consensus amongst independent voices and across the political spectrum that it no longer reflects need and reform is necessary. The aim of this reform is to allocate funding efficiently to reflect an updated assessment of local need and revenues and build on the previous government's proposed 'Fair Funding' reforms. It is expected that 2026/27 will be the first multi-year funding settlement for local government. Initial projections indicate that funding for individual fire

authorities may increase or decrease by as much as 15%, although there will likely be a phasing in of these changes.

- Whilst developing and implementing funding reforms Government also intends to implement the proposals in the English Devolution White Paper published on the 16 December 2024.
  - Also, the business rates reset for local authorities is scheduled to take place in the 2026/27 financial year. For those authorities that have experienced a real term growth in business rates, as part of the business rates retention system, there is a risk that the reset may result in the redistribution of the growth to those local authorities have experienced as a reduction. LFRS benefits from the growth experienced across Lancashire and therefore there is a risk that business rates funding may reduce by approximately £1m per year; again, we would expect a phasing in of these changes.
12. Certainty of funding is essential for long term planning and whilst a one-year settlement was expected, progress with funding reform is beneficial for the sector.
  13. Council Tax income is based on the precept approved by the Authority and the estimated taxbase; this is the number of band D equivalent properties in the area. Factors influencing the taxbase include changes to property numbers, collection rates in each local authority, local authority discounts and changes in benefit claimants. The estimated taxbase for 2025/26 increased by 1.43% compared with 1.38% in 2024/25.
  14. A precept is levied on the council tax to partly fund the authority and it is the responsibility of the Authority to set the level of precept as part of the annual budget setting process. To calculate the level of council tax funding, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, council tax benefits etc. These vary each year and the MTFS includes assumptions for these changes based on discussions with and forecasts supplied by the local collection authorities.
  15. It is now standard for the Government to set a limit on the amount by which a local authority can increase its council tax each year, with any increase above this limit requiring a referendum. The Provisional Local Government Finance Settlement confirmed that for 2025/26 this is £5 for a Band D property.
  16. Each year the council tax income is calculated based on assumed levels of collection rates by the local authorities. This means that at the end of each year, an adjustment has to be made to reflect the actual collection rate. If more has been collected, the fund will be in surplus; if less has been collected, the fund will be in deficit. The Authority will either receive its share of any surplus or be required to pay its share of any deficit and this is taken into account as part of the overall budget setting process.

17. The same process applies to the collection of local business rates in which the Authority has a 1% stake. The details of these are published by the end of the January prior to setting the budget.

**MTFS Key Financial Assumptions**

18. Some of the key financial assumptions and estimates in the five year MTFS are set out below:

<b>Key Assumptions</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>29/30</b>
Uniform Pay Award (Apr - Jun)	4%	2%	2%	2%	3%
Uniform Pay Award (Jul - Mar)	3%	2%	2%	2%	2%
Non-uniform Pay Award	3%	2%	2%	2%	2%
General inflation	2%	2%	2%	2%	2%
Establishment start of year	636	619	622	631	634
New recruits during year	0	24	36	24	0
No of Leavers	(17)	(21)	(27)	(21)	(0)
Council Taxbase % increase	1.43%	1.20%	1.20%	1.20%	1.20%
Council tax precept % increase	5.90%	2.50%	2.50%	2.00%	2.00%

- Inflation – The pay awards for 2025/26 are estimated at 3% then 2% thereafter. Non-pay budgets have increased by the latest Office of Budget Responsibility (OBR) CPI figures; 1.7% in 2025/26 and 2% thereafter. Income earned on investments is expected to reduce as cash balances reduce and interest rates reduce from 4.25% to 3.5% over the period of the MTFS.
- Commitments – The 2026/27 budget allows for an £0.5m increase in LGPS contributions and increase in revenue contribution to Capital of £0.5m which is also budgeted for in 2026/27, 2027/28 and 2028/29.
- Increases in Resourcing:
  - 32 of LFRS’s 58 Fire Engines are crewed by firefighters working the on-call duty system. There are national challenges in relation to on-call Fire Engine availability and LFRS is facing similar challenges. An extensive work programme is underway and there are signs of improvement in the emergency cover provided by our On-Call crews. It is anticipated that additional revenue costs will be required in order to continue to improve the availability and future sustainability of this duty system, therefore it would be prudent to assign up to £0.5m additional revenue costs across the 32 On-Call appliances.
  - Investment in support services in 2025/26 and capital financing costs from 2026/27 to meet the costs associated with borrowing to largely fund the major projects in the capital programme; by the end of the capital programme borrowing costs are forecast at £3.8m per annum.
- Decreases in resourcing are required to balance the budget and meet the costs associated with funding the borrowing costs. Over the period of the MTFS £5m of savings is required to be delivered; £0.5m in 2025/26,

£1.0m in 2026/27, £1.5m in 2027/28 and 2028/29 and £0.5m in 2029/30. To deliver the savings a review of services will commence in 2025.

- Funding – Detailed assumptions are included in the MTFS, in broad terms the funding is expected to increase between 2% to 3% however, the outcome of the comprehensive spending review and review of the funding formula is likely to impact on these assumptions which is expected to be determined during late 2025.

19. The summary MTFS is set out below and in more detail in Appendix 1 and 2 of this report.

Revenue MTFS	25/26 £m	26/27 £m	27/28 £m	28/29 £m	29/30 £m
Base Budget	75.2	77.5	79.8	82.1	84.3
Inflation	2.7	2.3	1.7	2.0	1.8
Commitments	(0.7)	1.0	0.6	0.6	(0.3)
Increases in Resourcing	0.6	0.4	1.4	1.3	0.7
One-off items	0.1	(0.4)	0.0	(0.2)	0.6
Decreases in Resourcing	(0.5)	(1.0)	(1.5)	(1.5)	(0.5)
<b>Net Budget</b>	<b>77.5</b>	<b>79.8</b>	<b>82.1</b>	<b>84.3</b>	<b>86.6</b>
Council Tax	(42.3)	(43.8)	(45.5)	(46.9)	(48.4)
Business Rates	(21.6)	(22.1)	(22.5)	(22.9)	(23.4)
Revenue Support Grant	(13.7)	(13.9)	(14.2)	(14.4)	(14.7)
Other Grants	0.0	0.0	0.0	0.0	0.0
<b>Funding</b>	<b>(77.5)</b>	<b>(79.8)</b>	<b>(82.1)</b>	<b>(84.3)</b>	<b>(86.6)</b>

20. The MTFS is aligned to our CRMP, we review all our activities alongside the CRMP to ensure our resources support deliver of the CRMP proprieties. An indicative overview of our budget alongside the CRMP priorities is set out below:

CRMP Priorities	25/26 %
Responding to fires and other emergencies	73
Preventing fires	12
Protecting people and property	9
Valuing our people	6
	<b>100</b>

21. We do not allocate any of our activities specifically to delivering value for money as we aim to achieve this priority in everything we do as a service.

**MTFS Risks and Scenarios**

22. The following significant financial risks have been identified and assessed by the Director of Corporate Services (DoCS) and he feels these are adequately covered within the budget estimates presented or within the level of reserves currently held:

- Reduction in Business Rate funding following the reset of business rates due in 2026/27.
- Adverse impact for the Fire Sector following the three-year Spending Review that is due for completion in late 2025.
- Adverse impact for LFRS following the review of the Funding Formula.
- Non delivery of savings required in the MTFS.
- Changes to the Business Rates Retention Scheme.
- Adverse changes because of the implementation of the Fair Funding Review.
- Reduction in Council Tax funding.
- Higher than anticipated inflation.
- Larger increases in pension costs.
- Significant changes to retirement profiles.
- Increase in demand led pressures.
- Higher insurance claims.
- Higher interest rates assumed for borrowing.

23. The key budget risks are quantified below in a worst case scenario:

<b>Budget Scenarios</b>	<b>25/26 £m</b>	<b>26/27 £m</b>	<b>27/28 £m</b>	<b>28/29 £m</b>	<b>29/30 £m</b>
General Reserve	5.1	4.7	4.4	4.1	4.5
Quantified major risks					
- 1% higher pay award	0.4	0.5	0.5	0.6	0.6
- Loss of Business Rates Growth at Reset	0.0	1.0	1.0	1.0	1.0
1 year delay in delivery of savings	0.5	1.0	1.5	1.5	0.5
2% increase in borrowing rates	0.2	0.4	0.6	0.8	1.0
- 7% reduction in funding following Spending review and review of funding formula (assume phased in over 3 years)	0.0	1.9	3.8	5.7	5.7
<b>Subtotal</b>	<b>1.1</b>	<b>4.8</b>	<b>7.4</b>	<b>9.6</b>	<b>8.8</b>
<b>Revised General Fund Balance</b>	<b>4.0</b>	<b>(1.1)</b>	<b>(9.0)</b>	<b>(18.8)</b>	<b>(27.3)</b>

24. The analysis shows that whilst the general reserve is sufficient to meet all the worst-case risks in 2025/26 and 2026/27, with reliance on earmarked reserves, major structural changes would be required alongside government support beyond year two of the MTFS.

### Indicative Capital Programme

25. The Authority has a ten year capital programme, from 2025/26 to 2034/35. This reflects the Authority's capital aspirations in the Fleet, Estates and ICT strategies. The first five years of the strategy are set out below. Work is ongoing to refine the later years of the programme (from years 6 to 10), in particular with detailed condition surveys across our estate.
26. The table below shows the Authority's first five years of the Capital Programme and how it is anticipated that it will be funded.

Capital Programme	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Vehicles	4.5	2.8	2.0	2.5	2.9
Operational Equipment	1.6	1.2	0.1	0.6	0.6
Buildings	3.9	9.4	27.8	9.6	11.0
ICT	2.8	1.3	0.1	0.6	0.6
	<b>12.8</b>	<b>14.8</b>	<b>30.1</b>	<b>13.1</b>	<b>15.1</b>
<b>Funding</b>					
Revenue Contributions	2.5	3.0	3.5	4.0	4.0
Capital Reserve	10.3	6.6	0.0	0.0	0.0
Capital Receipts	0.0	0.0	0.0	0.0	1.6
Grants	0.0	1.0	0.0	0.0	0.0
Borrowing	0.0	4.2	26.6	9.1	9.5
<b>Total</b>	<b>12.8</b>	<b>14.8</b>	<b>30.1</b>	<b>13.1</b>	<b>15.1</b>

27. Full details of the 10 year capital programme and its associated funding are included in the Capital Strategy. In addition, given the above funding proposals includes borrowing, the impact of this is discussed in more detail within the Treasury Management Strategy.



## Analysis of Budget by Service Area

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Service Delivery	44.731	46.145	47.081	48.265	49.276
Prevention & Protection	3.865	3.956	4.040	4.126	4.213
Administration	0.766	0.781	0.797	0.813	0.829
Control	2.205	2.305	2.351	2.398	2.446
Corporate Communications and Democratic Services	0.503	0.513	0.465	0.474	0.484
Digital Transformation (Moved to DDAT below)	0.000	-0.080	-0.082	-0.083	-0.085
Executive	1.197	1.223	1.248	1.273	1.298
Finance	0.312	0.318	0.325	0.331	0.338
Fleet & Engineering Services	3.401	3.470	3.539	3.610	3.682
Health & Safety	0.335	0.341	0.348	0.355	0.362
Human Resources	1.011	1.031	1.052	1.073	1.094
Digital, Data and Technology (DDAT)	4.626	4.691	4.787	4.884	4.983
Occupational Health	0.372	0.380	0.387	0.395	0.403
Pensions	1.452	1.475	1.498	1.522	1.547
Procurement	0.882	0.870	0.888	0.906	0.924
Service Development	2.592	2.647	2.700	2.754	2.809
Special Projects	0.024	0.024	0.025	0.025	0.026
Leadership & Development	4.279	4.654	4.834	4.920	4.696
Property	4.196	4.280	4.365	4.453	4.542
Overheads	0.762	0.782	1.472	1.825	2.712
<b>Grand Total</b>	<b>77.511</b>	<b>79.807</b>	<b>82.120</b>	<b>84.319</b>	<b>86.580</b>

## Analysis of Budget

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Base Budget	75.164	77.511	79.807	82.120	84.319
Unfunded pay award from previous year	0.485	0.000	0.000	0.000	0.000
Uniform Pay Award (Apr - Jun)	0.361	0.376	0.259	0.265	0.271
Uniform Pay Award (Jul - Mar)	1.139	0.798	0.817	0.829	0.840
Non-uniform Pay Award	0.213	0.215	0.218	0.223	0.227
General inflation	0.911	0.449	0.253	0.504	0.335
Investment income changes	(0.385)	0.510	0.200	0.215	0.115
Vacancy Factor Adjustments	(0.057)	0.162	0.106	0.056	(0.268)
Other Commitments	(0.601)	0.332	0.015	(0.000)	0.000
Revenue Contributions to Capital adjustments	0.000	0.500	0.500	0.500	0.000
Capital Financing Costs	0.000	0.114	1.422	1.343	0.682
Other growth items	0.637	0.250	0.000	0.000	0.000
One off pressures	0.144	(0.410)	0.022	(0.236)	0.559
Savings	(0.500)	(1.000)	(1.500)	(1.500)	(0.500)
	<b>77.511</b>	<b>79.807</b>	<b>82.120</b>	<b>84.319</b>	<b>86.580</b>