LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 21 JANUARY 2020**

Venue: **MORECAMBE TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

Please note that this meeting will be held in Morecambe Town Hall and will start at 6.00 p.m. All Members of the Council and stakeholders have been invited to attend.

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the party whip, which is prohibited under the Lancaster City Council Constitution.

Note for Councillors: Budget Proposals from the Lancashire Police and Crime Commissioner would usually be presented at this meeting, however the Commissioner's office has advised that proposals will not be available until February 2020.

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting held on 17 December 2019 (previously circulated).

3. **Items of Urgent Business authorised by the Chair**

4. **Declaration of Interests**

   To receive declarations by Councillors of interests in respect of items on this Agenda.

   Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **Budget and Policy Framework Update 2020/21 to 2023/24**

Cabinet will present its Budget and Policy Framework Proposals.
(Report to follow)

6. **Lancashire County Council Consultation on Budget Proposals** (Pages 3 - 26)

The Panel to consider Lancashire County Council's Consultation on its budget proposals. The County Council's Director of Finance, Neil Kissock, will be in attendance.

7. **Lancashire Combined Fire Authority Budget Proposals** (Pages 27 - 38)

Lancashire Combined Fire Authority have given apologies for the meeting. The Authority's Budget Proposals have been submitted to the Panel for comments.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Keith Budden (Chair), Joanna Young (Vice-Chair), Tim Dant, Roger Dennison, Jason Firth, Mandy King, Jack O'Dwyer-Henry, Katie Whearty and David Whitworth

(ii) Substitute Membership

Councillors Tony Anderson, Tricia Heath, Oliver Robinson, Stewart Scothern and Jason Wood

(iii) Queries regarding this Agenda

Please contact Debbie Chambers, Democratic Services - telephone 01524 582057 or email dchambers@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democraticsupport@lancaster.gov.uk.

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Monday 13 January 2020.

Report to the Cabinet
Meeting to be held on Thursday, 16 January 2020

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Money Matters 2019/20 Position - Quarter 2
(Appendices 'A', 'B' and 'C' refer)

Contact for further information:
Angie Ridgwell, (01772) 536260, Chief Executive and Director of Resources,
angie.ridgwell@lancashire.gov.uk

Executive Summary

This report provides an update to Cabinet on the county council's 2019/20 revenue and capital financial position as at the end of September 2019 and an updated medium term financial strategy (MTFS) covering the period 2020/21 to 2023/24.

There is currently an unprecedented amount of uncertainty relating to future funding across local government. Accordingly significant assumptions are required to underpin our forecasts. While these can be made with reasonable confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies and discussion with peers. A number of funding scenarios were assessed and the most likely scenario selected as the basis for this forecast.

The provisional local government finance settlement for 2020/21 announced on the 20th December, was largely in line with the technical consultation that was published in October. It announced the continuation of the revenue support grant and significant additional funding for adult social care. As a result a balanced financial position without recourse to reserves is expected in 2020/21.

The settlement is for one year only and the figures are expected to be confirmed in late January 2020 (within the final settlement announcement). The 2020/21 announcement is the first and only year of the Spending Round 2019, with future years' announcements dependent on a number of factors, including: spending review 2020, the outcome of the fair funding review, the business rates retention reset, the move to 75% business rates retention and any reform of the new homes bonus scheme.

Given the uncertainty regarding the future funding for local government, we have modelled a number of scenarios to reflect a range of possible funding measures.

Whilst we expect to deliver a balanced budget in 2020/21 without recourse to reserves and after a contribution of £800,000 from revenue to organisational development work, commencing in January 2020. Forecasting based on the most likely funding scenario indicates a significantly reduced future funding gap of £28.438m by 2023/24. This compares favourably with the funding gap reported at Q1 of £64.755m. This is due primarily to increased pay costs and service demand pressures. Work continues to build on last years' service challenge work to deliver further efficiencies and close the funding gap. Further reports will follow as firm costed proposals become available.

In summary:

(i) The 2019/20 revenue forecast outturn is £790.140m, representing a projected underspend of £12.135m (1.51%) of the agreed budget.

(ii) The MTFS has been updated and revised and the forecast position has improved significantly in the light of our expectations of future funding levels. At Q1 the MTFS showed a deficit £64.755m to 2022/23 and our most likely scenario now indicates a financial deficit of £28.438m in 2023/24.

(iii) The Council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 3% of net budget, which is unchanged from the previously reported position.

(iv) The Council is forecast to hold £150.358m of uncommitted transitional reserve which is sufficient to meet the forecast gap beyond the end of the current MTFS period.

Recommendation

Cabinet is asked to:

(i) **Note** the current forecast underspend of £12.135m on the revenue budget in 2019/20.

(ii) **Note** the revised funding gap of £28.438m covering the period 2020/21 to 2023/24 as set out in the revised financial outlook forecast for the Council.

(iii) **Approve** the budget adjustments for 2020/21, and following years' changes, included in the revised MTFS.

(iv) **Note** the contents of the county council's reserves position.

(v) **Approve** a re-profiled 2019/20 capital delivery programme of £147.107m as presented within the body of the report.

Background and Advice

The detailed reports present the quarter 2 position are appended as follows:

- Appendix A – the 2019/20 forecast revenue position.
- Appendix B - revised medium term financial strategy for the period 2020/21 to 2023/24, including reserves position.
- Appendix C – the 2019/20 re-profiled capital delivery programme

2019/20 Revenue Position as at 30th September 2019 (Appendix A)

A revenue underspend is currently forecast at £12.135m and represents a variance of 1.51% against the overall revenue budget of £802.275m. The forecast outturn position is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which, as always, is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review. There are also a number of underspending service areas and where these have been validated as reflecting a level of recurrent underspend these have been picked up as management action savings within the MTFS. The focus will remain on continuing to tightly control and drive down costs wherever possible.

As part of the monthly monitoring process savings that have been agreed to date are reviewed by finance monitoring boards. The position at the end of quarter 2 was that 94.2% of the financial value of savings were rated as on track, albeit some having to undertake work to mitigate against delays in delivery.

The medium term financial strategy (MTFS) and reserves position (Appendix B)

At cabinet in September 2019 the MTFS set out a forecast funding gap of £64.755m by the end of the 3 year period (2019/20 – 2022/23). The updated funding gap contained within the report has decreased to £28.438m by 2023/24 primarily as a result of funding changes, with a balanced budget forecast for 2020/21. The MTFS position includes additional costs relating to staff pay inflation, transport and children's social care demand assumptions and the impact of some savings that are deemed undeliverable, offset by some service cost adjustments due to changes to service configuration, particularly in relation to support service delivery models, and a change to the funding assumptions in 2020/21.

The value of the uncommitted transitional reserve is currently forecast to be £150.358m by the end of March 2020 The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the end of the current MTFS, but the intention is to identify further savings and thereby securing a sustainable financial position for the council.

Capital delivery programme for 2019/20 (Appendix C)

A 2019/20 capital delivery programme of £130.289m was agreed at Full Council in February. This was based on the best forecast available at that point in time with the need to review and update to reflect the impact of the final 2018/19 outturn position and associated slippage and advance delivery, additions to the programme subsequently agreed by cabinet and an updated assessment of deliverability within the year. The review has resulted in the 2019/20 capital delivery programme increasing to £147.107m and this will be used as the basis for monitoring progress over the rest of the financial year.

Consultations

N/A

Implications:

Risk management

The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks and opportunities that could affect the position outlined in the report primarily cover the following areas. Many of these risks equally present opportunities:

• Level of Future Resources from Central Government

Risks remain in relation to the level of resources the council receives from the government in terms of revenue support grant, social care grant, business rates and the fairer funding settlement yet to be announced. At this point in time there is insufficient detailed information regarding the changes to certain of the funding assumptions within the MTFS, as a result these have been modelled following scenario analysis on the most likely funding scenario. Future funding levels could therefore be higher or lower than currently forecast.

• Demand

There is continued pressure on the council's budget, particularly around adult and children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.

• Inflation

A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the national living wage.

• Delivery

The MTFS assumes that agreed savings will be delivered in the period 2020/21 to 2023/24. There are also a significant number of other factors, both internal and external, which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Appendix B

Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy & Reserves as at 30th September 2019

www.lancashire.gov.uk

Lancashire County Council

1. Executive summary

At cabinet in September 2019 the medium term financial strategy (MTFS) set out a forecast funding gap of £64.755m by the end of the 3 year period (2020/21 – 2022/23). The report was delivered on the day following the September spending review announcement. The timing of the announcement precluded the impact of the review from being factored into the assumptions and resulting numbers.

Since then, the provisional finance settlement for 2020/21 has been announced which has helped to significantly firm up the numbers for the coming financial year.

This report provides an updated position covering the 2020/21 – 2023/24 financial years.

A review of assumptions, relating to both income and expenditure, has been undertaken to reflect the most current information available. Due to the ongoing and unprecedented uncertainty in relation to future local government funding there are a significant number of variables leading to a range of different funding scenarios. These have been considered by the Corporate Management Team and the most likely scenario selected as the basis for this MTFS. The selected scenario is supported by advice from leading experts in local government finance and funding.

The updated funding gap contained within the report is £28.438m by 2023/24 which is a decrease of £36.317m from the previously reported position. The worst case scenario that we modelled, although unlikely, indicated a budget gap of £85.915m by 2023/24. There is no forecast requirement for structural budget funding from reserves in 2020/21.This is after assuming that there is a revenue contribution of £800,000 to the commencement of the organisational development review commencing in January 2020. There is a small surplus forecast for 2021/22 which would be available to support organisational transformational activity as identified by the review work in 2020/21. The main reasons for the changes to the position are as follows:

- Increased funding expectations in the light of the provisional settlement announced on the 20th December 2019 with the retention of the revenue support grant, a new social care grant and a one year adult social care precept contributing to the addition of £63.256m of resources into the budget.
- Net additional savings of £6.812m (rising to £10.031m by 2025/26) forecast to be delivered by the adoption of the Lancashire family safeguarding model following a successful bid for funding from the Department for Education.
- Service demand and volume changes and inflation and cost changes have increased costs by a net sum of £5.034m. This is primarily the outcome of increases in the levels of demand across services such as children's social care and transport, offset by some service cost adjustments due to changes to service configuration, particularly in relation to support service delivery models.
- Service cost adjustments of £2.744m reflecting the investment needed to support service challenge savings and one off funding of c£2.200m to deliver the adult social care management information system reconfiguration.
- Undeliverable £8.928m, and re-profiled savings £3.025m across the council.

Although the forecast indicates a balanced budget in 2020/21 without recourse to reserves, the position over the 4 year period indicates a structural deficit of £28.438m by 2023/24, which varies over each of the 4 years shown in Table 1. Work is progressing on phase two of the service challenge process which will seek to address the ongoing deficit and is focusing on a number of cross-cutting work streams and areas for investigation identified in the initial phase, but where further work is needed to robustly evidence the scale and form of proposals. In particular, service challenge phase 2 is focused on the complex levers required to create an environment where service configuration and operational practice reflects best in class and supports demand management which is the single biggest driver on our costs. Further saving proposals will come forward for consideration at future cabinet meetings.

The revised funding gap also makes assumptions about future funding levels and there remains significant uncertainty about this post 2020/21 with changes to be made in respect of business rates retention, the overall funding formula, the anticipated green paper on adult social care and, of course, any government spending review.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the period of this MTFS, which provides time to address the structural deficit in a considered and sustainable way. The intention remains to identify continued savings and deliver a financially sustainable position for the council.

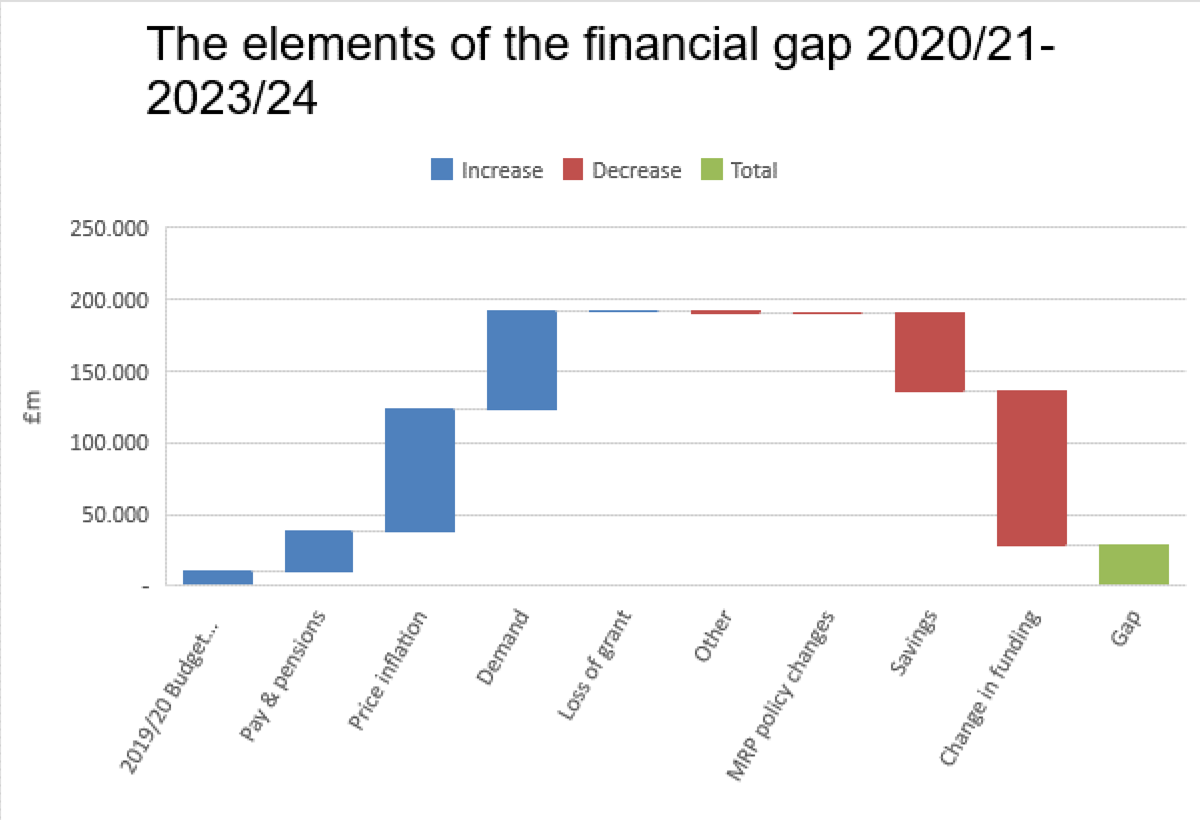
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

Table 1

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Spending Gap as reported to Cabinet	**5.895**	**39.034**	**19.826**	**20.064**	**84.819**
Add change to forecast of spending:					
Pay & Pensions	0.136	-0.007	-0.351	0.182	**-0.040**
Inflation and Cost Changes	1.214	-0.143	-0.254	0.098	**0.916**
Service Demand and Volume Pressures	3.560	0.960	-0.316	-0.086	**4.118**
Other	3.793	-0.549	0.000	-0.500	**2.744**
Undeliverable Savings	8.929	0.000	0.000	0.000	**8.929**
Additional Savings	-0.700	-4.313	-5.946	-1.857	**-12.816**
Re-profiled Savings	2.303	0.619	1.407	-1.304	**3.025**
Total change to forecast of spending	**19.235**	**-3.433**	**-5.460**	**-3.467**	**6.875**
Change to forecast of resources:					
Funding	-25.130	-40.789	-0.217	2.880	**-63.256**
Total change to forecast of resources	**-25.130**	**-40.789**	**-0.217**	**2.880**	**-63.256**
Funding gap	**0.000**	**-5.188**	**14.149**	**19.477**	**28.438**
Forecast net budget requirement	842.190	863.288	903.350	929.538	
Funding	842.190	868.476	889.201	910.061	

Aggregated funding gap	**2020/21**	**2021/22**	**2022/23**	**2023/24**
2020/21 (£m)	0.000	0.000	0.000	0.000
2021/22 (£m)		-5.188	-5.188	-5.188
2022/23 (£m)			14.149	14.149
2023/24 (£m)				19.477
Total	**0.000**	**-5.188**	**8.961**	**28.438**
Previous position (£m)	5.895	44.928	64.755	0.000
Variance (£m)	**-5.895**	**-50.116**	**-55.793**	**28.438**

The graph below demonstrates the drivers that make up the changes in the financial gap from £10.245m carried forward from 2019/20 to the cumulative position of £28.438m in the financial year 2023/24 as shown in the table above:



2. Funding

The funding included within this report reflects the provisional settlement for 2020 that was announced on 20th December 2019. The announcement confirmed that there would be a one year settlement in 2020/21 and that the fair funding review would be delayed until April 2021. There are no funding levels confirmed post 2019/20. Assumptions have therefore been made based on the provisional finance settlement for funding levels from 2020/21 – 2023/24 that are detailed within this report.

Spending review, fair funding formula and 75% business rates retention
During 2020, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement confirmed that 2020/21 would effectively be 'rolled over' from 2019/20, giving councils the stability they need to set a budget.

In the provisional settlement, the Chancellor announced that councils will have access to new social care funding of £1.5bn in 2020/21. This consists of grant funding and up to a 2% adult social care precept.

The provisional settlement also confirmed that revenue support grant would continue at 2019/20 inflated amounts, and that the social care funding allocated in 2019/20 would continue into 2020/21. It was also confirmed that the 2019/20 75% business rates pilots would not continue into 2020/21

As a result of the uncertainty of future funding we have carried out some scenario analysis around possible funding profiles. In total 9 scenarios were modelled (this is not an exhaustive analysis of all funding options but consisted of the most obvious measures which could be taken) which resulted in forecast funding gaps between a surplus of £6m to a deficit of £85m. Following a review of these scenarios by the corporate management team, including the consideration of advice from external advisors, a core and most likely funding scenario on which to base this medium term financial strategy was agreed.

As a result of the above the assumptions around funding are that:

- Revenue support grant or funding at the equivalent value through any new fair funding formula will be ongoing for the currency of this plan
- An adult social care precept of 2% will be levied in 2020/21 only
- The social care grant announced in the provisional settlement will continue for the length of the parliament which covers the MTFS period and beyond.

The table below reflects the updated funding position.

Table 2

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Revenue Support Grant & New Homes Bonus	36.646	35.890	34.329	31.904
Business Rates	198.009	206.150	209.330	212.569
Council Tax	522.335	541.786	561.961	582.887
Better Care Fund	45.532	45.532	45.532	45.532
Social Care Grant	33.417	33.417	33.417	33.417
Collection Fund Surplus	3.750	3.750	3.750	3.750
Family Safeguarding	2.501	1.951	0.881	0.000
Total	**842.190**	**868.476**	**889.200**	**910.059**
Funding assumed - previous MTFS	**817.061**	**802.558**	**823.065**	**0.000**
Variance	**25.129**	**65.918**	**66.135**	**910.059**

The table above reflects a forecast reduction in new homes bonus and the inclusion of one off funding of £6.300m over the course of 3 years from the Department for Education to establish the Lancashire family safeguarding model. The adoption of this model is forecast to deliver net recurrent savings of £6.812m by the end of this forecast with circa £3.200m of additional recurrent savings to be delivered by 2025/26.

2.1 Council tax and business rates

Council tax

The MTFS currently reflects the following assumptions in relation to the county council's council tax increases as previously reported to cabinet, however this is a decision for full council to make each year when setting the budget.

Table 3

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2020/21	1.99%	2.00%	3.99%
2021/22	1.99%	0.00%	1.99%
2022/23	1.99%	0.00%	1.99%
2023/24	1.99%	0.00%	1.99%

Following the spending round and technical consultation it is likely that the option to raise an adult social care precept of 2% will be available to authorities for 2020/21. From 2021/22 onwards, it is assumed the maximum increase that the county council is able to apply to council tax, without a referendum, is 1.99%. Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £5.000m.

Within the current MTFS a tax base increase of 1.7% is included, which is the same position as in the previously reported MTFS based on historical average increases. However, in the most recent data available the tax base forecast position for 2019/20 for Lancashire was 1.4%. At this stage the average increase of 1.7% has been maintained within the MTFS, as we anticipate having an offsetting increase on the collection fund (which has also not been built into the MTFS at this stage) that could be increased due to prudent estimations of growth from district councils, based again on historical surplus positons.

Business rates

Business rates income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the county council, the amount we anticipate to receive from the business rates collected in the area is less than its assessed need and therefore we receive a top up grant. We also build in a small amount of growth into the MTFS for our local share at 0.5%.

It has now been confirmed that the 2019/20 75% business rates retention pilots will not continue in 2020/21. As a result we have sought guidance from sector experts and have modelled based on their guidance for a 50% scheme for 2020/21, then a 75% scheme for the remainder of the forecast period,

2.2 Capital receipts

In April 2016 the government introduced the flexibility for capital receipts to be used to fund revenue expenditure that is designed to generate ongoing revenue savings or service improvements. This flexibility is currently available until 2021/22.

In the light of current assumptions of increased funding being available, capital receipts of £7.000m and £2.500m which were previously included to support revenue expenditure within the MTFS have been removed.

3. Net budget requirement

The MTFS covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed and new savings measures.

3.1 Pay and pensions

The salary pay pressure has been amended to reflect additional staffing in the education and children's services directorate to support the reduction in social worker caseloads and to deliver the changes required to deliver the Lancashire family safeguarding model and deliver a gross saving of circa £12.000m. In the previous MTFS there was an assumption representing a reversal of the discount on employer pension contributions due up to and including 2019/20. The current MTFS now includes a potential saving for a future pension prepayment which negates the previous reversal.

The pension cost line includes a reduction for the effects of the latest triennial valuation for the pension scheme which disclosed a significantly improved funding position and as a result a lower pensions contribution requirement of £6.400m per annum.

The table below presents the amounts built into the MTFS for pay and pensions:

Table 4

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Employee costs	11.351	7.461	7.195	7.209	**33.216**
Pensions costs	- 6.026	0.374	0.374	0.374	**-4.904**
Other pay related costs	0.068	0.051	0.052	0.050	**0.221**
Revised pay and pension requirements	**5.393**	**7.886**	**7.621**	**7.633**	**28.533**
Pay and pensions - previous MTFS	**5.257**	**7.893**	**7.972**	**-**	**21.122**
Impact on financial gap	**0.136**	**-0.007**	**-0.351**	**7.633**	**7.411**

3.2 Price inflation and cost changes

Contractual price increases represent a significant cost pressure to the county council. The assumptions have been subject to regular review by services.

Table 5

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	17.580	12.380	13.147	15.435	**58.542**
Children's Services	1.704	1.545	1.420	1.990	**6.659**
Waste Services	1.870	2.347	2.578	2.578	**9.373**
Transport Services	1.397	1.463	1.553	1.632	**6.045**
Other Services	2.329	-1.644	1.567	2.220	**4.472**
Revised price inflation requirements	**24.880**	**16.091**	**20.265**	**23.855**	**85.091**
Price inflation – previous MTFS	**23.666**	**16.234**	**20.519**		**60.419**
Impact on Financial Gap	**1.214**	**-0.143**	**-0.254**	**23.855**	**24.672**

3.3 Demand pressures

All services have reviewed the demand pressures they face in future years and increasing demand still remains a significant element of the funding gap.

Table 6

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	17.764	10.573	10.163	8.816	**47.316**
Children's Services	6.662	1.888	1.271	1.900	**11.721**
Waste Services	0.471	0.983	1.048	1.048	**3.550**
Transport Services	2.013	0.907	0.606	0.690	**4.216**
Other Services	-0.282	0.946	0.053	0.056	**0.773**
Revised Demand Requirements	**26.628**	**15.297**	**13.141**	**12.510**	**67.576**
Demand – previous MTFS	**23.068**	**14.337**	**13.457**		**50.862**
Impact on Financial Gap	**3.560**	**0.960**	**-0.316**	**12.510**	**16.714**

Adult social care represents a large proportion of the demand pressures. Adult social care has long seen annual increases in the demand for services and the MTFS attempts to predict growth in future years largely based on reviewing current and past activity trends and also taking into account future population changes, particularly with regard to the ageing population. From a social care perspective demand covers both increasing numbers of people eligible for support and the increasing complexity of those cases. The level of demand included for this service area for the four years to 2023/24 is £47.316m. This will continue to be monitored and figures may be updated in future MTFS reports.

Children's social care continues to experience demand pressures across the service, particularly in relation to placement demand due to the number of looked after children in Lancashire. The funding requirement for children's social care has increased by £11.721m over the 4 year period to reflect increased demand across children looked after placements and family support for children with disabilities. We are looking at best practice sites across the country to explore opportunities to reduce demand in a way that delivers better outcomes for children. As a result of a successful bid to the Department for Education we have commenced planning to implement Lancashire family safeguarding. The family safeguarding model is a way of keeping families together where it is safe to do so. This is achieved through a more collaborative way of working where we motivate parents to identify the changes needed within their own families. This helps achieve better outcomes for children. This initiative is forecast to will ultimately deliver c£10m of recurrent savings by 2025/26 of which £6.812m are profiled to be delivered and built into the timeframes covered by this MTFS.

A number of other initiatives are being reviewed but as yet no formal conclusions have been reached and hence no impacts are included in the MTFS.

The public and integrated transport budget continues to see rising demand pressures. As part of this MTFS an additional £4.216m has been budgeted for across 2020/21 – 2023/24.

3.4 Undeliverable savings

There is a rigorous monitoring process of agreed savings in place and several savings have been classified as undeliverable due to changing circumstances and consultation feedback. Services are expected to find compensatory savings but in some cases it has not been possible to do this. The following savings are built back into the budget at quarter 2:

Acute Passport to Independence	£5.700m
Learning Excellence (Additional Income)	£789,000
Additional labour recharges	£40,000
Reduce repairs & maintenance budget	£1.750m
Apprenticeship levy	£440,000
Recharge additional staff time to capital	£209,000

These savings total £8.928m which represents a small proportion of overall savings. After the removal of these savings 94.2% of agreed savings are still being forecast for delivery by 2022/23.

3.5 Additional savings

The initial service challenge process necessarily focused on individual service reviews supported by benchmarking data which identified a number of areas where the council was high cost compared to a number of other county councils. The aim was to deliver the same or better outcomes at reduced cost wherever possible and phase 1 of the service challenge process identified £68.710m of savings proposals which were included both within the 2019/20 budget and the MTFS position. Financial benchmarking data of the cost of service position of the council relative to other county councils, reflects that some services are delivered at a relatively higher cost overall than the mean or median county council. This is largely driven by operational practice.

Phase 1 also identified a number of cross-cutting work streams and areas for investigation and review which is being taken forward as part of the service challenge phase 2 process. These work streams are more complex, requiring a fundamental challenge of, in many cases, longstanding organisational wide approaches, systems and processes to enable both service improvements and cost savings to be identified. Work is progressing on phase 2 with demand management, commissioning, organisational development, property management, commercialisation, schools traded services, transport and digital being key areas of focus. Projects on these areas and the savings options will be shared with cabinet as and when available and when timescales for their delivery are agreed. Relevant projects will be a focus for relevant finance monitoring boards as appropriate.

4. Reserves

Table 7

Reserve Name	Opening balance 2019/20	2019/20 Forecast Expenditure	Forecast Contribution to/from Reserves (Other Revenue e.g. Schools)	2019/20 forecast transfers to/from other reserves	Forecast Closing balance 2019/20	2020-21 Forecast Spend	2021-22 Forecast Spend	Forecast closing balance 31 March 2022
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	0.000	-23.437	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	**-23.437**	**0.000**	**0.000**	**0.000**	**-23.437**	**0.000**	**0.000**	**-23.437**
Strategic Investment Reserve	-2.096	-1.056	0.000	0.000	-3.152	1.906	0.246	-1.000
Downsizing Reserve	-7.445	4.605	0.000	0.000	-2.840	2.840	0.000	0.000
Risk Management Reserve	-2.804	1.241	0.000	0.000	-1.563	0.763	0.800	0.000
Transitional Reserve	-164.254	13.909	0.000	-0.013	-150.358	2.460	0.304	-147.594
Service Reserves	-13.251	9.957	0.000	0.013	-3.281	1.518	1.082	-0.681
Treasury Management Reserve	-10.000	0.000	0.000	0.000	-10.000	0.000	0.000	-10.000
SUB TOTAL - LCC RESERVES	**-199.849**	**28.656**	**0.000**	**0.000**	**-171.193**	**9.487**	**2.432**	**-159.274**
Schools/Non-LCC Service Reserves	-17.528	1.721	0.000	0.000	-15.807	0.826	1.439	-13.542
SUB TOTAL SCHOOLS/NON LCC RESERVES	**-17.528**	**1.721**	**0.000**	**0.000**	**-15.807**	**0.826**	**1.439**	**-13.542**
GRAND TOTAL	**-240.814**	**30.377**	**0.000**	**0.000**	**-210.437**	**10.313**	**3.871**	**-196.253**

The County Fund shown at the top of Table 7 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m, equating to circa 3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £150.358m by the end of March 2020. This represents a marginally improved position of £108,000 from the £150.250m that was previously reported to full council for quarter 1 in September 2019.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps beyond the period of the MTFS as set out in table 8 below. Regardless, the intention remains to identify further savings to reduce the gap, and hence the call on reserves, in the future.

Table 8

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Opening Balance	150.358	147.898	152.783	143.821
Gap funding	0.000	-5.188	8.961	28.438
Commitments	2.460	0.304	0.000	0.000
Closing balance	**147.898**	**152.782**	**143.821**	**115.383**

5. Future risks and opportunities

The following are key future risks, the full impact of which is not known at this stage:

5.1 Savings delivery

The scale of savings agreed to be delivered over future financial years remains significant with £58.370m to be delivered over the period 2020/21 – 2022/23.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans.

However, there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

5.2 Further savings opportunities

As noted in the body of the report, phase 1 of the service challenge process also identified a number of cross-cutting work streams and areas for investigation and review which are being taken forward as part of the service challenge phase 2 process. These work streams are necessarily complex, requiring a fundamental challenge of, in many cases, longstanding organisational approaches, systems and processes to enable both service improvements and cost savings to be identified. Whilst financial benchmarking data, has identified that some services are delivered at a relatively significant higher cost overall than the mean or median county council.

Work is progressing on phase two of the service challenge process which will seek to address the ongoing deficit and is focusing on a number of cross-cutting work streams and areas for investigation and review identified in the initial phase, but where further work is needed to robustly evidence the scale and form of proposals. In particular, service challenge phase 2 is focused on the complex levers required to create an environment where service configuration and operational practice reflects best in class and supports demand management which is the single biggest driver on our costs.

Cabinet members will be kept informed of the progress on each of initiatives as and when savings proposals are evaluated and timescales for their delivery are agreed.

5.3 Business rates retention / changes to funding formula

As previously explained, the future funding arrangements to be established by government pose a risk to the council. New arrangements for business rates, will not be in force before financial year 2021/22 at the earliest following a multi-year spending review and consultation during the course of 2020.

The outcome from the review may reduce funding below what is assumed in the MTFS. Conversely there is equally an opportunity that additional resources are made available through this process. The successful outcome of the Lancashire business rates pilot bid in 2019/20 has enabled the county council, districts, unitaries and fire authority to be well prepared for the implementation of the business rates retention scheme although the final details are not known at this stage.

5.4 Children's social care

Children's social care demand levels are forecast to continue to increase, particularly within agency residential placements, agency fostering placements and also special guardianship orders. The rate of growth is quite volatile, and we will continue to monitor this as part of the monthly monitoring cycle.

Significant additional budget was allocated to children's social support improvements and demand pressures over the past 3 years. An assumption within this MTFS is made that demand will plateau in future years, and a reducing demand increase has been built into future year's budget. The service has been looking at best practice sites across the country to explore opportunities to reduce demand in a way that delivers better outcomes for children, We will be adopting the Lancashire family safeguarding model in 2020, which will drive better outcomes for children, by focussing on early family based support, whilst also delivering an efficiency of c£10.000m per annum when the practice is fully embedded across the county.

5.5 Troubled families funding

The county council currently receives funding towards working with troubled families. Where we have received written confirmation of troubled families funding this has been included in the MTFS. The spending review in September 2019 confirmed that that funding would continue post 2019/20 however there was no confirmation of the likely sums available. It is assumed that funding levels will remain at 2019/20 levels. While we understand that alternative funding will be available for this work, at the moment there have been no details announced as to how this will arise. If the funding does cease this will result in a pressure on the budget of £2.100m. Given the lack of clarity we have discussed this with other local authorities in a similar position, as to the approach they are taking, and they have confirmed that they are also forecasting the funding to continue, but this will be closely monitored as announcements relating to funding are to be made imminently and outcomes will be reflected in future MTFS reports.

5.6 MTFS assumptions and scenario analysis

Given the uncertainty surrounding the future funding for local government we have tested a range of assumptions of funding scenarios to assess the level of risk that could result should alternative funding models be implemented. In producing this MTFS the Corporate Management Team has selected the most likely funding scenario.

The key assumptions that have been analysed and tested relate to the additional social care funding announced by the Chancellor and also the impact of changes to baseline funding (particularly the inclusion of revenue support grant). We have also tested the impact of possible flexibilities in council tax and in particular the levying of an adult social care precept.

The scenarios tested are as per Table 9 below.

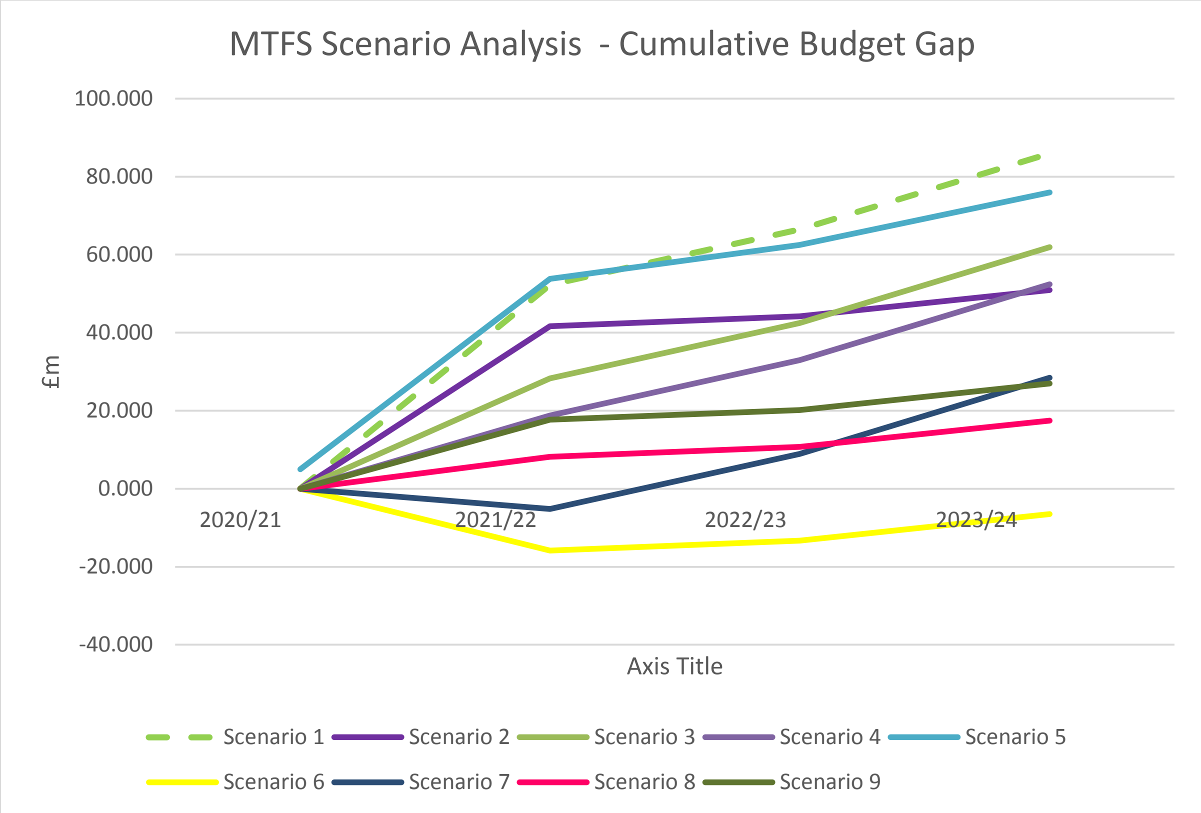
The worst case (scenario 1) forecasts a cumulative budget gap of £85.915m by 2023/24. In this scenario there would only be sufficient reserve funding to support the structural deficit during 2022/23 but only partway through 2023/24.

In the best case (Scenario 6) showing a forecast cumulative "surplus" for the period of £6.530m, there would be no overall call on reserves.

The most likely scenario which has been adopted for this MTFS is scenario 7, with a forecast budget gap of £28.438m by 2023/24. In this scenario there would be a net call on reserves of £34.975m over the forecast period, but this would leave retained reserves to support the organisation beyond 2023/24 of £115.383m

Table 9

Scenario	Revenue Support Grant	Adult Social Care Precept	Social Care Grant announced in SR2019
Scenario 1 (Worst Case	Included for 2020-21 only	2% for 2020-21 only	Included for 2020-21 only
Scenario 2	Included for 2020-21 only	2% ongoing	Included for 2020-21 only
Scenario 3	Included for 2020-21 only	2% for 2020-21 only	Included for the entire MTFS period
Scenario 4	Included for the entire MTFS period	2% for 2020-21 only	Included for 2020-21 only
Scenario 5	Included for 2020-21 only	1% Ongoing	Included for 2020-21 only
Scenario 6 (Best Case)	Included for the entire MTFS period	2% ongoing	Included for the entire MTFS period
Scenario 7 (Most Likely Case)	Included for the entire MTFS period	2% for 2020-21 only	Included for the entire MTFS period
Scenario 8	Included for the entire MTFS period	2% ongoing	Included for 2020-21 only
Scenario 9	Included for 2020-21 only	2% ongoing	Included for the entire MTFS period



The scenarios presented clearly demonstrate the significant financial impact resulting from changes to the assumptions included within the MTFS. In all cases however, the council has sufficient reserves to support the gap through 2022/23 but only partway into 2023/24. The most likely scenario assumed within the MTFS shows that a structural deficit would still remain and reinforces the importance of addressing the underlying cost drivers within the council to secure financial sustainability moving forward.

In addition, the MTFS contains assumptions across services for funding growth, demand, inflation and pay levels. The table below shows the impact of and increase or decrease of 1% over these key elements of the projected budget requirement.

	Potential Full-Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.223
Pay (1%)	+/- 2.758
Price Inflation (1%)	+/- 4.974
Demand (1%)	+/- 6.030

This stress testing gives confidence that the council can continue to live within its means for a number of years even in adverse circumstances. This does not however diminish or negate the need to make further savings but does demonstrate that the council continues to have sufficient resilience to deliver them in a measured and structured way.

This message is sent on behalf of Mr Mark Nolan, Clerk and Monitoring Officer to Lancashire Combined Fire Authority

Dear Chief Executive

To enable the revenue budget consultation to take place, please find below the initial draft budget. Please note that the revenue budget at this stage has not been considered by the Lancashire Combined Fire Authority. It would be helpful if you could let me have any comments you wish to make on the revenue budget proposals by no later than 31 January 2020. This will enable your views to be tabled for consideration by the Authority at its budget setting meeting on 24 February 2020.

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 2019/20 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:-

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Preceding Years Draft Net Budget Requirement	56.0	57.5	59.2	60.4	62.1
Add back previous years unidentified savings target	0.5	-	-	-	-
Add back previous years Vacancy Factors	1.0	1.2	1.2	1.2	1.0
Inflation	1.3	1.4	1.4	1.4	1.4
Other Pay Pressures	0.4	0.2	-	(0.1)	(0.1)
Committed Variations	(0.1)	-	(0.1)	-	-
Growth	0.4	0.3	(0.1)	0.2	(0.2)
Efficiency Savings	(0.8)	(0.1)	(0.1)	-	-
Gross Budget Requirement	58.7	60.4	61.5	63.0	64.1
Vacancy Factors	(1.2)	(1.2)	(1.2)	(1.0)	(1.0)
Net Budget Requirement	57.5	59.2	60.4	62.1	63.2

Inflation

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
A 2% allowance has been built in for all pay-awards	0.9	1.0	1.0	1.0	1.0
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.4	0.4	0.4
	1.3	1.4	1.4	1.4	1.4

Each 1% pay award in excess of the above assumptions equates to an additional cost of £400k per year for grey book personnel, and if this is mirrored for green book personnel an additional £75k. To give a flavour of the potential impact of significant increases over and above those budgeted for, a 5% grey book pay award would add in a further £1.2m on an annual basis.

Other Pay Pressure

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
The budget has been increased by £600k reflecting the potential increase in employer pension contributions associated with making various allowances pensionable. Work is still on-going to finalise the costs and agree a suitable policy with the representative bodies.	0.6	-	-	-	-
Pay has been re-costed, taking account of changes to personnel, grades etc. Given this accounts for the majority of the overall budget it is worth highlighting some of the assumptions used:- <u>Whole-time Pay</u> • 160 personnel are currently paid at development rates of pay. It has been attempted to forecast when Firefighters (FFs) move from development to competent pay based on estimated number of recruits and assuming that each course comprises 3 RDS personnel, who take 12 months to become competent, and that all other recruits are new to the Service, and take 24 months to become competent. Based on this it is anticipated an average of 140 personnel being in development next year, reducing down to approx. 120 in subsequent years. (If all personnel were paid at competent rates of pay this would cost an additional £1.0m) • 444 personnel are currently paid either Continuous Professional Development (CPD) or Additional Responsibility Allowance (ARA) (in lieu of CPD for newly promoted FFs), it is assumed that this continues at this level throughout the budget period. (if all personnel were paid CPD this would cost an additional £0.1m) • 33 personnel are currently 'opted out' of the FF pension scheme, it is assumed that this continues at this level throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.3m) The mix of personnel in the various FF pension schemes reflects the assumed timing of retirements. <u>On-Call Pay</u> • 244 are currently paid at development rates of pay, it is assumed that this continues at this level throughout the budget period (if all	0.1	0.2	-	(0.1)	(0.1)

personnel were paid at competent rates of pay this would cost an additional £0.5m) • 88 personnel are currently paid either CPD or ARA (in lieu of CPD for newly promoted FFs), it is assumed that this continues at this level throughout the budget period (if all personnel were paid CPD/ARA this would cost an additional £0.1m) • 95 personnel are currently 'opted out' of the FF pension scheme, it is assumed that this continues at this level throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.2m) • The mix of personnel in the various FF pension schemes reflects the assumed timing of retirements and/or transfers to the 2015 scheme. Support Pay • The budget is based on the assumed scale points of personnel in post at 1 April 2020. No allowance has been made for future incremental progression or staff turnover where typically new starters commence at the bottom of the pay grade. • 37 personnel are currently 'opted out' of the LGPS pension scheme, it is assumed that this number remains consistent throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.1m)					
The recent actuarial review of the LGPS scheme has resulted in increased contribution rates for future service costs being applicable in 2020/21, as expected. The funding position of the scheme improved since the last review and hence the surplus has increased. As such the future budget has been adjusted to allow for a 2.4% increase in employer contribution but with an increased drawdown of £0.8m of our surplus continuing for the duration of this budget period.	(0.3)	-	-	-	-
	0.4	0.2	-	(0.1)	(0.1)

Committed Variations

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
The budget for USAR grant has been increased to reflect the amount of funding confirmed for 2019/20.	(0.1)	-	-	-	-
The budget contribution to the Business Rate Pilot Pool growth fund has been removed as the pool only lasted for one year	(0.1)	-	-	-	-
The Clothing & PPE budgets were increased last year reflecting the scheduled replacement of boots and duty rig, this one off funding has been removed in 2020/21 as if costs are not incurred in 19/20 they will be moved to an earmarked reserve	(0.2)	-	-	-	-
The Fleet vehicle repairs and maintenance budget has been increased to reflect the new on-going hourly rate charges from LCC	0.1	-	-	-	-
The operational equipment budget has been adjusted to reflect the scale of equipment scheduled for replacement in each year	0.1	-	(0.1)	-	-
	(0.1)	-	(0.1)	-	-

Growth

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Recruitment of apprentice FFs each year (this is the cost whilst on the recruits course):- • 20/21 – 24 apprentices • 21/22 – 42 apprentices • 22/23 – 24 apprentices • 23/24 – 42 apprentices • 24/25 – 18 apprentices	0.1	0.3	(0.1)	0.2	(0.2)
The Wholetime overtime budget has been increased to reflect the increased use of overtime during 2019/20, including the costs of covering On-Call stations.	0.1	-	-	-	-
Our Microsoft licences are up for renewal in June 2020, and due to changes in the way Microsoft licences are structured we are anticipating an increase in our costs of circa £0.2m	0.2	-	-	-	-
	0.4	0.3	(0.1)	0.2	(0.2)

The following items are <u>not included</u> in the figures reported above:

- Any additional support for the Apprenticeship programme within TOR, linked to completion of the HMRC digital account requirements (potentially this could be funded from the apprenticeship levy drawdown but this has already been allowed for as an efficiency within the draft budget);

- Any additional costs in relation to changes made following the outcome of the Grenfell inquiry, in terms of equipment or staffing/structure implications.

Savings Target

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
The budget allows for the drawdown of the apprentice levy against costs for training etc. The drawdown in respect of the FF apprentices is £6k per year for 2 years for each apprentice, hence the current contingent of 18 will generate a drawdown of £86k each year. The subsequent cohort commencing in September 2020 will drawdown a further £86k in 2020/21. Hence, coupled with other apprentice training, we anticipate fully utilising the apprentice levy (approx. £170k) in 2020/21 and, subject to whole-time recruitment continuing, throughout the medium term plan.	(0.2)	-	-	-	-
Removal of temporary posts impacting on 20/21 budget (subject to Executive Board (EB) consideration and agreement with relevant Dept Head).	(0.1)	-	-	-	-
Removal of temporary posts impacting on 21/22 budget (subject to EB consideration and agreement with relevant Dept Head).	-	(0.1)	-	-	-
Removal of temporary posts impacting on 22/23 budget (subject to EB consideration and agreement with relevant Dept Head).			(0.1)		
Removal of recurring Reserve built into the revenue budget. This means any in-year pressures will need to be met from within the agreed budget via virements or underspends or by a drawdown on reserves	(0.1)	-	-	-	-
Various Non-Pay savings	(0.4)	-	-	-	-
	(0.8)	(0.1)	(0.1)	-	-

Gross Budget Requirement

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Gross Budget Requirement	58.7	60.4	61.5	63.0	64.1

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
The vacancy factor for whole-time has also been updated and is based on the following:- • All personnel will retire as soon as they are eligible, this ignores any remedy from the McCloud judgement, and hence is broadly reflective of personnel retiring once they have 30 years of service and attained the age of 55. • There will be 12 'early leavers' in the year, this includes personnel who retire early or resign or are dismissed. • Recruit numbers are as shown This shows a very marginal under provision in 20/21, 21/22 and 22/23, with 23/24 onwards showing a more marked over-provision. The profile of recruits remains one of the key measures in controlling expenditure, an increase in the number of recruits building in additional costs a reduction taking costs out. As such we may need to revisit these in future years to take account of eventual pay awards and funding settlements etc., and also to account for any significant staffing reductions required to balance the budget in future years.	-	(0.1)	-	0.2	0.1
RDS vacancy factors has been reduced to 17% reflecting the current level of staffing, and assuming this remains constant.	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)
Support staff vacancy factor has increased to 3.75% in 20/21, which is closer to the average over the last 2 years. However this is mainly due to one or two problem areas and this has therefore reduced back to 2.5% in subsequent years on the assumption that this is a temporary problem.	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
	(1.2)	(1.2)	(1.2)	(1.0)	(1.0)

The most significant impact on the whole budget in 20/21 will be the outcome of the Pension remedy hearing. If all personnel are moved back into their original pensions scheme not only will we see a marked increase in employer contribution costs, but the number of retirements will increase dramatically.

Net Budget Requirement

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Draft Budget Requirement	57.5	59.2	60.4	62.1	63.2
Budget Increase	1.6%	3.0%	2.0%	2.9%	1.8%

Grant Funding
As a major precepting authority the Authority receives funding in the form of:-

	2019/20
	£m
Settlement Funding Assessment (Grant)	
• Revenue Support Grant, direct from the Government	-
• Individual Authority Business Rates Baseline	6.2
• Business Rates Top-Up, from the Government	17.6
	23.8
Other Business Rates	
• Business Rates collection fund deficit	-
• Section 31 Grant - Business Rates Capping	1.5
	1.5
Council Tax	
• Council Tax	30.4
• Council Tax collection fund surplus	0.3
	30.7
Total Funding	**56.0**

2019/20 was the last year of the four year settlement. The anticipated 4 year Sending Review actually only covered 2020/21, with a 4 year Review now planned for next year. The draft Local Government Finance Settlement, published in December, included a 1.63% increase in formula grant for LFRS. This year should have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current economic uncertainty both of these have been put on hold for at least 12 months.

In terms of 2021/22 and beyond this will be determined by the Government's overall budget and the subsequent 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 for the purposes of planning we have assumed the trajectory outlined in this year's Spending Review is maintained, i.e. increases in line with target inflation of 2%.

The table below sets out our assumed level of funding (Settlement Funding Assessment) over the next 5 years:-

		Increase	
2019/20	£23.8m		
2020/21	£24.2m	£0.4m	1.6%
2021/22	£24.7m	£0.5m	2.0%
2022/23	£25.2m	£0.5m	2.0%
2023/24	£25.7m	£0.5m	2.0%
2024/25	£26.2m	£0.5m	2.0%

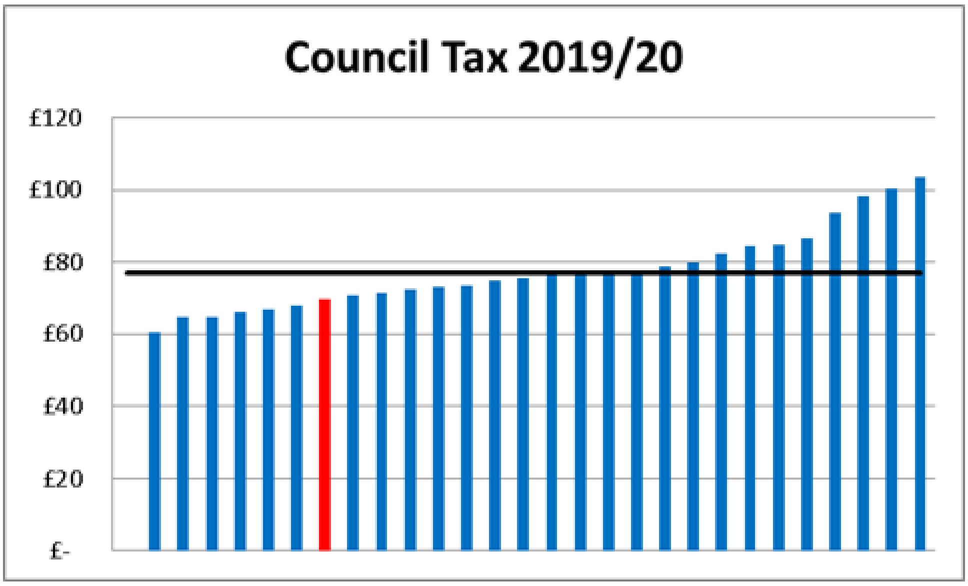
Section 31 Grant in respect of Business Rates Capping was overstated in 19/20 due to inaccurate calculations based on incorrect guidance from MHCLG. This has been corrected going forward, reducing grant by £0.3m. The draft Local Government Finance Settlement included details of the Section 31 grant in relation to business rates capping of £0.5m, and will have a clearer picture of the total section 31 grant once the District Councils submit their NNDR1's as part of the budget setting process, therefore we have assumed that the S31 grant in relation to District Councils business rate cap is reduced in line with the reversion to pre pool local retention rates (a reduction of £0.5m). Other than that we have assumed that this grant remains consistent. We have included the provisional Business Rates collection fund balance of £8k deficit, but the final position will be updated after the end of January.

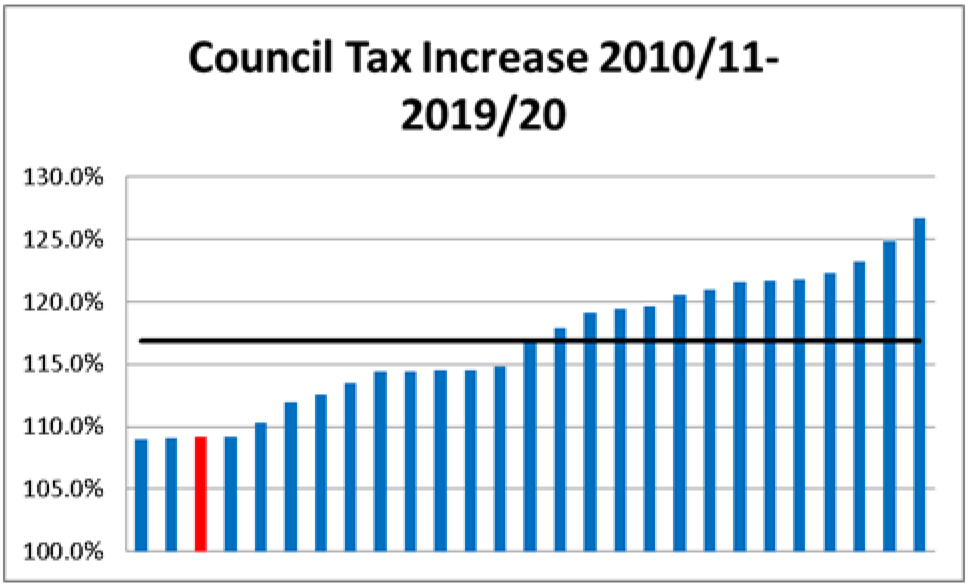
Funding projections will be updated once the final Local Government Finance Settlement is published, and as Billing Authorities provide more detail re business rates.

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 Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services. Our council tax of £69.48 is still below the national average of £77.04, and our increase of just 9.2% since 2010/11 compares with an average increase of 16.8% over the same period and is the third lowest of any Fire Authority.





The draft Local Government Finance Settlement confirmed that the council tax referendum threshold would reduce to 2%.

Council Tax-Base

We have assumed that the council tax base continues to grow at the rate of 1.2% per year, which is in line with the projections for 2020/21 (this will be updated after the end of January).

In terms of the council tax collection fund we have included an allowance for a £258k surplus each year, which again is in line with the projections for 2020/21 (this will be updated after the end of January).

Both the tax base and collection fund deficit will be updated once final figures are received from billing authorities.

Draft Council Tax Requirements

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Draft Budget Requirement	57.5	59.2	60.4	62.1	63.2
Less Total Grant	(24.2)	(24.7)	(25.2)	(25.7)	(26.2)
Less Business Rates Adjustment	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Less Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Equals Precept	32.1	33.3	34.0	35.2	35.8
Estimated Number of Band D equivalent properties	443,208	448,336	453,524	458,772	464,081
Equates to Council Tax Band D Property	£72.54	£74.31	£74.98	£76.78	£77.25
Increase in Council Tax	4.40%	2.44%	0.89%	2.40%	0.61%

(For information, a 1% change to the council tax equates to £0.3m.)

As can be seen the increases in 20/21 and 21/22 are above the referendum limit, along with 23/24. The other two years are below this, although clearly there is a great deal of uncertainty about future funding.

As in previous years we have modelled different scenarios based on council tax increases:-

- 2% increase in council tax each year
- 1% increase in council tax each year
- Council tax freeze each year

The following table sets out the funding gap/surplus based on these:-

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
2% increase in council tax each year	(0.7)	(0.9)	(0.6)	(0.7)	(0.3)
1% increase in council tax each year	(1.0)	(1.5)	(1.5)	(2.1)	(2.0)
Council tax freeze each year	(1.4)	(2.2)	(2.5)	(3.3)	(3.6)

Reserves

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, 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.

As such 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 incorporates issues such as higher than anticipated pay awards, increased number of ill health retirements, etc.

We have not yet had time to carry out an accurate review of future reserve requirements. As such this will be undertaken, and reported on at the CFA budget setting meeting in February. However, in order to give an overview of this area, we identified a minimum uncommitted reserve requirement of £3.2m last year. As at 31 March 2019 we held £7.8m, providing scope to utilise approx. £4.6m of reserves. The draft budget shows a cumulative funding gap of £3.2m over the next 5 years. No allowance has been made for costs associated with changes in pension requirements as highlighted earlier.

Summary Council Tax options 2020/21

Based on the scenarios outlined the council tax options for 2020/21 are as follows:-

	2%	1%	Freeze
	£m	£m	£m
Gross Budget Requirement	57.5	57.5	57.5
Utilisation of reserves/additional savings	(0.7)	(1.0)	(1.4)
Final Budget Requirement	56.8	56.5	56.1
Less Total Grant	(24.2)	(24.2)	(24.2)
Less Business Rates Adjustment	(0.9)	(0.9)	(0.9)
Less Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)
Equals Precept	31.4	31.1	30.8
Estimated Number of Band D equivalent properties	443,208	443,208	443,208
Equates to Council Tax Band D Property	£70.86	£70.17	£69.48
Increase in Council Tax	1.99%	0.99%	Freeze

The increases equate to:-

- 2% is £1.38 per annum, £0.03 per week
- 1% is £0.69 per annum, £0.01 per week

Summary

The draft budget shows the Authority delivering a balanced budget in 2020/21 after allowing for a 2% increase in council tax, subject to drawing down £0.7m of reserves, or a combination of additional savings/reduced growth/drawdown of reserves.

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.

Thank you for your consideration.