

This message has been sent on behalf of Mark Nolan, Clerk to the Authority

Dear Ms S Parsonage

To enable the revenue budget consultation to take place, please find below the initial draft budget. Please note that the revenue budget as this stage has not been considered by the Lancashire Combined Fire Authority.

### 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	58.2	59.6	61.2
Add back previous years unidentified savings target	0.3	-	-	-	-
Add back previous years Vacancy Factors	1.7	0.9	1.1	1.1	1.0
Inflation	0.9	1.4	1.5	1.5	1.6
Other Pay Pressures	0.4	0.5	0.2	(0.1)	(0.1)
Committed Variations	(0.1)	0.1	-	-	-
Growth	0.3	0.1	-	-	-
Efficiency Savings	(0.8)	(0.3)	(0.3)	-	-
Gross Budget Requirement	57.4	59.3	60.7	62.2	63.6
Vacancy Factors	(0.9)	(1.1)	(1.1)	(1.0)	(1.0)
Net Budget Requirement	56.5	58.2	59.6	61.2	62.6

## **Inflation**

The increased costs take account of anticipated pay awards at 2% in 19/20 and 2.5% thereafter as well as non-pay inflation.

Each 1% pay award in excess of the above assumptions equates to an additional cost of £0.4m per year.

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**

The cost increase reflect changes to pension contributions in respect of the FF pension's scheme, which has identified an average increase of 12.6% in employer contribution rate, 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. The Government has allowed an additional £2.6m of funding in 19/20 to offset some of this pressure (which is reflected in the cost pressure above). The additional cost pressure in future years will be considered as part of the next Spending Review, hence for medium term planning we have assumed that the additional £2.6m grant will continue.

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

## **Committed Variations**

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions, the most significant of which is a reduction in the budget for PPE, following the roll out of new Helmets and Gloves in 18/19.

## **Growth**

The budget allows for an increase in the number of Home Fire Safety Checks/Safe & Well Visits and associated costs.

An additional operational equipment 'R&D' budget has been included in the revenue budget to facilitate the introduction of new equipment. This has previously been covered by underspends within the department revenue budget (which have now been stripped out as part of savings targets) or within the capital programme where a specific 'Future Fire Fighting Fund' was created to cover such items, but which has now been fully committed

## **Efficiency Savings**

The Authority has a good track record of delivering efficiency savings, delivering over £18m since 2011. The budget allows for a further £0.8m of savings relating to a reduction in the number of recruits and the removal of several temporary posts.

## **Vacancy Factors**

The Authority continues to hold vacancies, based on current staffing profiles and anticipated recruitment numbers, most notably on the Retained Duty System.

## 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	58.2	59.6	61.2	62.6
Budget (Decrease)/Increase	3.2%	3.0%	2.4%	2.6%	2.4%

## Grant Funding

2019/20 is the final year of the four year settlement, hence next year's funding is based on figures previously identified:-

		Reduction	
2015/16	£29.4m		
2016/17	£27.6m	£1.8m	6.1%
2017/18	£25.3m	£2.3m	8.3%
2018/19	£24.3m	£1.0m	4.0%
2019/20	£23.8m	£0.5m	2.0%
		£5.5m	18.7%

In addition we have assumed that both Section 31 Grant - Business Rates Capping and Business Rates collection fund deficit remain at their current levels, these assumptions will be refined once billing authorities provide actual numbers.

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

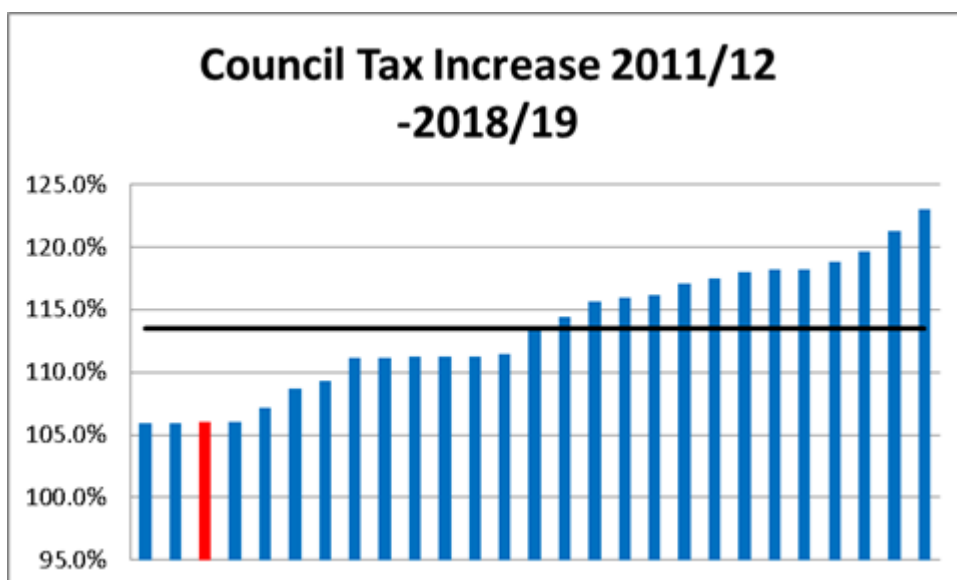
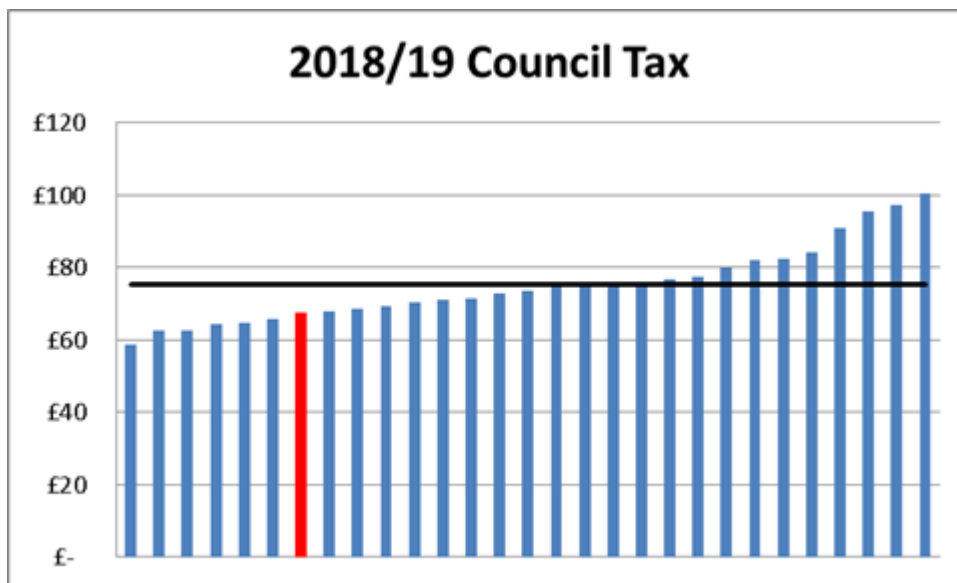
Based on that we have assumed that the settlement will be frozen throughout the 4 year period, which is reflective of the uncertainty in terms of any distribution of funding.

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 more 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).

## Council Tax

In setting 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 £67.46 is still below the national average of £75.15, and 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.



The 2019/20 draft Local Government Finance Settlement maintains the council tax referendum principle of any increase in excess of 3% triggering a referendum. It is not clear whether this 3% limit will be retained in future years or whether it will revert to the previous 2% referendum principle.

## Council Tax-Base

We have assumed that the council tax base continues to grow at 1.7% each year, in line with previous increases, and that there will be a £400k surplus on the council tax collection fund, these assumptions will be refined once billing authorities provide actual numbers.

## Draft Council Tax Requirements

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Draft Budget Requirement	56.5	58.2	59.6	61.2	62.6
Less Total Grant	(23.8)	(23.8)	(23.8)	(23.8)	(23.8)
Less Business Rates Adjustment	(1.0)	(0.9)	(0.9)	(0.9)	(0.9)
Less Council Tax Collection Surplus	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Equals Precept	31.3	33.1	34.5	36.1	37.5
Estimated Number of Band D equivalent properties	439,869	447,483	455,229	463,110	471,127
Equates to Council Tax Band D Property	£71.11	£74.00	£75.86	£77.89	£79.67
Increase in Council Tax	5.4%	4.1%	2.5%	2.7%	2.3%

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

As can be seen the increase in 19/20 and 20/21 are both above the referendum limit. (Although if we reduce the requirement in 19/20 it will result in a bigger increase in future years.)

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

- 3% increase in council tax each year
- 3% increase in council tax in 19/20 followed by 2% in each subsequent year
- 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 based on these:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
3% increase in council tax each year	(0.7)	(1.1)	(1.0)	(0.9)	(0.7)
3% increase in council tax in 19/20 followed by 2% in each subsequent year	(0.7)	(1.4)	(1.6)	(1.9)	(2.1)
2% increase in council tax each year	(1.0)	(1.7)	(2.0)	(2.3)	(2.5)
1% increase in council tax each year	(1.3)	(2.3)	(2.9)	(3.6)	(4.1)
Council tax freeze each year	(1.6)	(2.9)	(3.8)	(4.8)	(5.8)

## 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.

Whilst we have not yet had time to carry out an accurate review of future reserve requirements, we anticipate a minimum reserve requirement being broadly consistent with last year's figure of £2.5m (although it may increase slightly reflecting the greater uncertainty surrounding future funding and pay and pension inflations). We anticipate holding £7.8m at the end of the current year, providing scope to utilise approx. £5m of reserves. As such they could be used to meet the funding gap across in 19/20, as well as offset some of the gap in future years.

### Summary Council Tax options 2019/20

Based on the scenarios outlined the council tax options for 2019/20 are as follows:-

	3%	2%	1%	Freeze
	£m	£m	£m	£m
Gross Budget Requirement	56.5	56.5	56.5	56.5
Utilisation of reserves/additional savings	(0.7)	(1.0)	(1.3)	(1.6)
Final Budget Requirement	55.8	55.5	55.2	54.9
Less Total Grant	(23.8)	(23.8)	(23.8)	(23.8)
Less Business Rates Adjustment	(0.9)	(0.9)	(0.9)	(0.9)
Less Council Tax Collection Surplus	(0.4)	(0.4)	(0.4)	(0.4)
Equals Precept	30.6	30.3	30.0	29.7
Estimated Number of Band D equivalent properties	439,869	439,869	439,869	439,869
Equates to Council Tax Band D Property	£69.48	£68.80	£68.13	£67.46
Increase in Council Tax	3.0%	2.0%	1.0%	Freeze

The increases equate to:-

- 3% is £2.02 per annum, £0.04 per week
- 2% is £1.34 per annum, £0.03 per week
- 1% is £0.67 per annum, £0.01 per week

### 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 £0.8m of efficiency savings. 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 draft Local Government Finance Settlement confirmed funding was in line with the 4 year settlement figures, i.e. £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 £0.7m 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 £55.8m, 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 £0.7m 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, based on this, and after allowing for council tax increases in future years. Assuming council tax is increased in line with referendum principles in future years the Authority is still faced with a funding gap of approx. £1.0m each year, 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. 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 £0.5m budgeted 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 more reliable medium term financial plans in order to address any gap that exists.

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<sup>st</sup> January 2019. This will enable your views to be tabled for consideration by the Lancashire Combined Fire Authority at its budget setting meeting on 18<sup>th</sup> February 2019.