

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	-	-	-	-
<p>Pay has been re-costed, taking account of changes to personnel, grades etc.</p> <p>Given this accounts for the majority of the overall budget it is worth highlighting some of the assumptions used:-</p> <p><u>Whole-time Pay</u></p> <ul style="list-style-type: none"> <li>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)</li> <li>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)</li> <li>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)</li> </ul> <p>The mix of personnel in the various FF pension schemes reflects the assumed timing of retirements.</p> <p><u>On-Call Pay</u></p> <ul style="list-style-type: none"> <li>244 are currently paid at development rates of pay, it is assumed that this continues at this level throughout the budget period (if all</li> </ul>	0.1	0.2	-	(0.1)	(0.1)

<p>personnel were paid at competent rates of pay this would cost an additional £0.5m)</p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• 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)</li> <li>• The mix of personnel in the various FF pension schemes reflects the assumed timing of retirements and/or transfers to the 2015 scheme.</li> </ul> <p><u>Support Pay</u></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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)</li> </ul>					
<p>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.</p> <p>The funding position of the scheme improved since the last review and hence the surplus has increased.</p> <p>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.</p>	(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):- <ul style="list-style-type: none"> <li>• 20/21 – 24 apprentices</li> <li>• 21/22 – 42 apprentices</li> <li>• 22/23 – 24 apprentices</li> <li>• 23/24 – 42 apprentices</li> <li>• 24/25 – 18 apprentices</li> </ul>	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 not included 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
<p>The vacancy factor for whole-time has also been updated and is based on the following:-</p> <ul style="list-style-type: none"> <li>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.</li> <li>There will be 12 'early leavers' in the year, this includes personnel who retire early or resign or are dismissed.</li> <li>Recruit numbers are as shown</li> </ul> <p>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.</p>	-	(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
<b>Settlement Funding Assessment (Grant)</b>	
• Revenue Support Grant, direct from the Government	-
• Individual Authority Business Rates Baseline	6.2
• Business Rates Top-Up, from the Government	17.6
	<b>23.8</b>
<b>Other Business Rates</b>	
• Business Rates collection fund deficit	-
• Section 31 Grant - Business Rates Capping	1.5
	<b>1.5</b>
<b>Council Tax</b>	
• Council Tax	30.4
• Council Tax collection fund surplus	0.3
	<b>30.7</b>
<b>Total Funding</b>	<b>56.0</b>

2019/20 was the last year of the four year settlement. The anticipated 4 year Spending 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%

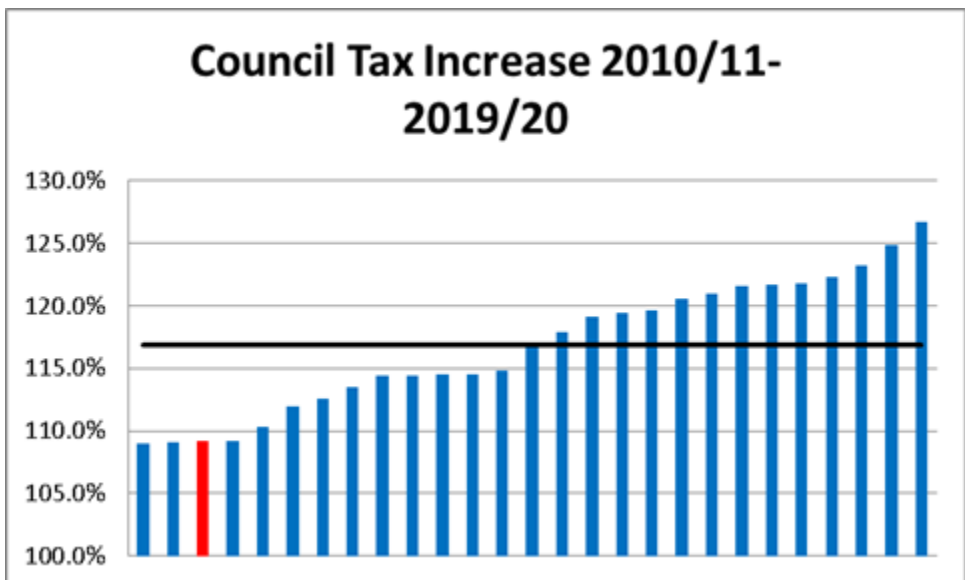
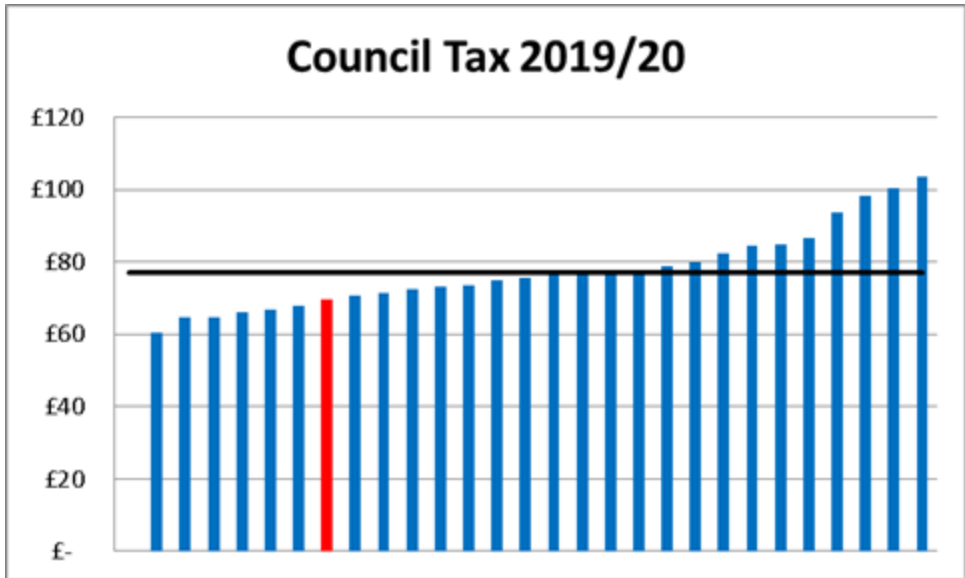
Section 31 Grant in respect of Business Rates Capping was overstated in 19/20 due to inaccurate calculations based on incorrect guidance from MHCLG. This has been corrected going forward, reducing grant by £0.3m. The draft Local Government Finance Settlement included details of the Section 31 grant in 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.