

Status of Report: Public

Meeting: Combined Fire Authority

Date: 9 February 2022

Subject: Budget Strategy 2022/23 to 2024/25

Report by: The Chief Fire and Rescue Officer and the Treasurer

Author: Manjora Bisla (Finance Manager)

For: Decision

1. Purpose

- 1.1 The purpose of this report is to seek the authority's approval of the budget for 2022/23, and the proposed budget strategy and capital programme for the period to 2024/25.

2. Summary

- 2.1 The Fire Authority is funded through government grant and local tax. Since 2013/14 the Revenue Support Grant has fallen from £11.8m in 2013/14 to £4.5m for 2022/23.

- 2.2 Additionally there are significant risks in this year's and future budgets in respect of:-

- (a) Employers' contributions to firefighters' pensions, which increased substantially in 2019/20. Government support of £1.8m has been provided each year since this increase. The proposed budget for 2022/23 onwards assumes the same level of funding. The next anticipated fund revaluation, which will affect contribution rates, is expected to take effect from 1 April 2024. There is uncertainty as to what the new rates will be and what level of funding will be provided.
- (b) Uncertainty around future pay awards. The pay award for 2021/22 is still under negotiation. A provision of 3% has been assumed for 2022/23. The risk to LFRS is that the pay award is greater than the amount we have provided.
- (c) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements; this may give rise to additional costs relating to taxation, employer contributions and legal action. There is also a lack of clarity around what government funding will be available to support the funding of some of these costs.

- 2.3 A 3-year capital programme is also proposed in this report. This will be funded from revenue, without recourse to debt finance. It also proposes an integrated property investment and maintenance programme.

- 2.4 The Authority's tax is currently amongst the lowest of all combined fire authorities, which traps us and similar authorities into a low level of spending due to the Government's rules regarding referenda on council tax increases. After representations by the Chair of the CFA and others, the local government finance settlement will allow authorities in the lowest quartile to increase Band D taxes by £5 in 2022/23. This will help address a historic inequity, and this report proposes to utilise this concession to make our financial position more sustainable.
- 2.5 The budget strategy includes two key measures to secure organisational resilience and longer term financial sustainability:-
- (a) An estates review. A reserve of £6m has previously been set aside for this purpose. This will primarily be used to finance a new Learning and Development facility. As part of this report, it is proposed to increase this reserve to fund significant building works at Western, Eastern and Loughborough wholtime stations over the next three years and support property maintenance.
 - (b) The avoidance of borrowing or leasing for routine capital expenditure. This will generate savings as current leases reach the end of their terms. Current leases are due to cease by the end of 2026/27.
- 2.6 The CFA has a number of earmarked reserves, in addition to the estates strategy reserve. These include the capital fund (£3.9m) and budget strategy reserves (£2.2m). Earmarked reserves are described at section 11, along with proposed changes.
- 2.7 More detailed risks to delivery of the budget are identified at paragraph 12.

3. Recommendations

- 3.1 The Authority is asked to:-
- (a) Approve the budget strategy described in this report, and the formal (technical) budget resolution for 2022/23 which will be circulated separately;
 - (b) Approve the capital programme described at paragraph 9, and authorise the Chief Fire and Rescue Officer to commit expenditure on schemes;
 - (c) Approve the changes to the earmarked reserves described in section 11;
 - (d) Note that no comments were received from stakeholders on the draft budget;
 - (e) Note the Treasurer's view that reserves are adequate during 2022/23, and that estimates used to prepare the budget are robust;
 - (f) Note the medium-term financial strategy and forecasts presented at Appendix Six, and the financial challenges ahead;
 - (g) Approve the treasury strategy and prudential indicators described in paragraph 14 of this report and Appendices Three and Four;

- (h) Approve the proposed capital strategy described in paragraph 15 of this report and Appendix Four, and confirm that the CFA would not wish to undertake commercial investment;
- (i) Note the equality implications arising from the budget, as described in paragraph 16;
- (j) Approve the scheme of virement described at Appendix Five to this report;
- (k) Approve the addition of posts to the establishment as detailed in paragraph 8 of this report.

4. Budget Overview

4.1 The table below summarises the proposed budget for 2022/23, and the forecast position for 2023/24. Risks and caveats are described in section 12 below.

<u>Spending</u>	<u>22/23</u> £m	<u>23/24</u> £m	<u>24/25</u> £m
Approved budget 21/22	38.2	38.2	38.2
Technical changes:-			
• Inflation	1.3	2.2	3.3
• Other	(0.4)	(0.6)	(0.7)
Proposed growth	0.7	0.7	2.4
Contribution to Capital	1.3	1.1	1.4
Contribution to Estates Reserve	2.3	2.1	0.0
Contribution to General Fund Reserve	0.4	0.1	0.0
Planning provision	0.0	0.3	0.6
Forecast Spending	43.8	44.1	45.2
<u>Income</u>			
Council tax	25.0	25.5	26.4
Revenue Support Grant	4.5	4.5	4.5
“Services Grant”	0.6	0.4	0.4
Business Rates Income	4.6	4.6	4.6
Business Rates Top Up Grant	5.9	5.9	5.9
Other grants	1.1	1.1	0.8
Actuarial Review Compensation Grant	1.8	1.8	1.8
Fire authority income	0.3	0.3	0.3
Total Income	43.8	44.1	44.7
Forecast Budget Gap*	0	0	0.5

*The budget gap would be funded from the budget strategy reserve.

4.2 The budget for 2023/24 & 2024/25 is presented in broad terms only and is volatile. This is due to the uncertainty around future funding. A planning provision of £0.3m has been set aside in 2023/24 rising to £0.6m in 2024/25 to protect ourselves from the level of uncertainty for the future.

4.3 A more detailed breakdown of the budget is provided at Appendix One to this report.

5. Council Tax

- 5.1 The Authority's tax is currently amongst the lowest of all combined fire authorities and the local government finance settlement has attempted to address this by allowing the lowest charging quartile of fire and rescue authorities to increase Band D precepts by £5 in 2022/23 (but not, as far as we know, in later years). This report proposes to take advantage of this by increasing the Band D council tax from £69.29 to £74.29 to lead to a more sustainable financial position for the future.
- 5.2 The Authority's Council Tax is charged to taxpayers across Leicester, Leicestershire and Rutland. It comprises only a small part of the amount payable by taxpayers: the bulk of the tax payable is charged by Leicester City Council, Leicestershire County Council and Rutland County Council in the three areas respectively.
- 5.3 In 2021/22, average Band D taxes in the three areas were:-

Authority Area:-	£
Leicester City	2,012.44
Leicestershire County	1,925 – 2,014
Rutland	2,143.75

- 5.4 The actual amounts people pay, however, depend on the valuation band their property is in, and their entitlement to any discounts, exemptions or benefits. The formal resolution to this report will show the amount payable for property in each band. It will also show the precepts payable by the City Council, district councils and Rutland.

6. Construction of the Budget

- 6.1 Constructing the budget commences with the approved budget for 2021/22 and reflects the current establishment.
- 6.2 The 2022/23 budget has been adjusted for the following:-
- (a) Technical changes: these are cost increases and savings which take effect without any change in policy. They consist principally of the costs of inflation, National Insurance and pensions, offset by savings mainly arising from reducing lease costs: these are detailed in paragraph 7;
 - (b) Proposed growth: the growth proposed in this year's budget relates to the items detailed in paragraph 8;
 - (c) A contribution to the General Fund reserve to provide for the costs of covering any strike action;
 - (d) A contribution to pay for the capital programme, avoiding the need to lease vehicles or borrow money;

- (e) A contribution to the Estates reserve to fund significant building works at Western, Eastern and Loughborough wholetime stations over the next three years and to support maintenance;
- (f) A planning provision of £0.3m, which is added in 2023/24, rising to £0.6m in 2024/25. The provision is a contingency, which reflects the difficulty in making accurate forecasts and acts as a hedge against uncertainty. It is only included in future years' projections and is reviewed annually.

7. Technical Changes

7.1 Money has been added to the budget for **inflation**. This has been calculated as follows:-

- (a) A provision of £0.9m has been made for pay in 2022/23, noting that this and the 2021/22 pay award have yet to be agreed. This provision equates to the equivalent of a 3% pay award. In the subsequent years 2023/24 and 2024/25 a 2.5% pay award is provided for annually. This budget will be held centrally and will only be used to the extent required. The risk of higher awards is explored in paragraph 12 below.
- (b) An increase of £0.2m has been allowed for the 1.25% increase in employers' **national insurance** contributions from April 2022.
- (c) A provision for **price inflation** has been provided of £120k, rising to £160k in 2024/25. Around £100k of this relates to utility bills, which have seen sharp increases.
- (d) A provision of £44k has been provided for an increase in employers' **pension contributions** to the Local Government Pension Scheme. The forecasts assume no contribution increases to the firefighters' scheme until April 2024.

7.2 It is assumed that grant to meet the costs of a previous increase in contributions to the **firefighters' pension scheme** will continue to be provided, at the previous level. We are awaiting confirmation from the Home Office in 2022.

7.3 The budget has been reduced for other technical changes. These include:

- (a) Savings arising in respect of **capital financing** costs. These occur because lease rentals cease once vehicles are fully paid for, and no new leases are being entered into, as capital spend is now financed directly from revenue. By 2024/25, lease costs will fall to just £24k per year.
- (b) The end of several operating leases generating savings of £147k. Note these leases were funded entirely from the revenue budget and are separate to the leases mentioned in 7.3(a) above.
- (c) Business Rates savings of £100k as a result of a review of our property portfolio, which saw significant reductions in their rateable values.

8. Growth Proposed

8.1 This budget proposes to add £0.7m of growth in 2022/23, to build capacity in support services. This growth will fund additional posts to enable better wellbeing support and training to the Service, along with providing additional Fire Protection officers.

8.2 For the 2024/25 budget, £1.7m has been included to meet costs expected from removal of the Day Crewing shift system.

9. Capital Programme

9.1 Capital expenditure pays for works of lasting benefit. It can be contrasted with the revenue budget, which pays for day-to-day firefighting and prevention.

9.2 As part of this budget we are proposing a three year capital programme. As in previous years, there will be no recourse to borrowing or leasing.

9.3 Our property needs investment, this report proposes to separately itemise resources for property works, and consider the usual capital programme works together with the major investment programme funded by the estates reserve. In effect, this will create a unified property investment programme and a separate capital programme for ICT, vehicles and equipment. This enables £4.5m to be set aside for a comprehensive estates programme, this is in addition to the £6m already available for the new Learning and Development site.

9.4 The proposed capital programme is shown at Appendix Two. This also shows how the costs will be financed from the capital fund & estates reserve. Expenditure required for vehicles, premises and equipment has been reviewed since last year: consequently, this supersedes the second of the 2 years of the two-year budget approved last year.

9.5 A sum of £5.2m has been provided for **operational vehicles**. This is sufficient to enable vehicles to be replaced in accordance with the replacement policy, agreed as part of the fleet review. It includes twelve pumping appliances, station and department vans and cars.

9.6 A sum of £4.5m has been provided for **property works**. This will fund significant building works at Western, Eastern and Loughborough wholtime stations over the next three years and support general maintenance at all stations.

9.7 £1.3m has been provided for **firefighting equipment**. Examples of some of the equipment that will be purchased are detailed below:

- Winching Equipment
- Breathing Apparatus
- Hose Inflation Kits
- Door Opening & Pedal Cutter Sets

9.8 A sum of £0.4m has been included for ICT developments. This includes £0.1m annually to support development of systems. In addition, £80k has been set aside for 2022/23 to extend the life of our Airwave Radio System.

10. Resources

- 10.1 This section of the report describes the income available to the service (the bottom half of the table at paragraph 4.1). At the time of writing, we only have provisional grant figures from the government. Final figures are expected to be available in February.
- 10.2 The most significant source of income (£24.9m) is **Council Tax**. Council Tax levels are set by the CFA, but the tax is collected on our behalf by the City, Rutland and the district councils (the “billing authorities”).
- 10.3 The proposed Band D Council Tax for 2022/23 is £74.29, an increase of £5 from 2021/22. Any higher increase would be subject to a local referendum. The £5 increase will generate an additional £1.2m of funds in 2022/23 compared to a 2% tax increase. 2% increases have been assumed for planning purposes in 2023/24 and 24/25.
- 10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 1.7% from 2021/22). However, future projections assume 1% in 2023/24 and 1.5% in 24/25.
- 10.5 The table at paragraph 4 also shows income from the **business rates retention scheme**. This scheme involves local authorities retaining a share of rates achieved locally. Those whose needs exceed their ability to raise rates receive a **top-up grant**.
- 10.6 The share retained by local authorities is 50% (the fire authority’s share being 1%). The service also receives a top-up grant.
- 10.7 Government support is provided through Revenue Support Grant and a “Services Grant.” The latter is unringfenced, and is effectively part of Revenue Support Grant. By separating out the Services Grant, the Government is giving itself greater latitude to reallocate resources between authorities in due course.
- 10.8 A change to the funding system was anticipated for 2022/23 but this has been delayed by the Government (and the Government has protected its position by allocating some funding as Services Grant). At this time, it is not possible to predict how this will affect the Fire Authority.
- 10.9 The billing authorities have until 31st January to advise of rates income due in 2022/23. Final figures will be included in the formal resolution which will be available at your meeting.
- 10.10 **Other grants** include:-
- (a) New Dimensions – this is payable for the maintenance of certain equipment which has to be made available to support other services when required. The grant received has been approximately £0.9m per year. Previously, this grant has been budgeted at £0.5m as the Government once indicated that it was to be phased out. However, for 2022/23 the budget has been increased to £0.9m to reflect the actual amount we continue to receive each year.

(b) Firelink, for radio transmission systems. For 2022/23, £0.3m has been budgeted in line with previous years.

10.11 **Fire authority income** is income earned by the service itself. It chiefly arises from money received for siting radio masts on the service's property and rental income from Leicestershire Police & the East Midlands Ambulance Services (EMAS) for the occupation of office space at two of our properties.

10.12 The service saw deficits on the **collection fund** in 2020/21. This arises when the collection of council tax or business rates by the billing authorities is less than the budget for previous years. Conversely, where billing authorities perform better than the budget, a surplus arises. At present, it is assumed that there will be an overall surplus of £0.1m in 2021/22. However, the position will not be confirmed until 31st January, when rates income forecasts are complete.

11. Reserves

11.1 The authority holds a number of reserves for various purposes. As part of this report we are proposing to repurpose some.

11.2 The table shows the forecast balance on reserves at 31st March 2022 after the proposed changes detailed in this report.

	<u>Forecast Balance</u> <u>£000</u>
General reserves	2,987
Estates Strategy Reserve	6,026
Capital Fund	3,886
Budget Strategy Reserve	2,207
ESN Infrastructure Reserve	930
Recruitment Over-Establishment Reserve	400
Grenfell Reserve	469
Total	<u>16,905</u>

11.3 **General reserves** are held as a buffer in case of unexpected problems or emergencies during the course of a year, and are available as a last resort. It has previously been agreed to increase the level of general reserves over the next few years, to cover against the cost of providing strike cover. Over the next two years we are putting £0.5m into the reserve to increase the balance to £3.5m, which is believed to be sufficient to fund any unexpected emergencies.

11.4 The reserve for the **estates strategy** exists to facilitate a longer term review of the operational estate. Improving the operational efficiency of buildings is a key plank in our strategy to improve operational effectiveness and increase financial resilience. As the CFA are aware from previous reports this will assist with financing a Learning and Development facility. In addition to the Learning and Development Facility, this reserve will provide funds for investment in the wider estate. The budget will provide £4.5m over the next three years to support this programme.

- 11.5 The **capital fund** exists to finance the capital programme, and is topped up each year from the revenue budget. This is more fully described at paragraph 9 above, and Appendix Two. The balance shown above allows for commitments from the capital programmes in 2021/22.
- 11.6 The **budget strategy reserve** is available to assist with any budget gaps in the future and to assist with any medium to long term impacts of Covid-19.
- 11.7 The authority also has a number of **other reserves**. These include:-
- (a) A reserve to cover costs when the workforce is over establishment (which will only occur in the immediate aftermath of a recruitment exercise) and to meet the costs of any recruitment exercise;
 - (b) An emergency services network (ESN) reserve, to meet costs arising from any change required to national secure networks;
 - (c) A reserve to meet costs which are needed to deliver the outcomes that have arisen from the Grenfell incident recommendations;
- 11.8 The Authority also held a number of smaller reserves totalling £0.5m for ill health retirement and emergency services communications. These reserves are no longer required so it is proposed as part of this report they are transferred to the Capital Fund to assist with funding the future capital programme.
- 11.9 The scheme of virement at Appendix Five proposes authorisations to spend these reserves.

12. Risk Assessment and Adequacy of Estimates

- 12.1 Best practice requires the Treasurer to identify any risks associated with the budget, and the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.
- 12.2 In my view, the budget for 2022/23 is achievable.
- 12.3 As described above, the forecast position beyond 2022/23 is sensitive to change, and small changes can have a significant impact on available finances.
- 12.4 The key risk to delivery of the budget in 2022/23 is the cost of pay awards, if these exceed the assumed 3%. Each 1% for firefighters would cost the authority a further £0.3m per annum. Savings may need to be identified to cover the additional costs.
- 12.5 The key risks to delivery of the strategy beyond 2022/23 are:-
- a) As above, any cost of pay awards which exceed current assumptions;
 - b) The cost of employers' contributions to firefighters' pensions, if a more substantial proportion of cost is passed to the service than assumed. For this budget it is assumed the grant received will remain at £1.8m for the foreseeable future.

However, it should be noted the support provided could reduce and may not be available for a future increase in contributions;

- c) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements; this includes related costs for immediate detriment, legal action and the uncertainty around government funding;
- d) The impact of any Government cuts from 2023/24 arising from the Government's Fair Funding Review.

12.6 The risks are mitigated by:-

- (a) The inclusion of a planning provision in future forecasts;
- (b) Our policy of funding capital from the revenue budget, which is reducing the costs of debt financing;
- (c) A strategic approach to reviewing the operational estate, with a view to achieving savings;
- (d) An increase in general reserves, which will prevent an overspend in any given year and provide funds towards any necessary strike cover.

12.7 I believe the Authority's general and earmarked reserves to be adequate for 2022/23, and that estimates made in preparing the budget are robust. In previous years, minimal budget allocations had been set aside for inflationary pressures. However, for 2022/23, a provision of £120k has been allocated mainly in order to pay for the sharp increases in utility bills.

13. Consultation on the Draft Budget

13.1 Consultation on the draft budget with business ratepayers (who are statutory consultees) and other partners took place between 7 January to 25 January 2022. No comments were received during this period.

14. Borrowing and Investment

14.1 Local authority capital expenditure is self-regulated, based upon a code of practice (the "prudential code").

14.2 The authority complies with the code of practice, which requires us to demonstrate that any borrowing would be affordable, sustainable and prudent. To comply with the code, the authority must approve limits and indicators at the same time as it agrees the budget. The substance of the code pre-dates the recent huge cutbacks in public spending. In practice, no borrowing is proposed in the budget. The proposed limits and indicators are shown in Appendix Three and Appendix Four.

- 14.3 The service's treasury activities are carried out by the City Council on the Authority's behalf. The service does not need to borrow and takes no risk on its investments (counterparty risk is borne entirely by the City Council). Any opportunities to prematurely repay or reschedule existing debt will be taken, where this generates long term savings. However, as the cost of premature repayment is now prohibitively expensive, such opportunities are unlikely to present themselves.

15. Capital Strategy

- 15.1 Under guidance published by the Government and the Chartered Institute of Public Finance and Accountancy (CIPFA), the CFA is required to publish a capital strategy. This is included at Appendix Four.
- 15.2 The reasons for this requirement are Government concerns about certain local authorities who are borrowing substantial amounts to invest in commercial property (in some cases, many times their net budget). The main impact of the rules is to increase transparency over "non-financial" investments, especially where paid for by borrowing. In this context, a non-financial investment is any investment outside of the normal treasury management strategy.
- 15.3 The CFA does not undertake any non-financial investment, and your approval to the recommended budget will confirm that this should be the position for the future. In practice, unlike larger local authorities, LFRS does not have the skills or capacity to manage such a portfolio.

16. Equality Implications

- 16.1 The Authority is committed to promoting equality of opportunity in service provision, through its operational policies aimed at reducing inequality of outcomes, its practices aimed at ensuring fair treatment for all, and the provision of culturally sensitive response and prevention services that meet local people's needs.
- 16.2 In accordance with section 149 of the Equality Act, the Authority is required to "have due regard" to the following aims of the public sector equality duty:
- (a) to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not it;
 - (c) to foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 16.3 Protected groups under the public sector equality duty are characterised by age, disability, gender re-assignment, pregnancy/maternity, race, religion or belief, sex and sexual orientation.
- 16.4 There are no proposals to reduce spending on services which would have a disproportionate impact on protected groups. Should there be any proposed changes to services, policy or procedure at an operational level, an equality impact assessment will be conducted.

- 16.5 However, the budget strategy does recommend a proposed tax increase for residents. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications.
- 16.6 The impact of the tax rise is 10p per week for a band D property, rising to 19p per week for the highest band of properties in the area (before any discounts or exemptions). This will not create a significant additional burden on residents, and the increase will help maintain and improve services from which all protected groups benefit. The likely impact does, however, need to be considered in the context of other changes which might affect low income residents (although most low income households will not pay the full increase).
- 16.7 Ongoing welfare reforms will also have a disproportionate effect on some lower-income groups, in particular the rollout of Universal Credit. Research before the pandemic by Joseph Rowntree Foundation (JRF) has identified certain groups likely to be on low income and which may therefore see a disproportionate effect from a small (in absolute terms) increase in council tax. These include lone parents, single-earner couples and larger families (with 3 or more children).
- 16.8 Billing authorities have mitigating actions in place to address specific hardship, although cost increases arising from other authorities' contributions to local council tax bills are likely to far exceed the cost of the LFRS tax increase.

17. Financial Implications

- 17.1 This report is exclusively concerned with financial issues.
- 17.2 There are no significant revenue costs arising from the proposed capital programme. There will be maintenance and running costs associated with new vehicles, but these are likely to be lower than the costs of vehicles coming out of service. There may be revenue costs arising from investment in ICT, but the aim is to use ICT to reduce cost in the medium term. Any revenue implications will be based on actual investment decisions taken.

18. Legal Implications

- 18.1 As this report deals with next year's budget, section 106 of the Local Government Finance Act 1992 will apply to members in arrears of council tax. All other legal implications are contained within the main body of the report.
- 18.2 Compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities is required under Part 1 of the Local Government Act 2003.

19. Appendices

Appendix One – Budget 2022/23

Appendix Two – Capital Programme

Appendix Three – Recommended Treasury Limits and Indicators

Appendix Four – Capital Strategy

Appendix Five – Proposed Scheme of Virement

Appendix Six – Medium Term Financial Strategy

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