

Status of Report: Public

Meeting: Combined Fire Authority

Date: 10 February 2021

Subject: Budget Strategy 2021/22 to 2022/23

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

Author: Amy Oliver (Chief Accountant, Leicester City Council)

For: Decision

1. Purpose

1.1 The purpose of this report is to seek the authority's approval to the budget for 2021/22, and the proposed budget strategy and capital programme for the period to 2022/23.

2. Executive Summary

2.1 The Fire Authority is funded through the local government finance settlements and as such has been subject to severe financial cutbacks since 2011/12.

2.2 The Revenue Support Grant payable to LFRS has fallen from £11.8m in 2013/14 to an estimated £4.3m in 2021/22.

2.3 Added to this, the budget is made more difficult because the level of funding available beyond 2021/22 is not known, nor the extent to which the COVID-19 pandemic and/or consequent economic downturn will continue to impact.

2.4 As a consequence, the proposed budget has limited any growth required and avoided using reserves in 2021/22 other than to fund the capital programme. We continue to avoid new borrowing or leasing, and existing lease charges will more or less cease after 2022/23.

2.5 Additionally there are significant risks in this year's budget in respect of:-

(a) Employers' contributions to firefighters' pensions, which have increased substantially. Whilst Government support is available in 2021/22, there is no clarity beyond this;

(b) Future levels of income to be expected from Business Rates and Council Tax.

2.6 A 2-year capital programme is also proposed in this report. This will be funded from revenue, without recourse to debt finance.

2.7 The report proposes a Band D council tax of £69.29, an increase of 2% on the tax for 2020/21 and the most we can set without a referendum. The authority's tax is currently amongst the lowest of all combined fire authorities and will continue to be amongst the very lowest in 2021/22. Tax at the average level would have enabled the authority to increase spending by £3.5m in 2020/21.

- 2.8 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 been set aside for this purpose.
 - (b) The avoidance of borrowing or leasing for routine capital expenditure. This will generate savings as current leases reach the end of their terms.
- 2.9 The CFA has a number of earmarked reserves, in addition to the estates strategy reserve. These include the capital fund (£3m) and COVID-19 and budget strategy reserves (£1.6m). Earmarked reserves are described at section 11, along with proposed changes.
- 2.10 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 2021/22 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 2021/22, 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 2021/22, and the forecast position for 2022/23. Risks and caveats are described in section 12 below.

<u>Spending</u>	<u>21/22</u> <u>£m</u>	<u>22/23</u> <u>£m</u>
Approved budget 20/21	37.5	37.5
Technical changes:-		
• Inflation	0.6	1.4
• Other	(0.3)	(0.2)
Proposed growth	0.6	0.4
Contribution to capital	1.4	1.3
Contribution to General Fund Reserve	0.4	0.0
Planning provision		0.3
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Forecast Spending	40.2	40.7
<u>Income</u>		
Council tax	22.7	23.5
Revenue Support Grant	4.3	4.3
Business Rates Income	4.3	4.4
Business Rates Top Up Grant	5.6	5.7
Other grants	1.1	0.8
Actuarial Review Compensation Grant	1.8	1.5
Fire authority income	0.4	0.3
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Total Income	40.2	40.5
Forecast Budget Gap*	0.0	0.2

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

4.2 The budget for 2022/23 is presented in broad terms only and is volatile. This is due to the uncertainty around future funding and the medium to long-term impacts of COVID-19.

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 proposed Band D Council Tax for 2021/22 is £69.29, an increase of just below 2% on 2020/21. This is the maximum allowed without a referendum. The tax will remain in the lowest quartile of combined fire authorities. Indeed, if the service charged the average tax of all combined fire authorities, income would be £3.5m per year higher than it is in 2020/21.
- 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 2020/21, average Band D taxes in the three areas were:-

Authority Area:-	£
Leicester City	1,915.42
Leicestershire County	1,835 – 1920
Rutland	2,074.40

- 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 2020/21 and reflects the current establishment.
- 6.2 The 2020/21 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 and pensions, offset by savings arising from reducing lease costs, and are detailed in paragraph 7;
 - (b) Proposed growth: the growth proposed in this year's budget relates to four 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 planning provision of £0.3m, which is added in 2022/23. 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 £0.4m has been made for **pay**, it is noted that the Chancellor has stated there will be a public sector pay freeze in 2021/22. However, this formally relates to Central Government and Firefighters pay is negotiated separately. Therefore, it is prudent to allocate some funding in a provision in case one is agreed. The forecast budget for 2022/23 assumes a 2.5% pay award. This budget will be held centrally and will only be used if a pay award is confirmed. The risk of higher awards is explored in paragraph 12 below.
- (b) A small provision for **price inflation** has been provided of £20,000, rising to £40,000 in 2022/23. Most areas of service are therefore required to manage within the level of funding available in 2020/21. Whilst some costs are seeing price increases above inflation, recent experience with underspending suggests this can be managed within overall budgets.

7.2 In 2021/22 it is assumed that the additional cost of the **firefighters' pension scheme**, will continue to be funded by a Government compensation grant at the same level as 2020/21. However, to be prudent we are currently forecasting that the grant will reduce by £0.3m in 2022/23

7.3 The budget has been reduced for other technical changes. This saving arises 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 2023/24, lease costs will fall to just £50,000 per year (from nearly £0.6m in 2020/21).

8. Growth Proposed

8.1 The budget position allows scope for a limited amount of growth, and the following totalling some £0.6m is proposed for the CFA's approval:-

- (a) £100,000 for two Fire Protection Officers to assist the Authority meet the recommendations of the HMICFRS.
- (b) £200,000 to provide additional resources within HR that would have previously been funded from the management of change reserve.
- (c) £86,000 to resource the Finance Team, which will reduce the dependency on support from third parties and increases the skills and expertise of the team.
- (d) £203,000 for one year to provide additional resources within Learning and Development that would have previously been funded from the management of change reserve.

- (e) £15,000 to fund the additional cost of the retainer element of the strike cover contract.

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 Due to the uncertainty around funding, it is only proposed to set a two-year capital programme. The budget for the 2021/22 programme has been amended from that presented to the Combined Fire Authority in February 2020.
- 9.3 The table at paragraph 4.1 shows a contribution from the revenue budget to fund capital expenditure. This amounts to £3.4m over 2 years; this would leave limited funding for future years. However, as detailed in paragraph 11 it is proposed to move the management of change reserve, along with a number of smaller reserves into the capital fund so the capital programme can continue to be funded from revenue for the short term. Any receipts from sales of vehicles or property will be available to supplement this.
- 9.4 The proposed capital programme is shown at Appendix Two. This also shows how the costs will be financed from the capital fund. 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 £3.2m 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 nine pumping appliances, station and department vans and cars.
- 9.6 A provision of £250,000 per annum has been provided for **planned maintenance of premises**. In addition, £32,000 has been provided to improve the drainage system at Western Fire and Rescue Station. £136,000 is available to improve the facilities at a number of fire stations to ensure they are suitable for our diverse workforce. The total planned spend on premises is £668,000.
- 9.7 £316,000 has been provided for **firefighting equipment**. Examples of what will be purchased are detailed below:
- Safe Work at Height equipment
 - Automated defibrillators
 - Decontamination washing/showers
 - Rescue platforms, technical rescue.
 - Urban search and rescue building monitoring equipment
 - Breathing apparatus
- 9.8 A sum of £260,000 has been included for ongoing ICT developments. This includes £100,000 annually to support development of systems. In addition, £60,000 has been set a-side to replace servers which have reached the end of their useful lives.

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 (£22.8m) 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 2020/21 is £69.29, an increase of just below 2% on 2020/21. Any higher increase would be subject to a local referendum. A further 2% has been assumed for planning purposes in 2022/23.
- 10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 1% over 2020/21). Future projections assume a 1% increase each year in the relevant number of properties. This is believed to be prudent, however is significantly lower than what we have previously seen.
- 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 Both Council Tax and business rates are being impacted by the Covid-19 pandemic and therefore the figures can be volatile. However, the budget strategy and Covid-19 reserve can be used to mitigate any such impacts.
- 10.8 A change to the funding system was anticipated for 2021/22 but this has been delayed by the government.
- 10.9 At this time it is not possible to accurately predict how this will affect the Fire Authority.
- 10.10 The billing authorities have until 31 January to advise of rates income due in 2021/22. Final figures will be included in the formal resolution which will be available at the CFA meeting.
- 10.11 **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. It has been around £0.9m per year. However, the Government only confirms the grant for periods of six months at a time. There is a distinct possibility that the grant will eventually disappear, and therefore to be prudent the budget assumes the amount received will fall to £0.5m in 2021/22 and remain at this level in 2022/23.
 - (b) Firelink, for radio transmission systems.

10.12 **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, income earned from the wholly owned trading company Forge Health, and interest achieved on cash balances.

10.13 The service has previously seen surpluses on the **collection fund**. These arise when collection of council tax or business rates by the billing authorities exceeds the budget for previous years. Conversely, where billing authorities perform worse than the budget, a deficit arises. At present, it is assumed that there will be an overall deficit of £0.6m in 2020/21 due to problems with collection and extra council tax support in the pandemic. However, the position will not be confirmed until 31 January, when rates income forecasts are complete. In addition, the Government has confirmed they will be funding 75% of any collection fund deficit and any deficit should be spread over 3 years.

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 31 March 2021 after the proposed changes detailed in this report.

	<u>Forecast Balance</u> <u>£000</u>
General reserves	2,590
Estates Strategy Reserve	6,026
Capital Fund	3,013
Management of Change Reserve	0
Budget Strategy and COVID-19 Reserve	1,636
Other	879
Total	<u>14,144</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. As previously agreed, we are putting £0.4m in into the reserve during 2021/22 to get the balance to £3m at the end of the next financial year, which is believed to be sufficient to fund any unexpected emergencies.

11.4 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 2020/21. A contribution of £1.4m is required for 2021/22 to enable the Authority to continue to fund the capital programme from revenue.

11.5 The **management of change** reserve was previously set aside to support the required actions following the outcomes of the Integrated Risk Management Plan

(IRMP) and the HMICFRS inspection plan. As part of this report the costs previously funded by this reserve are included in the base budget for the Authority and it is proposed to transfer the balance of £1.2m to the capital fund to continue to support the capital programme from revenue. That movement is assumed in the table above.

- 11.6 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 plan in our strategy to improve operational effectiveness and increase financial resilience. As the CFA is aware from previous committee reports this will assist with financing a Learning and Development facility.
- 11.7 The budget strategy and Covid-19 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.
- 11.8 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) A mobile communications reserve, to meet costs arising from any change required to national secure networks;
 - (c) A reserve to meet costs which need to be paid to the Government when firefighters retire due to ill health;
- 11.9 The Authority also held a number of smaller reserves totalling £0.2m for insurance, relocation and occupational health. 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.
- 11.10 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 2021/22 is achievable.
- 12.3 As described above, the forecast position beyond 2021/22 is highly sensitive to change, and small changes can have a significant impact on available finances.
- 12.4 A key risk to delivery of the budget in 2021/22 is the cost of pay awards, if these exceed the assumed 1.5% provided for in the budget (notwithstanding the public sector pay freeze). Each 1% for firefighters would cost the authority a further £0.2m per annum. Savings may need to be identified to cover the additional costs.
- 12.5 The key risks to delivery of the strategy beyond 2021/22 are:-

- a) As above, any cost of pay awards which exceed current provisions;
- 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 in 2021/22 but reduce to £1.5m in 2022/23. However, it should be noted the support provided could reduce further;
- c) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements;
- d) The impact of any continued Government cuts from 2022/23 (if these exceed forecasts) and the Government's Fair Funding Review;
- e) The impact of changes to Day Crewing Plus.

12.6 Brexit may also pose some risk to the cost of goods; the impact of this on the capital programme is being monitored closely.

12.7 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 mitigate an overspend in any given year and provide funds towards any necessary strike cover.

12.8 I believe the Authority's general and earmarked reserves to be adequate for 2021/22, and that estimates made in preparing the budget are robust. Whilst no inflation is provided for the generality of running costs in 2021/22, some exceptions are made, and it is believed that the service will be able to manage without an allocation (as has been achieved in recent years).

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 17 December 2020 to 15 January 2021. No comments have been received.

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 take new borrowing 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 be presented.

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 new 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 its approval of 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;
 - (b) to advance equality of opportunity between those who share a protected characteristic and those who do not;
 - (c) to foster good relations between those who share a protected group and those who do not.
- 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 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 3p per week for a band D property, rising to 5p 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 reform systems 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 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 2020/21

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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