Status of Report: **Public**

Meeting: **Combined Fire Authority**

Date: **12 February 2020**

Subject: **Budget Strategy 2020/21 to 2021/22**

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 2020/21, and the proposed budget strategy and capital programme for the period to 2021/22.

2. Summary

2.1 Local Government has been subject to severe financial cutbacks since 2011/12.

2.2 Fire Services are no exception. The Revenue Support Grant payable to LFRS has fallen from £11.8m in 2013/14 to £4.3m in 2020/21.

2.3 Setting the budget for next year is made more difficult because we do not know the level of funding available beyond 2020/21.

2.4 Since last year, the Government has made announcements about the "end of austerity" in the public finances. While there have been some additional spending announcements, this mainly has related to other departments and not Local Government (which is the department that funds Fire Authorities).

2.5 Funding levels beyond 2020/21 are particularly uncertain, with the planned move to 75% business rates retention and the Government's planned fair funding review of Local Government which will reassess the needs of all authorities from 2021/22. We do not know whether the CFA will gain or lose from these potential changes.

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

(a) Pay awards: an agreement for 2020/21, has not yet been reached;

(b) Employers' contributions to firefighters' pensions, which have increased substantially. Whilst Government support is available in 2020/21, there is no clarity beyond this;

(c) Future expectations of fire services, in respect of modernisation and the outcome of the Grenfell Enquiry.

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

2.8 The report proposes a Band D council tax of £67.96, an increase of 2% on the tax for 2019/20 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 2020/21. Tax at the average level would have enabled the authority to increase spending by £3.4m in 2019/20.

2.9 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.

2.10 The CFA has three significant earmarked reserves. A programme is being prepared to commit the estates strategy reserve (£6.0m). In addition to this are the management of change (£1.1m) and the capital fund (£1.7m) reserves. Earmarked reserves are described at section 11.

2.11 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 2020/21 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) Note the earmarked reserves described in section 11;

(d) Note that no comments were received from stakeholders on the draft budget;

(e) Note my view that reserves are adequate during 2020/21, and that estimates used to prepare the budget are robust;

(f) Approve the treasury strategy and prudential indicators described in paragraph 14 of this report and Appendices Three and Four;

(g) 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;

(h) Note the equality implications arising from the budget, as described in paragraph 16;

(i) Approve the scheme of virement described at Appendix Five to this report.

4. Budget Overview

4.1 The table below summarises the proposed budget for 2020/21, and the forecast position for 2021/22. Risks and caveats are described in section 12 below.

Spending	**20/21 £m**	**21/22 £m**
Approved budget 19/20	36.5	36.5
Technical changes:-		
• Inflation	0.7	1.4
• Other	(0.1)	(0.3)
Proposed growth	0.4	0.4
Contribution to capital	1.7	1.1
Contribution to General Fund Reserve	0.2	0.4
Planning provision		0.3
Forecast Spending	**39.4**	**39.8**
Income		
Council tax	22.5	23.2
Revenue Support Grant*	4.3	4.4
Cut to Grant*		(0.1)
Business Rates Income*	4.4	4.5
Business Rates Top Up Grant*	5.6	5.7
Other grants	0.8	0.8
Actuarial Review Compensation Grant	1.5	1.0
Fire authority income	0.3	0.3
Total Income	**39.4**	**39.8**

*These figures will be subsumed in the new business rates retention scheme.

4.2 The budget for 2021/22 is presented in broad terms only and is particularly volatile. This is due to the uncertainty around future funding in relation to the expected Fair Funding Review and the changes in Business Rates Retention scheme, as described above.

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 2020/21 is £67.96, an increase of just below 2% on 2019/20. This is the maximum allowed without a referendum. The tax will remain in the lowest quartile of combined fire authorities (and probably remain third lowest). Indeed, if the service charged the average tax of all combined fire authorities, income would be £3.4m per year higher than it is.

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 Rutland County Council in the three areas respectively.

5.3 In 2019/20, average Band D taxes in the three areas were:-

Authority Area:-	**£**
Leicester City	1,842.04
Leicestershire County	1,768 – 1,847
Rutland	1,995

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 2019/20 and reflects the current establishment.

6.2 The 2019/20 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 three 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 2021/22. 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 £0.7m has been made for **pay awards**, rising to £1.3m by 2021/22. The proposed budget assumes increases of 2.5% for all staff in 2020/21, and 2% in the following year. The risk of higher awards is explored in paragraph 12 below.

(b) **Price inflation** has been added to only a limited number of budgets, equating to £0.1m in 2021/22. Other areas of service are therefore required to manage within the level of funding available in 2019/20. Whilst some costs are seeing price increases above inflation, recent experience with underspending suggests this can be managed within overall budgets.

7.2 In 2020/21 it is assumed that the additional cost of the **firefighters' pension scheme**, will be almost entirely funded by a Government compensation grant at the same level as 2019/20. However, we are currently forecasting in 2021/22 the grant will reduce by £0.5m.

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.

8. Growth Proposed

8.1 The budget position allows scope for a limited amount of growth, and the following totalling some £0.4m is proposed for the CFA's approval:-

(a) £177,000 per annum reflecting annual cost of retaining a company to provide cover if there was strike action, as agreed by the Combined Fire Authority on the 27th September 2019.

(b) £105,000 per annum to reflect the increased cost of business rates for the properties owned by the Fire Authority, following the 2017 national revaluation.

(c) £156,000 to properly reflect the current staffing structure within the Control Room.

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 2020/21 programme has been amended from that presented to the Combined Fire Authority in February 2019, however no changes are proposed for 2021/22.

9.3 The table at paragraph 4.1 shows a contribution from the revenue budget to fund capital expenditure. This amounts to £2.8m over 2 years; the current capital fund will then be almost fully committed. 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 last 2 years of the three-year budget approved last year.

9.5 A sum of £3.0m has been provided for **operational vehicles**. This is sufficient to enable vehicles to be replaced in accordance with the new replacement policy, agreed as part of the fleet review. It includes eight pumping appliances, station and department vans and cars, two special appliances, together with fire prevention transport.

9.6 A provision of £250,000 per annum has been provided for **planned maintenance of premises**, pursuant to condition surveys. Following the CFA decision on the 19th June 2019, £250k is also included for the conversion of the Headquarters canteen. All other substantial schemes will be considered through the Estates Review.

9.7 £252,000 has been provided for **firefighting equipment** . This is expected to include the following:-

(a) High and low pressure air bags and regulators (rescue equipment used to lift loads and create space in extrication scenarios);

(b) New hand held firefighting branches that will provide improvements in firefighter safety, and improve efficiency when dealing with fires in the built environment through use of current design and technology;

(c) Crew saver life jackets (inflatable safety devices worn over protective equipment when working in, on or near water);

(d) Chemical protection suits (fully enclosed protective suits worn in addition to other personal protective equipment, providing a high level of protection from exposure and contamination at incidents that involve hazardous materials);

(e) Battery powered hand tools (including impact wrenches and reciprocating saws, used for a range of fire and rescue scenarios where space or access is confined or other equipment is not suitable for the task);

(f) Inflatable shelter (portable tent structure that can be used for the welfare of crews at large incidents, a working area for maintaining breathing apparatus, or multi-agency briefings).

9.8 A sum of £375,000 has been included for ongoing ICT developments. This includes £100,000 annually to support development of systems. In addition to this £175,000 has been added into 2020/21 to support the roll out of Office 365, replacement of core switches and further system development.

9.9 £50,000 is being made available to match fund life safety sprinkler provision in high risk premises. The Authority will work with housing providers and charities to identify appropriate schemes.

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, if available, will be reported to your meeting.

10.2 The most significant source of income (£22.5m) 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 £67.96, an increase of just below 2% on 2019/20. Any higher increase would be subject to a local referendum. A further 2% has been assumed for planning purposes in 2021/22.

10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 2.04% over 2019/20). Future projections assume a 1.75% increase each year in the relevant number of properties. This is believed to be prudent.

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 A change to the funding system from 2020/21 had been expected but has been delayed. We anticipate this change will now come in effect from 2021/22. We expect this to involve:-

(a) An increase in the share of business rates retained locally from 50% to 75%;

(b) A review of the proportion of the 75% to be retained by different tiers of local government;

(c) Cessation of Revenue Support Grant (reflecting the fact that authorities will keep more rates);

(d) A funding review which will reassess authorities' needs. It is expected that this will be reflected in changes to top up payments.

10.8 At this time it is not possible to accurately predict how this will affect the Fire Authority. The budget shown in this report for 2021/22 assumes further funding reductions.

10.9 The billing authorities have until 31st January to advise of rates income due in 2020/21. 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. It has been around £0.9m per year. However, Government only confirm 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 continues to assume the amount received will be £0.5m in 2020/21 and remain at this level in 2021/22.

(b) Firelink, for radio transmission systems.

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, income earned from Forge Health, and interest achieved on cash balances.

10.12 The service will have available any 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 surplus of £0.1m in 2019/20. The position will not be confirmed until 31st January, when rates income forecasts are complete.

11. Reserves

11.1 The authority holds the reserves shown in the table below.

	Forecast Balance £000
General reserves	2,149
Capital fund	1,711
Management of Change Reserve	1,081
Estates Strategy	6,026
Other	1,080
Total	**12,047**

11.2 **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 is proposed to increase the level of general reserves over the next few years, to cover against the cost of providing strike cover. At the current level this reserve would be seriously depleted under the scenario of strike action.

11.3 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 2019/20. A further contribution of £0.5m is required for 2020/21 than that planned when setting 19/20's budget. This is due to the proposed increase in the capital programme.

11.4 The **management of change** reserve has been set aside to support the required actions following the outcomes of the Integrated Risk Management Plan (IRMP) and the HMICFRS inspection plan.

11.5 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. A report is on your agenda today covering the Learning and Development facility.

11.6 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) An insurance reserve, which covers the authority for differences between the insurance value and replacement cost of any claims or incidents;

(d) A reserve to meet costs which need to be paid to the MHCLG when firefighters retire due to ill health;

(e) A small reserve of £15,000 to meet any relocation costs arising from recruitment.

11.7 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 me 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 2020/21 is achievable.

12.3 As described above, the forecast position beyond 2020/21 is highly 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 2020/21 is the cost of pay awards, if these exceed the assumed 2.5%. 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 2020/21 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 £1.5m in 2020/21 but reduce by £500k in 2021/22. 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 2020/21 (if these exceed forecasts) and the Government's Fair Funding Review;

e) The outcomes and recommendations from the Grenfell Tower Inquiry.

12.6 Brexit may also pose some risk – the key risk to the scenario of a no deal exit is believed to be new tariffs, which would mainly impact the capital programme. For example, the cost of vehicle chassis may increase by over 20% (£0.2m on the current programme).

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 will (over time) reduce 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.

12.8 I believe the Authority's general and earmarked reserves to be adequate for 2020/21, and that estimates made in preparing the budget are robust. Whilst no inflation is provided for the generality of running costs in 2020/21, 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 10th January and 24th January 2020. 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 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 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 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 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 by law 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 protected groups and others;
(c) to foster good relations between protected groups and others.

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 The ASDA income tracker for August 2019[1] shows relatively strong growth in disposable incomes over the past year, reflecting low unemployment, real-terms wage growth, and falling inflation rates. However, this is not evenly spread, with the lowest-income fifth of households seeing a 2.6% *fall* in discretionary spending power over the year.

16.8 Research by the Joseph Rowntree Foundation (JRF) has identified certain groups who are particularly likely to be on a low income[2] 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).

16.9 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.

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[1] The ASDA income tracker is an indicator of the economic prosperity of 'middle Britain', taking into account income, tax and all basic expenditure. ASDA's customer base matches the UK demographic more closely than that of other supermarkets.

[2] *A Minimum Income Standard for the United Kingdom in 2019,* JRF, July 2019. The JRF report is based around a different measure of "low income" to the ASDA income tracker, based on the ability to afford an assessed minimum living standard.

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

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