LEICESTERSHIRE
FIRE and RESCUE SERVICE

# Draft Budget Strategy

## 2021/22 to 2022/23

SAFER PEOPLE SAFER PLACES

| | |
|---|---|
| Created: | December 2020 |
| Reviewed: | December 2020 |
| Owner: | Finance |

**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.

1.2 This version is a draft, and has been written in advance of the local government finance settlement for 2021/22. It will be revised prior to full CFA approval.

## 2. 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 and estimated £4.3m in 2021/22.

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

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 avoid new borrowing or leasing, and existing lease charges will more lease 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 any comments received from stakeholders (to be updated after consultation);

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

(f) Note the medium-term financial strategy and forecasts presented at Appendix 6, 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.

| **Spending** | **21/22 £m** | **22/23 £m** |
|---|---|---|
| Approved budget 20/21 | 37.5 | 37.5 |
| Technical changes:- | | |
| • Inflation | 0.6 | 1.3 |
| • Other | (0.3) | (0.1) |
| Proposed growth | 0.5 | 0.1 |
| Contribution to capital | 1.5 | 1.9 |
| Contribution to General Fund Reserve | 0.4 | 0.0 |
| Planning provision | | 0.3 |
| **Forecast Spending** | **40.2** | **41.0** |
| **Income** | | |
| Council tax | 23.1 | 23.8 |
| Revenue Support Grant | 4.3 | 4.4 |
| Cut to Grant | | (0.1) |
| Business Rates Income | 4.3 | 4.5 |
| Business Rates Top Up Grant | 5.6 | 5.7 |
| Other grants | 0.8 | 0.8 |
| Actuarial Review Compensation Grant | 1.8 | 1.5 |
| Fire authority income | 0.3 | 0.3 |
| **Total Income** | **40.2** | **40.9** |
| **Forecast Budget Gap*** | | **0.1** |

*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 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 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 £20k, rising to £40k 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 £0.5m 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) £130,000 for one year to provide temporary resources within HR that would have previously been funded from the management of change reserve.

(c) £60,000 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 with 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 & 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 & 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, £60k 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 national public spending figures. Local figures will be provided in the settlement we expect in mid December. In the meantime, grant figures have been estimated.

10.2 The most significant source of income (£23.1m) 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 31st January to advise of rates income due in 2021/22. Final figures will be included in the formal resolution which will be available at your 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, 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 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 31st January, when rates income forecasts are complete. In addition, Government have 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 31st March 2021 after the proposed changes detailed in this report.

| | Forecast Balance £000 |
|---|---|
| General reserves | 2,590 |
| Estates Strategy Reserve | 6,026 |
| Capital Fund | 3,013 |
| Management of Change Reserve | 0 |
| Budget Strategy & COVID-19 Reserve | 1,636 |
| Other | 879 |
| **Total** | **14,144** |

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, 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 £1.5m 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 any additional costs 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 are 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.

11.7 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) 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 MHCLG when firefighters retire due to ill health;

11.8 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.

11.9 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 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 The key risk to delivery of the budget in 2021/22 is the cost of pay awards, if these exceed the assumed 1.5%. 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 2021/22 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 in 2021/22 but reduce by £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 2021/22 (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 – the key risk to the scenario of a no deal exit is believed to be new tariffs, which would mainly impact the capital 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 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.

12.8 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 This section will be completed once the consultation is complete.

## 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 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 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;
(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 groups 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).

16.7 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

**Officers to Contact**

Callum Faint, Chief Fire and Rescue Officer
Callum.faint@lfrs.org
0116 210 5555

Alison Greenhill, Treasurer
Alison.greenhill@leicester.gov.uk
0116 454 5552

Amy Oliver, Chief Accountant, Leicester City Council
Amy.oliver@leicester.gov.uk
0116 454 5667

**Appendix One**

## Budget 2021/22

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **Expenditure** | | | |
| Employees | 28,151 | 29,174 | 29,665 |
| Fire pensions administration | 313 | 313 | 313 |
| Other employee related expenditure | 619 | 619 | 619 |
| Premises | 2,441 | 2,441 | 2,441 |
| Transport | 983 | 983 | 983 |
| Supplies and Services | 3,287 | 3,322 | 3,342 |
| Capital financing | 3,369 | 2,947 | 3,351 |
| Contribution to reserves | 440 | 393 | 0 |
| Planning Provision | | | 300 |
| **Total Expenditure** | **39,603** | **40,192** | **41,014** |
| **Income** | | | |
| Council tax | 22,387 | 23,053 | 23,744 |
| Business rates | 4,530 | 4,330 | 4,551 |
| Collection Fund Surplus/(Deficit) | 134 | (49) | (49) |
| Business rates top up grant | 5,550 | 5,577 | 5,688 |
| Revenue Support Grant | 4,321 | 4,343 | 4,330 |
| Actuarial Review Compensation Grant | 1,538 | 1,795 | 1,500 |
| Other grant | 787 | 787 | 787 |
| Fees and charges | 356 | 356 | 363 |
| **Total Income** | **39,603** | **40,192** | **40,914** |
| **Budget Gap to be Funded from Reserves** | **0** | **0** | **100** |

**Appendix Two**

## Capital Programme

| Proposed Programme | 21/22 £000 | 22/23 £000 | Total £000 |
|---|---|---|---|
| Vehicles | 1,577 | 1,649 | 3,226 |
| Premises | 418 | 250 | 668 |
| Firefighting Equipment | 238 | 78 | 316 |
| ICT | 160 | 100 | 260 |
| | 2,393 | 2,077 | 4,470 |

**Use of Capital Fund**

| | | |
|---|---|---|
| Balance on 1st April | 3,013 | 2,150 |
| Add monies from revenue budget | 1,530 | 1,850 |
| Less capital spending | (2,393) | (2,077) |
| Balance on 31st March | 2,150 | 1,923 |

**Appendix Three**

## Treasury Limits and Indicators

1. **Introduction**

1.1 This appendix details the expected indicators and limits arising from the treasury management function.

2. **Proposed Indicators of Affordability**

2.1 The ratio of financing costs to net revenue budget:

| | |
|---|---:|
| 21/22 | 4.16% |
| 22/23 | 3.44% |
| 23/24 | 2.49% |

2.2 In line with our strategy of financing capital expenditure from revenue, these ratios are reducing.

2.3 The estimated incremental impact on council tax of capital investment decisions proposed in the budget, over and above capital investment decisions that have previously been taken by the authority is nil, because no new borrowing is proposed.

2.4 Estimated debt at the end of future years is:-

| End of: | Debt £000 | Leases £000 | Total £000 |
|---|---:|---:|---:|
| 21/22 | 12,137 | 347 | 12,484 |
| 22/23 | 11,137 | 118 | 11,255 |
| 23/24 | 11,137 | 74 | 11,211 |

3. **Treasury Limits for 2021/22**

3.1 The proposed limits on borrowing and leasing for 2021/22 are:-

| | £000 |
|---|---:|
| Authorised Limit | 14,484 |
| Operational Boundary | 12,484 |

3.2 The authorised limit is a legal maximum which cannot be exceeded. The operational boundary is a day to day ceiling which ordinarily would not be exceeded, and must be reported if it is.

3.3 Recommended upper limits on fixed and variable rate debt exposures are shown in the table below. The figures shown are the principal sums outstanding on borrowing but not leasing (in practice these are only relevant in the event of debt repayment or rescheduling):-

| | **£%** |
|---|---:|
| Fixed interest rate | 100% |
| Variable interest rate | 60% |

3.4 The Authority has also to set upper and lower limits for the remaining length of outstanding loans that are fixed rate as a percentage of the total of all loans. This table also excludes leasing. Again, these limits are only relevant in the event of debt rescheduling. Recommended limits are:-

Upper Limit

| | **%** |
|---|---:|
| Under 12 months | 30 |
| 12 months and within 24 months | 40 |
| 24 months and within 5 years | 60 |
| 5 years and within 10 years | 60 |
| 10 years and within 25 years | 100 |
| 25 years and over | 100 |

Lower Limit

| | **%** |
|---|---:|
| Less than 5 years | 0 |
| Over 5 years | 60 |

3.5 Other than money retained in the bank for day to day purposes, all investments are made with the City Council. Balances on this account will not exceed £0.85m, except when there is no reasonable operational alternative.

**Appendix Four**

# Proposed Capital Strategy

## 1. Introduction

1.1 There is a requirement on local authorities (including fire services) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the vicinity of the authority concerned.

1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). As the CFA makes no such investments, a strategy has not been prepared.

1.3 This Appendix sets out the proposed capital strategy for the CFA's approval. It incorporates our policy on repaying debt, which used to be approved separately.

## 2. Capital Expenditure

2.1 The authority's capital expenditure plans are approved by the CFA, as part of the budget report each year.

2.2 The capital programme is usually restricted to:-

(a) Investment in operational buildings – e.g. fire stations, workshops, and administrative offices;

(b) Renewal of operational fleet;

(c) New and replacement firefighting equipment;

(d) Investment in ICT.

2.3 The budget report each year sets out authorities delegated to the Chief Fire and Rescue Officer. These are subject to the normal requirements of the constitution.

2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy.

2.5 Expenditure on **fleet renewals** is directed by the fleet renewals strategy which has been approved by the CFA.

2.6 Capital expenditure on **firefighting equipment** ensures equipment is replaced when it has reached the end of its useful life, or has become technologically obsolescent. It also enables the service to invest in new technology.

2.7 Capital expenditure on **ICT** is determined by the Chief Fire and Rescue Officer, based on a small minor provision each year. Significant requirements would be added to the capital programme in their own right.

2.8 Monitoring of capital expenditure is carried out by the Corporate Governance Committee. Reports are presented on three occasions during the year, and at outturn.

2.9 LFRS does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.10 Past and forecast capital expenditure is:-

| | **£000** |
|---|---:|
| 20/21 | 4,766 |
| 21/22 | 2,393 |
| 22/23 | 2,077 |

## 3. Financing of Capital Expenditure

3.1 It is the CFA's policy to fund all capital expenditure from the revenue budget.

3.2 The CFA will, however, consider spending which cannot be financed in this way in strictly limited circumstances. Such spending is termed "prudential borrowing" as we are permitted to borrow money to pay for it. Circumstances in which the CFA may consider "prudential borrowing" are:-

(a) Where spending facilitates a future disposal, and it is estimated that the proceeds will be sufficient to fully cover the initial costs;

(b) For major building projects, which are integral to the IRMP;

(c) "Spend to save" schemes where the initial cost is paid back from revenue savings.

3.3 LFRS measures its capital financing requirement, which shows how much we would need to borrow if we borrowed for all unfinanced capital spending (and no other purpose). This is shown in the table below:-

| **End of:** | **£000** |
|---|---:|
| 21/22 | 15,982 |
| 22/23 | 15,284 |
| 23/24 | 14,785 |

3.4 Projections of actual debt are part of the treasury management indicators at Appendix Three.

## 4. Debt Repayment

4.1 As stated above, LFRS pays for capital spending as it is incurred. However, this has not always been the case. In the past, the Government encouraged borrowing and money was made available in Revenue Support Grant each year to pay off the debt (much like someone paying someone else's mortgage payments).

4.2 LFRS makes charges to the budget each year to repay debt incurred for previous years' capital spending. This is known as "Minimum Revenue Provision" (MRP). The general principle is that LFRS seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed. The calculations are:-

(a) For all past borrowing, MRP will be charged at a rate of 3% of the capital financing requirement each year. This is a weighted rate, reflecting the portfolio of assets purchased by debt;

(b) For leases, MRP will be charged at a rate equal to the principal element of the rental;

(c) For any new borrowing, MRP will be charged to revenue such that debt is repaid at the same time as the authority benefits from the capital expenditure. For new appliances, this would be the useful life of the appliance. For works to buildings, it will be the period over which the authority benefits from these works.

## 5. Commercial Activity

5.1 Government guidance now requires us to specify our policy towards non-financial investments.

5.2 The CFA makes no such investments.

**Appendix Five**

## Proposed Scheme of Virement

1. This appendix explains the scheme of virement which will apply to the budget, if it is approved by the Authority.

2. The expenditure headings described at Appendix One shall act as budget ceilings, and provide limits on the amount which can be spent on each heading during 2021/22.

3. The Chief Fire Officer (CFO) is authorised to vire sums within budget ceilings without limit, providing such virement does not give rise to a change in the Authority's policy.

4. The CFO is authorised to vire money between any two budget ceilings, provided such virement does not give rise to a change in the Authority's policy. The maximum amount by which any budget ceiling can be increased or reduced during the course of a year is £500,000. This money can be vired on a one-off or permanent basis.

5. The CFO is responsible, in consultation with the Chair and Vice Chair if necessary, for determining whether a proposed virement would give rise to a change of policy.

6. The Treasurer may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision.

7. In respect of reserves:

   (a) Spending general reserves shall require a decision of the CFA;

   (b) Authorities to use the capital fund flow from the capital programme;

   (c) The Chief Fire Officer, in consultation with the Chair and Vice-Chair, may commit up to £100,000 of the Estates Strategy Reserve for a single purpose. Higher sums require a decision of the CFA or the Corporate Governance Committee;

   (d) All other reserves may be committed by the Chief Fire Officer, in accordance with the purpose for which the reserve is held.

8. Changes to the capital programme shall require a decision of the CFA or Corporate Governance Committee. Nonetheless, the Chief Fire Officer may make changes to proposed expenditure <u>within</u> the overall headings at Appendix Two, after consultation with the Chair and Vice-Chair.

**Appendix 6**

## Medium Term Financial Outlook 2022/23 – 2023/24

1. A two-year budget has been presented as part of this report. However, after March 2021, we have (at the time of writing) very little certainty about funding arrangements or the future economic outlook. As a result, medium-term planning is a somewhat precarious exercise.

2. Our central forecasts for the period up to 2023/24 are set out in the table below. The key assumptions (and the associated risks and uncertainties) are further explained below.

| | **2021/22 £'000** | **2022/23 £'000** | **2023/24 £'000** |
|---|---:|---:|---:|
| **Expenditure total** | **40,192** | **41,014** | **41,495** |
| | | | |
| Business rates income | 4,330 | 4,551 | 4,551 |
| Top-up payment | 5,577 | 5,688 | 5,688 |
| Revenue Support Grant | 4,343 | 4,430 | 4,514 |
| *Less* assumed future cuts | 0 | (100) | (300) |
| | | | |
| Council Tax | 23,053 | 23,744 | 24,094 |
| Collection Fund | (49) | (49) | (49) |
| Actuarial Review Compensation Grant | 1,795 | 1,500 | 1,200 |
| Other Grant | 787 | 787 | 787 |
| Fees & Charges | 356 | 363 | 369 |
| **Income Total** | **40,192** | **40,914** | **40,854** |
| | | | |
| **Budget gap** | **0** | **100** | **641** |

<u>Expenditure</u>

3. The expenditure budgets include the permanent growth detailed as part of this report and assumptions around pay inflation going forward, along with a planning provision in 2022/23 onwards.

4. The main area of risk for the Fire Authority's budget is in relation to the assumptions around pay awards as this is the large proportion of the total budget.

5. <u>Income</u>

6. We assume that council tax increases will continue to be restricted by the referendum rules, although we do not yet know the rules. For planning purposes, the table above assumes council tax increases of 2% per year. If the economic downturn is longer, or more severe, than our projections this will have a further effect on income.

7. The rates forecasts presented above assume no substantial changes to the funding we receive. The government has proposed significant reforms to the funding system, although these have now been delayed several times. These include increasing the proportion of rates retained locally to 75%. In itself, the change should be financially neutral, as other funding elements will be reduced to offset the additional retained rates. There may also be reforms to the system to cushion the impact of appeals.

8. There is likely to be a more substantial effect on finances from the “fair funding review” planned for the same date, which will redistribute resources in Local Government. At the time of writing, it is unclear what the impact will be on Fire Authorities.

9. For planning purposes, the budget figures for 2022/23 and 2023/24 assume additional real-terms cuts.

10. A longer or more severe economic downturn will also pose a risk to income projections. This could result in new cuts to grant; falling business rate income; and increased cost of council tax reductions for taxpayers on low incomes.

<u>Summary of Medium-Term Projections.</u>

11. The projections above show a funding gap in 2022/23 onwards. This is manageable for the Fire Authority initially using the budget reserve they have available. This will enable time to plan the best approach to be taken by the Fire Authority without having to make in year budget cuts.