Status of Report: **Public**

Meeting: **Combined Fire Authority**

Date: **9 February 2022**

Subject: **Budget Strategy 2022/23 to 2024/25**

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

Author: **Manjora Bisla (Finance Manager)**

For: **Decision**

1. Purpose

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

2. Summary

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

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

(a) Employers' contributions to firefighters' pensions, which increased substantially in 2019/20. Government support of £1.8m has been provided each year since this increase. The proposed budget for 2022/23 onwards assumes the same level of funding. The next anticipated fund revaluation, which will affect contribution rates, is expected to take effect from 1 April 2024. There is uncertainty as to what the new rates will be and what level of funding will be provided.

(b) Uncertainty around future pay awards. The pay award for 2021/22 is still under negotiation. A provision of 3% has been assumed for 2022/23. The risk to LFRS is that the pay award is greater than the amount we have provided.

(c) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements; this may give rise to additional costs relating to taxation, employer contributions and legal action. There is also a lack of clarity around what government funding will be available to support the funding of some of these costs.

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

2.4 The Authority's tax is currently amongst the lowest of all combined fire authorities, which traps us and similar authorities into a low level of spending due to the Government's rules regarding referenda on council tax increases. After representations by the Chair of the CFA and others, the local government finance settlement will allow authorities in the lowest quartile to increase Band D taxes by £5 in 2022/23. This will help address a historic inequity, and this report proposes to utilise this concession to make our financial position more sustainable.

2.5 The budget strategy includes two key measures to secure organisational resilience and longer term financial sustainability:-

(a) An estates review. A reserve of £6m has previously been set aside for this purpose. This will primarily be used to finance a new Learning and Development facility. As part of this report, it is proposed to increase this reserve to fund significant building works at Western, Eastern and Loughborough wholetime stations over the next three years and support property maintenance.

(b) The avoidance of borrowing or leasing for routine capital expenditure. This will generate savings as current leases reach the end of their terms. Current leases are due to cease by the end of 2026/27.

2.6 The CFA has a number of earmarked reserves, in addition to the estates strategy reserve. These include the capital fund (£3.9m) and budget strategy reserves (£2.2m). Earmarked reserves are described at section 11, along with proposed changes.

2.7 More detailed risks to delivery of the budget are identified at paragraph 12.

3. Recommendations

3.1 The Authority is asked to:-

(a) Approve the budget strategy described in this report, and the formal (technical) budget resolution for 2022/23 which will be circulated separately;

(b) Approve the capital programme described at paragraph 9, and authorise the Chief Fire and Rescue Officer to commit expenditure on schemes;

(c) Approve the changes to the earmarked reserves described in section 11;

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

(e) Note the Treasurer's view that reserves are adequate during 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 2022/23, and the forecast position for 2023/24. Risks and caveats are described in section 12 below.

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

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

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

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

5. Council Tax

5.1 The Authority's tax is currently amongst the lowest of all combined fire authorities and the local government finance settlement has attempted to address this by allowing the lowest charging quartile of fire and rescue authorities to increase Band D precepts by £5 in 2022/23 (but not, as far as we know, in later years). This report proposes to take advantage of this by increasing the Band D council tax from £69.29 to £74.29 to lead to a more sustainable financial position for the future.

5.2 The Authority's Council Tax is charged to taxpayers across Leicester, Leicestershire and Rutland. It comprises only a small part of the amount payable by taxpayers: the bulk of the tax payable is charged by Leicester City Council, Leicestershire County Council and Rutland County Council in the three areas respectively.

5.3 In 2021/22, average Band D taxes in the three areas were:-

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

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

6. Construction of the Budget

6.1 Constructing the budget commences with the approved budget for 2021/22 and reflects the current establishment.

6.2 The 2022/23 budget has been adjusted for the following:-

(a) Technical changes: these are cost increases and savings which take effect without any change in policy. They consist principally of the costs of inflation, National Insurance and pensions, offset by savings mainly arising from reducing lease costs: these are detailed in paragraph 7;

(b) Proposed growth: the growth proposed in this year's budget relates to the items detailed in paragraph 8;

(c) A contribution to the General Fund reserve to provide for the costs of covering any strike action;

(d) A contribution to pay for the capital programme, avoiding the need to lease vehicles or borrow money;

(e) A contribution to the Estates reserve to fund significant building works at Western, Eastern and Loughborough wholetime stations over the next three years and to support maintenance;

(f) A planning provision of £0.3m, which is added in 2023/24, rising to £0.6m in 2024/25. The provision is a contingency, which reflects the difficulty in making accurate forecasts and acts as a hedge against uncertainty. It is only included in future years' projections and is reviewed annually.

7. Technical Changes

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

(a) A provision of £0.9m has been made for pay in 2022/23, noting that this and the 2021/22 pay award have yet to be agreed. This provision equates to the equivalent of a 3% pay award. In the subsequent years 2023/24 and 2024/25 a 2.5% pay award is provided for annually. This budget will be held centrally and will only be used to the extent required. The risk of higher awards is explored in paragraph 12 below.

(b) An increase of £0.2m has been allowed for the 1.25% increase in employers' **national insurance** contributions from April 2022.

(c) A provision for **price inflation** has been provided of £120k, rising to £160k in 2024/25. Around £100k of this relates to utility bills, which have seen sharp increases.

(d) A provision of £44k has been provided for an increase in employers' **pension contributions** to the Local Government Pension Scheme. The forecasts assume no contribution increases to the firefighters' scheme until April 2024.

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

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

(a) Savings arising in respect of **capital financing** costs. These occur because lease rentals cease once vehicles are fully paid for, and no new leases are being entered into, as capital spend is now financed directly from revenue. By 2024/25, lease costs will fall to just £24k per year.

(b) The end of several operating leases generating savings of £147k. Note these leases were funded entirely from the revenue budget and are separate to the leases mentioned in 7.3(a) above.

(c) Business Rates savings of £100k as a result of a review of our property portfolio, which saw significant reductions in their rateable values.

8. Growth Proposed

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

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

9. Capital Programme

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

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

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

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

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

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

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

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

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

10. Resources

10.1 This section of the report describes the income available to the service (the bottom half of the table at paragraph 4.1). At the time of writing, we only have provisional grant figures from the government. Final figures are expected to be available in February.

10.2 The most significant source of income (£24.9m) is **Council Tax**. Council Tax levels are set by the CFA, but the tax is collected on our behalf by the City, Rutland and the district councils (the "billing authorities").

10.3 The proposed Band D Council Tax for 2022/23 is £74.29, an increase of £5 from 2021/22. Any higher increase would be subject to a local referendum. The £5 increase will generate an additional £1.2m of funds in 2022/23 compared to a 2% tax increase. 2% increases have been assumed for planning purposes in 2023/24 and 24/25.

10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 1.7% from 2021/22). However, future projections assume 1% in 2023/24 and 1.5% in 24/25.

10.5 The table at paragraph 4 also shows income from the **business rates retention scheme**. This scheme involves local authorities retaining a share of rates achieved locally. Those whose needs exceed their ability to raise rates receive a **top-up grant**.

10.6 The share retained by local authorities is 50% (the fire authority's share being 1%). The service also receives a top-up grant.

10.7 Government support is provided through Revenue Support Grant and a "Services Grant." The latter is unringfenced, and is effectively part of Revenue Support Grant. By separating out the Services Grant, the Government is giving itself greater latitude to reallocate resources between authorities in due course.

10.8 A change to the funding system was anticipated for 2022/23 but this has been delayed by the Government (and the Government has protected its position by allocating some funding as Services Grant). At this time, it is not possible to predict how this will affect the Fire Authority.

10.9 The billing authorities have until 31st January to advise of rates income due in 2022/23. Final figures will be included in the formal resolution which will be available at your meeting.

10.10 **Other grants** include:-

(a) New Dimensions – this is payable for the maintenance of certain equipment which has to be made available to support other services when required. The grant received has been approximately £0.9m per year. Previously, this grant has been budgeted at £0.5m as the Government once indicated that it was to be phased out. However, for 2022/23 the budget has been increased to £0.9m to reflect the actual amount we continue to receive each year.

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

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

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

11. Reserves

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

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

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

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

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

11.5 The **capital fund** exists to finance the capital programme, and is topped up each year from the revenue budget. This is more fully described at paragraph 9 above, and Appendix Two. The balance shown above allows for commitments from the capital programmes in 2021/22.

11.6 The **budget strategy reserve** is available to assist with any budget gaps in the future and to assist with any medium to long term impacts of Covid-19.

11.7 The authority also has a number of **other reserves**. These include:-

(a) A reserve to cover costs when the workforce is over establishment (which will only occur in the immediate aftermath of a recruitment exercise) and to meet the costs of any recruitment exercise;

(b) An emergency services network (ESN) reserve, to meet costs arising from any change required to national secure networks;

(c) A reserve to meet costs which are needed to deliver the outcomes that have arisen from the Grenfell incident recommendations;

11.8 The Authority also held a number of smaller reserves totalling £0.5m for ill health retirement and emergency services communications. These reserves are no longer required so it is proposed as part of this report they are transferred to the Capital Fund to assist with funding the future capital programme.

11.9 The scheme of virement at Appendix Five proposes authorisations to spend these reserves.

12. Risk Assessment and Adequacy of Estimates

12.1 Best practice requires the Treasurer to identify any risks associated with the budget, and the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.

12.2 In my view, the budget for 2022/23 is achievable.

12.3 As described above, the forecast position beyond 2022/23 is sensitive to change, and small changes can have a significant impact on available finances.

12.4 The key risk to delivery of the budget in 2022/23 is the cost of pay awards, if these exceed the assumed 3%. Each 1% for firefighters would cost the authority a further £0.3m per annum. Savings may need to be identified to cover the additional costs.

12.5 The key risks to delivery of the strategy beyond 2022/23 are:-

a) As above, any cost of pay awards which exceed current assumptions;

b) The cost of employers' contributions to firefighters' pensions, if a more substantial proportion of cost is passed to the service than assumed. For this budget it is assumed the grant received will remain at £1.8m for the foreseeable future.

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

c) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements; this includes related costs for immediate detriment, legal action and the uncertainty around government funding;

d) The impact of any Government cuts from 2023/24 arising from the Government's Fair Funding Review.

12.6 The risks are mitigated by:-

(a) The inclusion of a planning provision in future forecasts;

(b) Our policy of funding capital from the revenue budget, which is reducing the costs of debt financing;

(c) A strategic approach to reviewing the operational estate, with a view to achieving savings;

(d) An increase in general reserves, which will prevent an overspend in any given year and provide funds towards any necessary strike cover.

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

13. Consultation on the Draft Budget

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

14. Borrowing and Investment

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

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

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

15. Capital Strategy

15.1 Under guidance published by the Government and the Chartered Institute of Public Finance and Accountancy (CIPFA), the CFA is required to publish a capital strategy. This is included at Appendix Four.

15.2 The reasons for this requirement are Government concerns about certain local authorities who are borrowing substantial amounts to invest in commercial property (in some cases, many times their net budget). The main impact of the rules is to increase transparency over "non-financial" investments, especially where paid for by borrowing. In this context, a non-financial investment is any investment outside of the normal treasury management strategy.

15.3 The CFA does not undertake any non-financial investment, and your approval to the recommended budget will confirm that this should be the position for the future. In practice, unlike larger local authorities, LFRS does not have the skills or capacity to manage such a portfolio.

16. Equality Implications

16.1 The Authority is committed to promoting equality of opportunity in service provision, through its operational policies aimed at reducing inequality of outcomes, its practices aimed at ensuring fair treatment for all, and the provision of culturally sensitive response and prevention services that meet local people's needs.

16.2 In accordance with section 149 of the Equality Act, the Authority is required to "have due regard" to the following aims of the public sector equality duty:

(a) to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
(b) to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not it;
(c) to foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

16.3 Protected groups under the public sector equality duty are characterised by age, disability, gender re-assignment, pregnancy/maternity, race, religion or belief, sex and sexual orientation.

16.4 There are no proposals to reduce spending on services which would have a disproportionate impact on protected groups. Should there be any proposed changes to services, policy or procedure at an operational level, an equality impact assessment will be conducted.

16.5 However, the budget strategy does recommend a proposed tax increase for residents. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications.

16.6 The impact of the tax rise is 10p per week for a band D property, rising to 19p per week for the highest band of properties in the area (before any discounts or exemptions). This will not create a significant additional burden on residents, and the increase will help maintain and improve services from which all protected groups benefit. The likely impact does, however, need to be considered in the context of other changes which might affect low income residents (although most low income households will not pay the full increase).

16.7 Ongoing welfare reforms will also have a disproportionate effect on some lower-income groups, in particular the rollout of Universal Credit. Research before the pandemic by Joseph Rowntree Foundation (JRF) has identified certain groups likely to be on low income and which may therefore see a disproportionate effect from a small (in absolute terms) increase in council tax. These include lone parents, single-earner couples and larger families (with 3 or more children).

16.8 Billing authorities have mitigating actions in place to address specific hardship, although cost increases arising from other authorities' contributions to local council tax bills are likely to far exceed the cost of the LFRS tax increase.

17. Financial Implications

17.1 This report is exclusively concerned with financial issues.

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

18. Legal Implications

18.1 As this report deals with next year's budget, section 106 of the Local Government Finance Act 1992 will apply to members in arrears of council tax. All other legal implications are contained within the main body of the report.

18.2 Compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities is required under Part 1 of the Local Government Act 2003.

19. **Appendices**

Appendix One – Budget 2022/23

Appendix Two – Capital Programme

Appendix Three – Recommended Treasury Limits and Indicators

Appendix Four – Capital Strategy

Appendix Five – Proposed Scheme of Virement

Appendix Six – Medium Term Financial Strategy

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Appendix One

Budget 2022/23

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Expenditure				
Employee	29,364	31,028	31,982	34,729
Fire pensions administration	238	238	238	238
Other employee related expenditure	521	521	521	521
Premises	2,460	2,460	2,460	2,460
Transport	983	836	836	836
Supplies and Services	3,468	3,488	3,508	3,528
Capital financing	2,776	4,867	4,209	2,330
Contribution to reserves	638	421	100	0
Planning Provision			300	600
Total Expenditure	**40,448**	**43,859**	**44,154**	**45,242**
Income				
Council tax	22,886	24,873	25,624	26,528
Business rates	4,558	4,553	4,553	4,553
Collection Fund Surplus/(Deficit)	(156)	139	(117)	(117)
Business rates top up grant	5,546	5,920	5,920	5,920
Revenue Support Grant	4,343	4,475	4,475	4,475
Actuarial Review Compensation Grant	1,795	1,795	1,795	1,795
Local Council Tax Support Grant	333	0	0	0
Service Grant	0	621	421	421
Other grant	787	1,137	1,137	850
Fees and charges	356	346	346	346
Total Income	**40,448**	**43,859**	**44,154**	**44,771**
Budget Gap to be Funded from Reserves	**0**	**0**	**0**	**471**

Appendix Two

Capital Programme

Proposed Programme	22/23 £000	23/24 £000	24/25 £000	Total £000
Vehicles	1,650	1,462	2,100	5,212
Premises	2,323	1,116	1,022	4,461
Firefighting Equipment	215	221	871	1,307
ICT	180	100	100	380
	4,368	**2,899**	**4,093**	**11,360**

Capital Resources	22/23 £000	23/24 £000	24/25 £000	Total £000
Capital Fund	2,045	1,783	3,071	6,899
Estates Strategy Reserve*	2,323	1,116	1,022	4,461
Total Resources	**4,368**	**2,899**	**4,093**	**11,360**

*This excludes expenditure for the new learning and development site.

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:

22/23	2.79%
23/24	2.31%
24/25	2.11%

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
22/23	11,137	118	11,255
23/24	11,137	74	11,211
24/25	10,137	50	10,187

3. Treasury Limits for 2021/22

3.1 The proposed limits on borrowing and leasing for 2022/23 are:-

	£000
Authorised Limit	13,255
Operational Boundary	11,255

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 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 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
21/22	6,064
22/23	4,368
23/24	2,899
24/25	4,093

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 although this policy may be restricted by expected Government rule changes;

(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**
22/23	15,284
23/24	14,785
24/25	14,320

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 2022/23.

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 & estates reserve flow from the capital programme. The new learning and development site will require a decision of the CFA;

   (c) 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 – 2024/25

1. A three-year budget has been presented as part of this report. However, after March 2023, 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 2024/25 are set out in the table below. The key assumptions (and the associated risks and uncertainties) are further explained below.

	2022/23 £m	**2023/24 £m**	**2024/25 £m**
Expenditure total	**43.8**	**44.1**	**45.2**
Business rates income	4.6	4.6	4.6
Top-up payment	5.9	5.9	5.9
Revenue Support Grant	4.5	4.5	4.5
Service Grant	0.6	0.4	0.4
Council Tax	25.0	25.5	26.4
Actuarial Review Compensation Grant	1.8	1.8	1.8
Other Grant	1.1	1.1	0.8
Fire Authority Income	0.3	0.3	0.3
Income Total	**43.8**	**44.1**	**44.7**
Budget gap	**0**	**0**	**0.5**

Expenditure

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 2023/24 onwards. The 2024/25 forecast includes the additional cost to the Fire Authority of removing the Day Crewing Plus shift system.

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.

Income

5. Council tax estimates assume that after 2022/23 tax increases will again be restricted to 2% per year.

6. The business rates forecasts presented above assume no substantial changes to the funding we receive.

7. There is likely to be a more substantial effect on finances from the “fair funding review”, which will redistribute resources within local government. At the time of writing, it is unclear what the impact will be on Fire Authorities.

Summary of Medium-Term Projections.

8. The projections above show a funding gap in 2024/25 onwards. This is manageable for the Fire Authority initially using the budget reserve we 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.