



LEICESTERSHIRE
FIRE and RESCUE SERVICE

Draft Budget Strategy

2023/24 to
2025/26

 **SAFER PEOPLE
SAFER PLACES**

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Date: 8 February 2023

Subject: Budget Strategy 2023/24 to 2025/26

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 2023/24, and the proposed budget strategy and capital programme for the period to 2025/26.
- 1.2 This report is based on the draft for consultation, which was written after the provisional local government finance settlement for 2023/24 announced on 19th December 2022. It will be revised prior to full CFA approval once the final settlement is known.

2. Summary

- 2.1 The CFA is funded through government grant, business rates and council tax.
- 2.2 A balanced revenue budget is proposed for 2023/24, which provides for new and existing pressures (pay awards, energy and inflation). Looking further ahead, funding is earmarked for the transition away from Day Crewing Plus, with a balanced budget again envisaged for 2024/25 and a potential small deficit in 2025/26.
- 2.3 Future risks to the forecasts include pay awards exceeding the applied provisions, pension costs not being funded to the same extent by Government, the impact of any industrial action following the strike ballot due to close on 30 January 2023, and inflation costs being higher than expected. An inflation provision and a planning provision are included by way of mitigation.
- 2.4 A 3-year capital programme is proposed. This will be funded from revenue without recourse to borrowing or leasing, which avoids the repayment costs falling on future years' budgets. An integrated property investment and maintenance programme is proposed, continuing to improve the estate, making it fit for contemporary service and staffing requirements and boosting efficiency
- 2.5 The Authority's Council Tax remains amongst the lowest of all combined fire authorities, even after the £5 increase in Council Tax Band D taxes in 2022/23. This limits the CFA (and similar authorities) into a relatively low level of spending due to

the Government's rules regarding referenda on council tax increases above the set threshold. Following the provisional local government finance settlement in December 2022, all fire authorities are able to increase Band D taxes by no more than £5 in 2023/24, without a referendum. This report proposes to utilise this flexibility to make our financial position more sustainable and protect services. The Authority's Band D tax would be £79.29, before any individual discounts.

- 2.6 The CFA has a number of earmarked reserves. These include reserves to fund the future capital programme of £10.1m and the budget strategy reserve of £1.5m (forecast balances at March 2023). Earmarked reserves are described at section 11.
- 2.7 More detailed risks to delivery of the budget are identified at section 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 2023/24 which will be circulated separately;
- (b) Approve the capital programme described at section 9, and authorise the Chief Fire and Rescue Officer to commit expenditure on schemes;
- (c) Note any comments received from stakeholders (to be updated after consultation);
- (d) Note the Treasurer's view that reserves are adequate during 2023/24, and that estimates used to prepare the budget are robust;
- (e) Note the medium-term financial outlook and forecasts presented at Appendix Six, and the financial challenges ahead;
- (f) Approve the treasury strategy and prudential indicators described in section 14 and Appendices Three and Four, including that the new upper threshold for locally held bank accounts shall take immediate effect;
- (g) Approve the capital strategy described in section 15 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 section 16;
- (i) Approve the scheme of virement described at Appendix Five to this report; and
- (j) Note that the vacant post of Area Manager for Tri-Service Control is to be deleted and removed from the revenue budget.

4. Budget Overview

4.1 The table below summarises the proposed budget for 2023/24, and the forecast position for 2024/25. Risks and caveats are described in section 12 below.

<u>Spending</u>	<u>23/24</u> <u>£m</u>	<u>24/25</u> <u>£m</u>	<u>25/26</u> <u>£m</u>
Approved budget 22/23	39.8	39.8	39.8
Technical changes:-			
• Inflation	3.1	4.5	5.7
• Other	(0.4)	(0.5)	(0.5)
Proposed growth	0.1	1.8	1.8
Savings	(0.1)	(0.1)	(0.1)
Contribution to Capital	4.5	2.5	2.4
Contribution to Inflation Provision	0.2	0.2	0.2
Planning provision	0.0	0.3	0.6
Forecast Spending	47.2	48.5	49.9
<u>Income</u>			
Council Tax (£5 increase at Band D)	26.9	28.1	29.1
Revenue Support Grant	4.9	4.9	4.9
Services Grant	0.4	0.4	0.4
Business Rates Income	5.4	5.4	5.4
Business Rates Top Up Grant	6.5	6.5	6.5
Other grants	1.1	1.0	0.9
Actuarial Review Compensation Grant	1.8	2.0	2.0
Fire authority income	0.2	0.2	0.2
Total Income	47.2	48.5	49.4
Forecast Budget Gap*	0	0	0.5

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

4.2 The budget for 2024/25 and 2025/26 is presented in broad terms only and is subject to various assumptions, in particular pay awards and uncertainty around future funding. In addition to the inflation contingency, a planning provision of £0.3m has been set aside in 2024/25 rising to £0.6m in 2025/26 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 provisional local government finance settlement allows fire authorities to increase Band D precepts by no more than £5 in 2023/24, without a referendum. This is in recognition of the significant cost pressures facing the sector and to support a more sustainable financial position for the future; and the requirements of the relevant legislation to determine that the tax set is not excessive. It is proposed to take

advantage of this flexibility by increasing the Band D council tax by £5.00, from £74.29 to £79.29. The actual range of increases would be from £3.33 at Band A to £10.00 at Band H, before any discounts.

- 5.2 The effects of not taking advantage of a £5 increase would include:
- The budget forecasts as presented would become unsustainable;
 - Spending would need to be reduced and/or borrowing would be required to fully finance the capital programme;
 - The CFA's ability to manage the transition from Day Crewing Plus without service reductions could be adversely affected; and
 - The scope to manage any higher pay and price increases without compromising services would be reduced.

5.3 The Service nonetheless continues to focus on efficiency and effectiveness. Productivity increases year on year, for example home fire safety checks. Collaborative procurement remains a key tool, with investment in procurement and contract management support proposed in this budget.

5.4 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, being £74.29 at Band D in 2022/23: the bulk of the tax payable is charged by Leicester City Council, Leicestershire County Council and Rutland County Council in the three areas respectively.

5.5 In 2022/23, average total Band D taxes in the three areas were: -

Authority Area:-	£
Leicester City	2,078.26
Leicestershire County	1,988.85 – 2,079.37
Rutland	2,249.88

5.6 The actual amounts people pay, however, depend on the valuation band their property is in, and their entitlement to reductions from any discounts, exemptions or benefits. Some 85% of households are in Bands A – D, so would pay an extra £5 or less before any reductions (equivalent to 10p per week, or less). The formal resolution to this report will show the amount payable for property in each band. This will also show the sums payable by Leicester City Council, district councils and Rutland County Council.

6. Construction of the Budget

6.1 Constructing the budget commences with reviewing the approved budget for 2022/23, which reflects the current establishment.

6.2 The 2023/24 budget has been adjusted to take account of 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 pay, price inflation, much higher energy costs and increases in pensions costs, offset by savings mainly arising from reducing lease costs: these are detailed in section 7;

- (b) A contribution to fund the capital programme, avoiding the need to lease vehicles or borrow money; This includes funding for significant building works at whole time and on call stations over the next three years and to support maintenance;
- (c) Savings from the deletion of the vacant post of Area Manager of Tri-Service Control, which is no longer required;
- (d) A contribution of £0.2m to an inflation provision in 2023/24 and future years. The future years' contributions will be reviewed as those years' budgets come to be set;
- (e) A planning provision of £0.3m, which is added in 2024/25, rising to £0.6m in 2025/26. 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 **pay and price inflation**. This has been calculated as follows:-

- (a) A provision of £0.6m has been set aside for the 2022/23 **pay award** expected shortfall. The firefighters' revised pay award offer of 5% has not been agreed, however it is prudent to assume the final award will not be lower. Further to this, the support staff actual pay award was greater than the 3% budgeted. This provision seeks to fill this budget gap on an on-going basis from 2023/24.
- (b) A provision of £1.2m has been made for **pay awards** in 2023/24, noting that offers have not yet been made and are difficult to predict. This provision is the equivalent of a 4% pay award. In the subsequent years 2024/25 and 2025/26, a 3% 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 section 12 below.
- (c) £1.1m is provided for known and expected **price inflation**, rising to £1.3m in 2024/25. Around £0.6m of this relates to energy costs, as a result of electricity bills doubling and gas bills expected to quadruple. £0.2m has been set aside for ICT to offset the inflationary increases across various contracts. Fuel costs have increased considerably, requiring £0.2m to be set aside to meet these pressures. The remaining £0.1m has been allocated for insurance, which has increased significantly over the years.
- (d) A provision of £0.1m has been provided for the increase in **employers' pension contributions** to the Local Government Pension Scheme as outlined through the latest triennial pension valuation. The forecasts assume no contribution increases to the firefighters' scheme until April 2024.

- (e) A provision of £0.05m has been provided for the anticipated 150% increase in **external audit fees**. This arises from the recent nationally led procurement and the additional requirements on External Audit.
- (f) Given the uncertainty around inflation, an **inflation provision** of £0.2m in 2023/24 for any further increases is also included. This is also shown in future years' budgets, however, will be reviewed at the time these come to be set.

7.2 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. The final lease is due to end during 2026/27.
- (b) Savings from the reversal of the **National Insurance** increase; this is however reflected in the reduced income from the Services Grant.

8. Growth Proposed

8.1 Two growth items are proposed for the 2023/24 budget, costed at an indicative £0.1m p.a.:

- a. Given the recent national focus on service culture in the light of the London Fire Brigade cultural review report, a general theme is developing nationally to outsource or appoint an independent internal **professional standards role** – managing and leading on investigations as a primary function.
- b. **Procurement and contract management support**, to focus on achieving compliant and value for money procurements and subsequent contract management. This is expected to pay for itself across the Service through minimising the increase in contract costs. Recent pilot activity has been encouraging.

8.2 For the 2024/25 budget forecast and onwards, £1.7m is included to meet costs expected from removal of the Day Crewing Plus 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, a three-year capital programme is proposed. As in previous years, no recourse to borrowing or leasing is expected.

9.3 A unified property investment programme and a separate capital programme for ICT, vehicles and equipment is proposed. This enables £5.1m to be set aside for a comprehensive estates programme over three years, in addition to the £6.3m already earmarked 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 and the estates reserve. Expenditure required has been reviewed since last year; consequently, this supersedes the next two years' budget approved last year.
- 9.5 A sum of £6.9m 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 sum of £5.1m has been provided for **property works**. This will fund significant building works at wholetime and on-call stations over the next three years and support general maintenance at all stations. Southern Station is to undergo a major refurbishment in 2023/24, to modernise the building and ensure contemporary facilities are available. A provision has also been set aside to create additional space for stations moving away from the Day Crewing Plus system. This is to accommodate the additional operational staff required at these sites to fulfil alternate crewing models.
- 9.7 £0.6m has been provided for replacing and updating **firefighting equipment**. Examples of the equipment to be purchased are detailed below:
- A&E Equipment
 - Road Traffic Collision Equipment
 - Water Rescue Provision
 - Vehicle Lift Replacement
- 9.8 A sum of £0.3m has been included for **ICT to support the development of systems** as required over the three years. The funding will support the development of the data warehouse project and the migration to Microsoft 365, to name but a few.

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, provisional grant figures are available from the government. Final figures are expected to be available in February, although are unlikely to change to any significant degree].
- 10.2 The most significant source of income (£27m) is **Council Tax**. Council Tax levels are set by the CFA. The Council Tax is collected on the CFA's behalf by Leicester City Council, Rutland County Council and the district councils (the "billing authorities").
- 10.3 The proposed Band D Council Tax for 2023/24 is £79.29, an increase of £5 from 2022/23. A 3% increase has been assumed for planning purposes in 2024/25 and a 2% increase in 2025/26.
- 10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 1.5% from 2022/23). Future projections also assume a 1.5% increase in each of 2024/25 and 2025/26.

- 10.5 The table at paragraph 4.1 also shows income from **business rates**. Local authorities retain a share of rates achieved locally. Those whose needs exceed their ability to raise rates receive a top-up grant. An increase of 9.8% in line with the CPI has been estimated across all business rates sources; there is however an element of uncertainty, due to the increasing complexity of the system nationally.
- 10.6 The share retained by local authorities is 50% (the CFA's share being 1%). The Service receives a top-up grant.
- 10.7 Government support is provided through **Revenue Support Grant** and the **Services Grant**. The Revenue Support Grant is set to increase by 10.1% in line with CPI, generating an additional £0.5m for 2023/24. The provisional Services Grant allocation has reduced by £0.3m, in part due to the reversal of the National Insurance increase.
- 10.8 A change to the funding system was once again anticipated for 2023/24 but has been delayed by the Government. At this time, it is not possible to predict how any future funding changes will impact the CFA.
- 10.9 The billing authorities have until 31st January 2023 to advise of business rates income due in 2023/24. Final figures will be included in the formal resolution which will be available at the CFA meeting.
- 10.10 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. Confirmation is awaited from the Home Office in 2023.
- 10.11 **Other grants** include:-
- (a) **New Dimensions** – this is payable for the maintenance of certain equipment which is made available as part of a regional and national response to support other services when required. The grant received has been £850k per year. The future of this grant remains uncertain.
 - (b) **Firelink**, for radio transmission systems. This grant is being phased out, with the last instalment to be received in 2025/26.
- 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 and rental income from Leicestershire Police and the East Midlands Ambulance Service (EMAS) for the occupation of office space at two properties. The budget has been adjusted for the planned winding up of Forge Health Ltd, the CFA's wholly owned Occupational Health provider.
- 10.13 The Service saw deficits on the **collection fund** in 2021/22. 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, no surplus or deficit has been assumed for 2023/24. The actual position will be confirmed by 31st January 2023, when rates income forecasts are complete. These variations arise as the billing authorities estimate factors such as housing growth and collection rates.

11. Reserves

11.1 The Authority holds a number of reserves for various purposes, details of which are set out in paragraphs 11.2 and 11.3 below.

11.2 The table shows the forecast balance on reserves at 31st March 2023.

	Forecast 31st March 2023 £000
General reserves	3,408
Estates Strategy Reserve	6,337
Capital Fund	3,739
Budget Strategy Reserve	1,497
ESN Infrastructure Reserve	909
Recruitment Over-Establishment Reserve	400
Grenfell Reserve	398
Total	<u>16,688</u>

11.3 **General reserves** are held as a buffer in case of unexpected problems or emergencies during the course of a year, being available as a last resort. It has previously been agreed to increase the level of general reserves to cover against the cost of providing strike cover. The forecasted balance of £3.4m is believed to be sufficient to fund any unexpected emergencies.

11.4 The reserve for the **estates strategy** exists to facilitate improvements to the operational estate. Improving the operational efficiency of buildings is a key plank in our strategy to improve operational effectiveness and increase financial resilience. Funds are also set aside for the new Learning and Development Facility. The budget will provide £5.1m over the next three years to support the estates strategy programme; and £6.3m is available for the Learning and Development Facility (which will require future specific approval by the CFA at the appropriate point).

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 section 9 above, and Appendix Two. The balance shown above allows for commitments from the capital programme in 2022/23.

11.6 The **budget strategy reserve** is available to assist with any budget gaps or investment requirements in the future.

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, for example, following a firefighter recruitment exercise or short-term staffing to support particular needs and projects;

- (b) An emergency services network (ESN) reserve, to meet costs arising from any change required to national secure networks; and
- (c) A reserve to meet costs which are needed to deliver the outcomes that have arisen from the Grenfell incident recommendations.

11.8 The scheme of virement at Appendix Five proposes authorisations to spend these reserves. The CFA's Financial Procedure Rules (which form part of the Constitution) require that the budget shall include a virement scheme, which conveys and limits the authority to make in-year virements between budgets.

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 the Treasurer to report on the adequacy of reserves and the robustness of estimates.

12.2 In the Treasurer's view, the budget for 2023/24 is achievable.

12.3 As described above, the forecast position beyond 2023/24 is sensitive to change, and small changes can have a significant impact on available finances longer term.

12.4 The key risk to delivery of the budget in 2023/24 is the cost of pay awards, if these exceed the assumed 4%. Each 1% for firefighters would cost the Authority a further £0.3m per annum. Future savings may need to be identified to cover the additional costs.

12.5 The key risks to delivery of the strategy beyond 2023/24 are:-

- a) As above, any cost of pay awards which exceed current assumptions;
- b) The impact of any Government funding cuts arising from a national Fair Funding Review;
- c) Inflation exceeding current assumptions. Key aspects are pay, energy costs and supplies/labour for the capital programme;
- d) The Government changing the funding for Firefighter pensions. This is considered unlikely, however the cost could be significant should this occur.

12.6 The risks are mitigated by:-

- (a) The inclusion of a planning provision and inflation contingency in future forecasts;
- (b) The policy of funding capital from the revenue budget, which is reducing the costs of debt financing;
- (c) A strategic approach to reviewing and improving the operational estate, with a view to achieving savings where possible.

12.7 The Authority's general and earmarked reserves are assessed to be adequate for 2023/24, and the estimates made in preparing the budget are robust. In previous years, minimal budget allocations have been set aside for inflationary pressures. However, for 2023/24, a provision of £0.8m has been allocated for the sharp increases in energy and fuel costs.

13. Consultation on the Draft Budget

13.1 This section will be completed and made available to the CFA once the consultation is complete and the responses analysed.

14. Borrowing and Investment

14.1 Local authority capital expenditure is self-regulated, based upon a code of practice (the "prudential code") issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and which applies to the CFA.

14.2 The Authority complies with the code of practice, which requires the CFA 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 more recent 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 Leicester 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 remains prohibitively expensive, such opportunities are unlikely to present themselves. This may change should interest rates continue to rise, and the position will be kept under review.

15. Capital Strategy

15.1 Under guidance published by the Government and CIPFA, the CFA is required to publish a capital strategy. This is included at Appendix Four.

15.2 The reasons for this requirement are to address the Government's concerns about certain local authorities which have borrowed 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 the CFA's 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;
 - (c) to foster good relations between persons who share a relevant protected characteristic and persons 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, and marriage/civil partnership.
- 16.4 There are no proposals to reduce spending on services which would have a disproportionate impact on any 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 Households at all levels of income have seen their real-terms income decline due to cost of living increases, and wages that have failed to keep up with inflation. These pressures are not limited to any protected group; however, there is evidence that low-income families spend a greater proportion of their income on food and fuel (where price rises have been highest), and therefore may be more affected by current price increases.
- 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. Revenue costs may arise 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. This means that a member of the CFA who has not paid an amount due in respect of Council Tax for at least two months after it has become payable is subject to various restrictions if they attend a meeting at which matters relating to the calculation of the precept are considered. The effect of the restriction means that a member in this position:

- Is **required to disclose** the fact that this provision applies to them at the meeting;
- Is **permitted to speak** on the budget; but
- Is **not permitted to vote**.

Failure to comply with the provisions above is a criminal offence liable on summary conviction to a fine not exceeding level 3 on the standard scale (currently £1,000).

- 18.2 The CFA is required to set a balanced budget each year following the processes set out in the Local Government Finance Act 1992. The Treasurer as the statutory Chief Finance Officer under section 112 of the Local Government Finance Act 1988 has a number of duties relating to the CFA's financial administration and resilience, including to report on the robustness of the CFA's budget estimates and the adequacy of its reserves. There is a further duty to issue a formal report if the s112 Officer believes that the CFA is unable to set or maintain a balanced budget.
- 18.3 The CFA is further charged with a duty to secure best value by making "arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This duty is supplemented by statutory guidance to which the CFA must have regard. The CFA is also required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities under Part 1 of the Local Government Act 2003.
- 18.4 The function of the CFA in setting its budget engages the public sector equality duty as set out in section 16 above.
- 18.5 The CFA as a major precepting authority is required to consult representatives of business rate payers; details of the budget consultation and its outcome will be reported to the CFA. There is a requirement for the precept to be approved by the CFA and notified to the billing authorities by no later than 1st March 2023.

19. **Appendices**

Appendix One – Budget

Appendix Two – Capital Programme

Appendix Three – Treasury Limits and Indicators

Appendix Four – Capital Strategy

Appendix Five – Scheme of Virement

Appendix Six – Medium Term Financial Outlook

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Budget (2023/24 and projections for future years)

	<u>2022/23</u> <u>£000</u>	<u>2023/24</u> <u>£000</u>	<u>2024/25</u> <u>£000</u>	<u>2025/26</u> <u>£000</u>
<u>Expenditure</u>				
Employees	31,028	32,885	35,673	36,603
Fire pensions administration	238	238	238	238
Other employee related expenditure	521	521	521	521
Premises	2,460	3,218	3,454	3,753
Transport	836	986	995	1,004
Supplies and Services	3,488	3,741	3,751	3,761
Capital financing	4,867	5,439	3,413	3,252
Use of reserves	(18)	0	0	0
Contribution to Inflation Provision	0	188	188	188
Planning Provision			300	600
	43,420	47,216	48,533	49,920
Total Expenditure				
<u>Income</u>				
Council tax	24,873	26,981	28,204	29,197
Business rates	4,901	5,381	5,381	5,381
Collection Fund Surplus/(Deficit)	(648)	0	0	0
Business rates top up grant	5,920	6,500	6,500	6,500
Revenue Support Grant	4,475	4,929	4,929	4,929
Actuarial Review Compensation Grant	1,795	1,795	1,955	1,955
Services Grant	621	350	350	350
Other grant	1,137	1,050	984	917
Fees and charges	346	230	230	230
	43,420	47,216	48,533	49,459
Total Income				
Budget Gap that would be funded from Reserves	0	0	0	461

Capital Programme – new starts

<u>Proposed Programme</u>	<u>23/24</u> <u>£000</u>	<u>24/25</u> <u>£000</u>	<u>25/26</u> <u>£000</u>	<u>Total</u> <u>£000</u>
Vehicles	1,636	2,383	2,835	6,854
Premises	1,705	2,178	1,232	5,115
Firefighting Equipment	419	100	100	619
ICT	100	100	100	300
	3,860	4,761	4,267	12,888

<u>Capital Resources</u>	<u>23/24</u> <u>£000</u>	<u>24/25</u> <u>£000</u>	<u>25/26</u> <u>£000</u>	<u>Total</u> <u>£000</u>
Capital Fund	2,155	2,583	3,035	7,773
Estates Strategy Reserve	1,705	2,178	1,232	5,115
Total Resources	3,860	4,761	4,267	12,888

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:

23/24	2.08%
24/25	1.90%
25/26	1.69%

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:	<u>Debt</u> <u>£000</u>	<u>Leases</u> <u>£000</u>	<u>Total</u> <u>£000</u>
23/24	11,137	74	11,211
24/25	10,137	50	10,187
25/26	8,137	26	8,163

3. **Treasury Limits**

3.1 The proposed limits on borrowing and leasing for 2023/24 are:-

	<u>£000</u>
Authorised Limit	13,211
Operational Boundary	11,211

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 Leicester City Council. Balances on these locally held accounts will not exceed £1.6m, except when there is no reasonable operational alternative. This new upper limit shall take immediate effect once approved by the CFA.

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 the 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 the approach to making investments other than day to day treasury management investments (note, however, that all investments over and above day-to-day bank account balances are made with Leicester City Council). As the CFA makes no such investments, an investment 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 and improving 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
22/23	4,369
23/24	3,860
24/25	4,761
25/26	4,267

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 the CFA is 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 would need to be borrowed if it borrowed for all unfinanced capital spending (and no other purpose). This is shown in the table below:-

End of:	£000
23/24	14,785
24/25	14,320
25/26	13,867

- 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.

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 2023/24.
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) Authority to use the capital fund and estates strategy reserve flows from the capital programme. The new learning and development site will require a decision of the CFA, at the appropriate time;
 - (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 the Corporate Governance Committee. Nonetheless, the Chief Fire Officer may make changes to proposed expenditure within the overall headings at Appendix Two, after consultation with the Chair and Vice-Chair.

Medium Term Financial Outlook 2023/24 – 2025/26

1. A three-year budget has been presented as part of this report. However, after March 2024, there is (at the time of writing) limited certainty about funding arrangements or the future economic outlook. As a result, medium-term planning continues to be a somewhat precarious exercise.
2. The Treasurer's central forecasts for the period up to 2025/26 are set out in the table below. The key assumptions (and the associated risks and uncertainties) are further explained below.

	2023/24 £m	2024/25 £m	2025/26 £m
Expenditure total	47.2	48.5	49.9
Business rates income	5.4	5.4	5.4
Top-up payment	6.5	6.5	6.5
Revenue Support Grant	4.9	4.9	4.9
Service Grant	0.4	0.4	0.4
Council Tax	26.9	28.1	29.1
Actuarial Review Compensation Grant	1.8	2.0	2.0
Other Grant	1.1	1.0	0.9
Fire Authority Income	0.2	0.2	0.2
Income Total	47.2	48.5	49.4
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 an inflation contingency and a planning provision in 2024/25 onwards. The 2024/25 forecast includes the additional cost to the Authority of removing the Day Crewing Plus shift system.
4. The main area of risk for the Authority's budget is in relation to the assumptions around pay awards, pay being a large proportion of the total budget.

Income

5. Council tax estimates assume that after 2025/26 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 from 2024/25 onwards. In practice the income is likely to rise by CPI again in 2024/25, albeit this may be significantly lower than recent CPI

However there is sufficient uncertainty in the wider system to merit a cautious approach.

7. The planned review of local government funding allocations “the “fair funding review” is now likely to be delayed until 2025. We do not know the outcome of any review and are therefore unclear what the impact will be on Fire Authorities.

Summary of Medium-Term Projections.

8. The projections above show a funding gap in 2025/26 onwards. This is manageable for the CFA initially using the budget strategy reserve. This will enable time to plan the best approach to be taken by the CFA without having to make in year budget cuts.