Status of Report: **Consultation Report**

Meeting: **Combined Fire Authority**

Date: **14 February 2024**

Subject: **DRAFT Budget Strategy 2024/25 to 2026/27**

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

Author: **Amy Oliver (Treasurer)**

For: **Decision**

1. Purpose

1.1 The purpose of this report is to seek the Authority's approval of the budget for 2024/25, and the proposed budget strategy and capital programme for the period to 2026/27.

1.2 This version is a draft and has been written after the provisional local government finance settlement for 2024/25 announced on 18th December 2023. 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 Whilst a balanced revenue budget can be set for 2024/25, the medium term outlook is difficult. Partly, this is a consequence of service growth which has been included in the budget, costing £2.5m in a full year. This principally arises from the dismantling of the Day Crew Plus crewing system and from the implementation of the new mobilisation system. It is compounded by continued central government austerity as they seek to rein in public borrowing. It is expected that reserves will need to be used to support the budget in 2025/26 & 2026/27. Recognising the pressures the Authority faces there will be a significant transformation and efficiency programme taking place over the next 18 months. In the future, it is expected that any growth will only be affordable if commensurate savings can be demonstrated.

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 and inflation costs being higher than expected. A planning provision is included in future years by way of mitigation.

2.4 A three year capital programme is proposed for Fleet, ICT & Equipment with a one year programme for estates. Following the recent condition survey across the entire estate, a revised estates strategy plan is currently being produced. This will be presented later in the year to the CFA. Borrowing to fund the long-term estates strategy plan will also be considered as part of this. Any borrowing will have revenue costs and the strategy will need to demonstrate that borrowing is affordable by savings generated by the strategy.

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 2023/24. This limits the CFA (and similar authorities) to 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 2023, all fire authorities are able to increase Band D taxes by no more than 3% in 2024/25, without a referendum. This report proposes to set the full 3% increase, in order to make our financial position more sustainable and protect services. The Authority's Band D tax would be £81.65, before any individual discounts.

2.6 The CFA has a number of earmarked reserves. These include reserves to fund the future capital programme of £10.8m and the budget strategy reserve of £1.3m (forecast balances at March 2024). 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 2024/25 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 business ratepayers, to be reported to the meeting;

(d) Note the Treasurer's view that reserves are adequate during 2024/25, 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

(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;

4. Budget Overview

4.1 The table below summarises the proposed budget for 2024/25, and the forecast position for 2025/26 & 2026/27. Risks and caveats are described in section 12 below.

Spending	**24/25 £m**	**25/26 £m**	**26/27 £m**
Approved budget 23/24	42.8	42.8	42.8
Technical changes:-			
• Inflation	2.9	3.9	4.9
• Other	(0.1)	(0.1)	(0.2)
Proposed growth	1.6	2.5	2.5
Contribution to Capital	2.7	2.0	2.0
Planning provision	0.0	0.3	0.6
Forecast Spending	**49.9**	**51.4**	**52.6**
Income			
Council Tax (3% increase at Band D)	28.0	29.1	30.0
Revenue Support Grant	7.1	7.1	7.1
Business Rates Income	6.2	6.3	6.4
Business Rates Top Up Grant	6.8	7.0	7.1
Actuarial Review Compensation Grant	0.5	0.5	0.5
Fire authority income	0.2	0.2	0.2
Services Grant	0.1	0.1	0.1
Other Grants	1.0	0.9	0.9
Total Income	**49.9**	**51.2**	**52.3**
Forecast Budget Gap	**0.0**	**0.2**	**0.3**
Contribution from the Budget Strategy Reserve to fund gap	**0.0**	**(0.2)**	**(0.3)**
Remaining Budget Gap	**0.0**	**0.0**	**0.0**

4.2 The budget for 2025/26 and 2026/27 is presented in broad terms only and is subject to various assumptions, in particular pay awards and future funding. A planning provision of £0.3m has been set aside in 2025/26 rising to £0.6m in 2026/27 to protect the Authority 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 tax by no more than 3% in 2024/25, without a referendum. It is proposed to increase the Band D council tax by the maximum permitted 3%, from £79.29 to £81.65. The actual range of increases would be from £1.57 at Band A to £4.73 at Band H, before any discounts.

5.2 Not taking advantage of the 3% Band D council tax increase would impact the service's ability to fund its capital programme and manage any higher pay and prices increases.

5.3 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.

5.4 In 2023/24, average total Band D taxes in the three areas were: -

Authority Area:-	**£**
Leicester City	2,185.52
Leicestershire County	2,090.22 – 2,184.24
Rutland	2,365.56

5.5 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 £2.36 or less before any reductions (less than 5p per week). The formal resolution to this report will show the amount payable for property in each band. It will also show the sums payable to the Authority 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 2023/24, which reflects the current establishment.

6.2 The 2024/25 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 and increases in pensions costs, offset by savings mainly arising from reducing lease costs: these are detailed in section 7;

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

(c) A contribution to fund the capital programme, avoiding the need to lease vehicles or borrow money for 2024/25;

(d) A planning provision of £0.3m, which is added in 2025/26, rising to £0.6m in 2026/27. 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 £0.7m has been set aside for the 2022/23 & 2023/24 **pay award** shortfall. The firefighters' pay award of 7% for 2022/23 & 5% for 2023/24 was agreed on 1st March 2023. However, the amount budgeted was 5% and 4% for 2022/23 & 2023/24 respectively. Further to this, the support staff pay award was greater than the 4% budgeted. This provision seeks to fill this budget gap on an on-going basis from 2024/25.

(b) A provision of £1.3m has been made for **pay awards** in 2024/25, 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 2025/26 and 2026/27, 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) **Price inflation** is not normally funded, with departments expected to live within the same cash amount. Given the recent increase in inflation, however, a sum of £0.5m is provided for known and expected **price inflation**. Around £0.3m of this is property related, including inflation for repairs and maintenance and contracted cleaning. £0.1m has been set aside for ICT to meet the inflationary increases across various contracts. The remaining £0.1m has been allocated for insurance and operational equipment cost increases. It is expected that further allocations will not be made after 2024/25.

(d) A provision of £0.5m has been provided for the anticipated increase in **employers' pension contributions** to the Firefighters Pension Fund. The contribution rates are due to increase from April 2024. The forecasts assumes a 3% increase in contributions which is to be funded by the Home Office.

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.

8. Growth Proposed

8.1 Five growth items are proposed for the 2024/25 budget, costed at an indicative £1.6m rising to £2.5m p.a.:

(a) £740,000 to meet the expected costs from removal of the Day Crewing Plus shift system in 2024/25 with £1,530,000 set aside for future years following a phased transition concluding in 2025/26.

(b) £491,000 for the new Mobilising System used by the service to take calls (including 999 and emergency calls), take details of emergencies and mobilise an emergency response to incidents. This will rise to £0.7m in later years.

(c) £192,000 of funding for additional posts and resourcing in training & ICT. As the service transitions away from the Day Crewing Plus shift system and employs more operational staff, this funding will increase the capacity in the training department. Funding has also been set aside in ICT for the development of dashboards and data modelling.

(d) £121,000 to enhance the water rescue capability of the service following a significant increase in water related incidents over the years as well as the cessation of the Day Crewing Plus shift system. This will increase the number of stations that can provide a response to water related incidents from three to five. The funding will cover the initial training roll out and will be reduced to £43,000 per annum from 2025/26 for any ongoing training requirements.

(e) £32,000 of funding for an up to date Disclosure and Barring Service (DBS) check for all staff. This was one of the recommendations in the Values & Culture report that was published by His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) in March 2023. This will also be a regular requirement.

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 A one year property investment programme and a separate 3 year capital programme for ICT, vehicles and equipment is proposed. £0.9m is to be set aside for the estates programme in 2024/25, in addition to the £6.4m already earmarked for the new Learning and Development site.

9.3 The estates strategy plan is being updated and will be presented later in the year to the CFA. Borrowing to fund the long term estates strategy plan will be considered as part of the longer term capital programme. This will, however increase the size of the future funding gap we need to close.

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 £7.9m has been provided for **operational vehicles** for the next three years. This is sufficient to enable vehicles to be replaced in accordance with the replacement policy, agreed as part of the fleet review. It includes 12 pumping appliances, station and department vans and cars.

9.6 A sum of £0.9m has been provided for **property works** in 2024/25. Around £0.6m of this has been set aside for building works at Wigston Station following the identification of Reinforced Aerated Autoclaved Concrete (RAAC). The remaining £0.3m will be used to increase the budget for building works at Eastern station from £1.3m to £1.6m.

9.7 £1m has been provided for replacing and updating **firefighting equipment**. Examples of the equipment to be purchased are detailed below:

- E-draulic & Hydraulic Rescue Tools
- Water Rescue Provision
- Electronic Personal Dosimeters
- Firefighting branches and other equipment

9.8 A sum of £0.5m has been included for **ICT to support the development of systems** as required over the three years. The funding will support the refresh of IT hardware and the bolstering of fleet connectivity across the service.

10. Resources

10.1 This section of the report describes the income expected to be 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 (£28.0m) 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 2024/25 is £81.65, an increase of just below 3% from 2023/24. A further 2% increase has been assumed for planning purposes in each of 2025/26 and 2026/27. The service remains in the lowest charging quartile of fire and rescue authorities for precepts.

10.4 The tax is charged on properties and reflects the number of properties advised by the billing authorities (an increase of 1% has been assumed from 2023/24). Future projections assume a 1.5% increase in each of 2025/26 and 2026/27.

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 6.7% 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. A further 2% increase has been assumed in each of 2025/26 & 2026/27.

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 (RSG)** and the **Services Grant**. The RSG is set to increase by 6.7% in line with CPI, generating an additional £0.3m for 2024/25. Given the national economic outlook, it is assumed that RSG will be the same in cash terms from 2025/26 onwards (i.e. a real terms cut). In addition, the provisional settlement noted that the current **Fire Pensions Grant** allocation of £1.8m will also be included within future Revenue Support Grant allocations. The Fire Pensions Grant meets the costs of previous increases in contributions to the firefighters' pension scheme.

10.8 The government has committed to providing funding for any increase in contributions to the Firefighters pension scheme from April 2024 as a separate Grant.

10.9 The **Services Grant** will reduce by 84% in 2024/25 to £0.1m. Services grant is a legacy from earlier settlements, designed to give the Government flexibility over future resource allocation. The same level of grant has been estimated for future years.

10.10 The billing authorities have until 31st January 2024 to advise of business rates income due in 2024/25. Final figures will be included in the formal resolution which will be available at the CFA meeting.

10.11 **Other grants** include:-

(a) **New Dimensions** – this is payable for the maintenance of certain equipment which 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, but it is assumed it will continue into 2024/25 and beyond.

(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.

10.13 The Service saw surpluses on the **collection fund** for 2022/23 which increased resources available in 2023/24. This arises when the collection of council tax or business rates raised by the billing authorities is more than the budget for previous years. Conversely, where billing authorities perform worse than the budget, a deficit arises. At present, no surplus or deficit has been assumed for 2023/24. The actual position will be confirmed by 31st January 2024, when rates income forecasts are complete.

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 2024.

	Forecast 31st March 2024 £000
General reserves	3,408
Estates Strategy Reserve	6,956
Capital Fund	3,837
Budget Strategy Reserve	1,316
ESN Infrastructure Reserve	732
Recruitment Over-Establishment Reserve	394
Grenfell Reserve	196
Total	**16,839**

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 forecast 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. Most of the reserve (£6.4m) is set aside for the new Learning and Development Facility (which will require future specific approval by the CFA at the appropriate point). The remainder is committed in the draft capital 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 section 9 above, and Appendix Two. The balance shown above allows for commitments from the capital programme in 2023/24.

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 2024/25 is achievable.

12.3 As described above, the forecast position beyond 2024/25 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 2024/25 is the cost of pay awards, if these exceed the assumed 4%. Each 1% pay award 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 2024/25 are:-

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

b) The impact of any Government funding cuts nationally

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.

e) The financial implications of the McCloud and Sergeant cases, in relation to pension transitional arrangements;

12.6 The risks are mitigated by:-

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

(b) The continued policy to fund capital from the revenue budget as the preferred approach.

(c) The development of a transformation programme to bridge future budget gaps;

(d) The existence of a budget strategy reserve, and a £3.4m balance in the general reserve, although using these will expedite the need for future efficiency savings.

12.7 The Authority's general and earmarked reserves are assessed to be adequate for 2024/25, and the estimates made in preparing the budget are robust.

13. Consultation on the Draft Budget

13.1 Consultation will take place with representative of business ratepayers. 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 currently 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. Future borrowing will be considered as part of the revised estates strategy to be presented to the CFA later 2024/25.

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, and sex & sexual orientation.

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 5p per week for a band D property, rising to 9p per week for the highest band of properties in the area (before any discounts or exemptions). This will not, in isolation, 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 will affect low income residents which include the rapid, and regularly fluctuating increase in prices of everyday goods, services, bills and fuel (although it is acknowledged that most low income households will not pay the full tax 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. The cut in Universal Credit in 2021 affected almost 6 million people, and left many extremely exposed to the rapid increases in the price of everyday goods, services, and bills. These include lone parents, single-earner families and families with three or more children (larger families).

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. Whilst mitigating actions may be put in place by other billing authorities to address specific hardship based on cost increases outside of our control, LFRS cannot disregard its own duty to show due regard to the impact of any proposals made by the service.

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. The replacement mobilising system has added significant costs to the revenue budget.

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 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 at its meeting. 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 2024.

19. **Appendices**

Appendix One	Budget and Future Projections
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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Appendix One

Budget (2024/25 and projections for future years)

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Expenditure				
Employees	32,981	36,299	38,067	39,048
Fire pensions administration	238	238	238	238
Other employee related expenditure	613	816	763	763
Premises	3,218	3,736	3,736	3,736
Transport	986	986	986	986
Supplies and Services	3,741	4,232	4,397	4,443
Capital financing	6,036	3,610	2,853	2,798
Planning Provision	0	0	300	600
Total Expenditure	**47,813**	**49,917**	**51,340**	**52,612**
Income				
Council tax	26,980	28,062	29,050	30,073
Business rates	5,830	6,221	6,345	6,472
Collection Fund Surplus/(Deficit)	246	0	0	0
Business rates top up grant	6,389	6,817	6,953	7,092
Revenue Support Grant	4,929	7,050	7,050	7,050
Actuarial Review Compensation Grant	1,795	496	496	496
Services Grant	364	57	57	57
Other grant	1,050	984	917	850
Fees and charges	230	230	230	230
Total Income	**47,813**	**49,917**	**51,098**	**52,320**
Budget Gap Funded from Reserves	**0**	**0**	**242**	**292**

Appendix Two

Capital Programme – new starts

Proposed Programme	**24/25 £000**	**25/26 £000**	**26/27 £000**	**Total £000**
Vehicles	2,434	2,800	2,700	7,934
Premises	923	0	0	923
Firefighting Equipment	375	257	320	952
ICT	280	100	100	480
	4,012	**3,157**	**3,120**	**10,289**

Capital Resources	**24/25 £000**	**25/26 £000**	**26/27 £000**	**Total £000**
Capital Fund	3,089	3,157	3,120	9,366
Estates Strategy Reserve	923	0	0	923
Total Resources	**4,012**	**3,157**	**3,120**	**10,289**

Treasury Limits and Indicators

1. Introduction

1.1 This Appendix details the expected indicators and limits arising from the treasury management function. The limits and indicators may be revisited in the event that additional borrowing is undertaken following the updated estates strategy.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:

24/25	1.85%
25/26	1.65%
26/27	1.51%

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
24/25	10,137	50	10,187
25/26	8,137	26	8,163
26/27	7,547	26	7,573

3. Treasury Limits

3.1 The proposed limits on borrowing and leasing for 2024/25 are:-

	£000
Authorised Limit	12,187
Operational Boundary	10,187

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.

Appendix Four

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 to be 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
23/24	3,860
24/25	4,012
25/26	3,157
26/27	3,120

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;

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

(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**
24/25	14,320
25/26	13,867
26/27	13,426

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

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 2024/25.

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 <u>within</u> the overall headings at Appendix Two, after consultation with the Chair and Vice-Chair.

Appendix 6

Medium Term Financial Outlook 2024/25 – 2026/27

1. A three-year budget has been presented as part of this report. However, after March 2025, 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 2026/27 are set out in the table below. The key assumptions (and the associated risks and uncertainties) are further explained below.

	2024/25 £m	**2025/26 £m**	**2026/27 £m**
Expenditure total	**49.9**	**51.3**	**52.6**
Council Tax	28.0	29.0	30.0
Revenue Support Grant	7.1	7.1	7.1
Business rates income	6.2	6.3	6.4
Top-up payment	6.8	7.0	7.1
Actuarial Review Compensation Grant	0.5	0.5	0.5
Fire Authority Income	0.2	0.2	0.2
Service Grant	0.1	0.1	0.1
Other Grant	1.0	0.9	0.9
Income Total	**49.9**	**51.1**	**52.3**
Budget gap	**0**	**0.2**	**0.3**

<u>Expenditure</u>

3. The expenditure budgets include the permanent growth detailed as part of this report and assumptions around pay and price inflation going forward, along with a planning provision in 2025/26 onwards.

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.

<u>Income</u>

5. It is assumed tax increases will again be restricted to 2% per year after 2024/25.

6. The business rates forecasts presented assume that they will continue to increase in line with CPI from 2025/26. An estimated 2% increase has been used for both 2024/25 & 2025/26.

7. The planned review of local government funding allocations "the "fair funding review" is now likely to be delayed until at least 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 from 2025/26 & 2026/27 onwards. Both budget gaps are manageable through the use of the budget strategy reserve. However, a transformation programme will be developed to address future budget gaps rather than relying on the use of reserves.