Hereford & Worcester Fire Authority
13 February 2024

Report of the Treasurer and the Chief Fire Officer

Budget and Precept 2024/25 and Medium-Term Financial Plan

Purpose of report to:

1. Determine the Revenue and Capital Budgets and the Council Tax Requirement for 2024/25.

2. Approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2024/25.

3. Approve the Capital, Investment and Reserves Strategies.

4. Approve the level of Fees and Charges for chargeable services for 2024/25.

5. Identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement. (the Medium-Term Financial Plan).

Recommendation

It is recommended that:

a. ***The Capital Strategy (paragraphs 13-27) be approved.***

b. ***The Capital Budget and Programme (Appendix 1) be approved.***

c. ***The Core Net Revenue Budget of £43,361,800 (Appendix 3) be approved.***

d. ***The Medium-Term Financial Plan (Appendix 4) be approved.***

e. ***Under the provisions of the relevant sections of the Local Government Finance Act 1992 (as amended), in relation to the year 2024/25 the Authority calculates, as set out in Appendix 5, that:***

i. ***S42A(2)(a): the aggregate expenditure it will incur will be £43,437,600.00.***

ii. ***S42A(3)(a): the aggregate income it will receive will be £15,240,760.62.***

iii. ***S42A(2)(c): the amount to be transferred to financial reserves will be £144,185.00.***

iv. ***S42A(3)(b): the amount to be transferred from financial reserves will be £0.00.***

v. ***S42A(10): the net Collection Fund surplus is £129,705.54.***

vi. ***S42A(4): the net amount of its Council Tax Requirement will be £28,211,318.84.***

vii. S42B: the Basic Amount of Council Tax will be £97.22 (Band D).

viii. S47: the proportional tax-bands will be:

- ***Band A** £64.81*
- ***Band B** £75.62*
- ***Band C** £86.42*
- ***Band D** £97.22*
- ***Band E** £118.82*
- ***Band F** £140.43*
- ***Band G** £162.03*
- ***Band H** £194.44*

ix. S48: the precept demands on the individual Billing Authorities are:

- ***Bromsgrove** £3,694,137.14*
- ***Herefordshire** £6,999,838.48*
- ***Malvern Hills** £3,212,844.56*
- ***Redditch** £2,558,548.97*
- ***Worcester** £3,208,455.08*
- ***Wychavon** £5,144,321.49*
- ***Wyre Forest** £3,393,173.12*

f. The Reserves Strategy (paragraphs 74-82 and Appendix 6) to be approved.

g. The Investment Strategy (paragraphs 83-88) to be approved.

h. The fees and charges for 2023-24 (Appendix 7) to be approved.

i. The Statement of Prudential Indicators and Minimum Revenue Provision Policy (Appendix 8) to be approved.

j. Authorises the Treasurer to make appropriate adjustments to the use of the budget reduction reserve to balance any changes to the final grant settlement when this is confirmed.

Introduction and Background

6. In February 2023, the Authority agreed a Medium-Term Financial Plan (MTFP) for the period from 2023/24 to 2026/27. This was based on a series of assumptions about the uncertain position beyond 2023/24, particularly in terms of inflation, pay awards and the extent to which grant settlements would keep pace with inflation.

7. There was also uncertainty about the funding of USAR and the impact of the revision to FFPS employer’s contribution rates.

8. The MTFP was updated in May 2023 to take account of the final settlement of the Grey Book pay award for July 2023 and July 2024.

9. This cautious position produced a MTFP that showed significant budget gaps of £750-£800,000 per year, but changes in the year have moved that position.

10. At the time of writing the paper there were two important pieces of information that remain unconfirmed:

    a. The provisional settlement has yet to be confirmed (this must be done by 9th February). Based on past experience this is unlikely to change although like last year, the split between individual grants may change.

    b. Retained Business Rate yield information is supposed to be provided to Authorities in the scheme by 31 January. At this stage information is incomplete with information from 5 of 7 Billing Authorities still outstanding. There is little information on which to make estimates and yield figures have fluctuated significantly year on year.

11. It may be necessary to table updated information at the Fire Authority meeting if the final information is significantly different to that estimated although it is recommended that the Treasurer be given authority to make small changes to the use of reserves if the changes are less material.

12. Once again, for the sixth year running, 2024/25 is a single year funding settlement, and whilst there is some consistency of principle with 2023/24, future years settlements will be after the next general elections and so may follow a different path.

Capital Strategy

13. As part of its wider treasury management objectives, the Authority must have regard to the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

14. Its latest revision states that an Authority must produce a Capital Strategy which shows how the Authority sets out its priorities for capital investment, including links to existing plans and strategy documents. It also considers the way in which capital expenditure may be financed.

15. The main elements of the strategy are to support a capital programme that:

    a. Ensures that the Authority assets are used to support the delivery of the Community Risk Management Plan (CRMP) and associated priorities.
    b. Is affordable, financially prudent and sustainable.
    c. Ensures the most cost-effective use of existing assets and new capital investment.
    d. Supports the other key strategies of the Authority.

16. The Capital Budget and Programme forms part of the Medium-Term Financial Plan (MTFP) which is an integrated part of the Authority's strategic direction and will be considered alongside the CRMP.

17. The **CRMP** establishes the means by which the Authority identifies and intends to meet the risks within the community. The plan will determine, within the financial resources available, the:

a. Number, type and location of operational properties and fire appliances.
b. Services and capability to be provided from them, including the necessary supporting infrastructure.

Underpinning the CRMP are the three core Strategies: **Prevention**, **Protection** and **Response** and capital resources are invested to support these, either directly or indirectly.

18. The **MTFP** is designed to demonstrate that the Authority has considered the funding streams available into future years and has plans in place to deliver the priorities identified by its CRMP, within the available resources.

19. The **Asset Management Strategy** sets an overarching direction and has five subsidiary plans beneath it.

20. The **Property Plan** considers the existing property base in relation to location, condition and suitability, and proposes relevant action to optimise need and provision.

21. The **Fleet and Equipment Plans** perform the same function in relation to the operational and ancillary vehicle fleets and operational equipment.

22. The **ICT Plan** provides a comprehensive picture of how the Service will use ICT to support the service it provides.

All these plans are supported by the **Environmental & Sustainability Plan**, which sets out the Authority's plans to reduce its environmental impact.

23. Consideration, approval and monitoring of the capital programme takes place as part of the Authority's strategic planning timetable.

a. Property, fleet and ICT requirements are incorporated into the capital programme based upon the priorities identified in the respective strategies.

b. The Fleet Plan is approved by the Policy and Resources Committee on a two–yearly cycle.

c. The Authority has allocated an annual sum for minor capital schemes which are delegated to the Service's Senior Leadership Board (SLB) to allocate. The majority of this allocation is on ICT schemes (as included in the ICT Plan); Minor Building works arising from the condition survey supporting the Property Plan and operational equipment requirements from the Equipment Plan. Other potential schemes are supported by an appropriate business case.

d. Prudential indicators, including the Capital Financing Requirement (CFR), are calculated, based on the proposed programme, to demonstrate that the programme is affordable, sustainable and prudent. These are detailed in Appendix 8 (Prudential Code Indicators).

e. The capital strategy and capital programme are approved by the Fire Authority in February as part of the budget and precept setting process.

f. Particularly in respect of property schemes, but in all practical cases, the Authority will adopt a collaborative approach with suitable partners wherever appropriate.

g. The Authority will not incur expenditure on additional property solely to generate investment income. However, if an existing property becomes vacant and rental delivers a more advantageous return for the Authority, appropriate expenditure may be incurred

24. Spend on individual schemes within the capital programme is monitored by officers on a continuous basis and reviewed by SLB on a quarterly basis. Information is provided to the Policy & Resources Committee as part of the quarterly budget monitoring reports.

25. Overall funding for capital schemes will be identified prior to the capital programme being put forward for consideration and approval. It should be clear to those charged with governance that the programme is affordable, sustainable and prudent, prior to approval. However, it is the programme as a whole that is financed and not individual schemes therefore funding arrangements may be adapted to meet changing circumstances as projects progress.

26. The Authority has a number of funding sources that can be used to finance capital expenditure:

a. **Reserves** are set aside from revenue resources and earmarked for particular expenditure which qualifies as capital spend, e.g. Fire Control software, breathing apparatus etc. This use of reserves is consistent with the Reserves Strategy.

b. **Capital Receipts** of £10,000 or more may only be used to fund new capital expenditure or the repayment of existing debt.

c. **Leasing** can also be used to acquire capital assets and should be considered alongside other sources of funding.

d. **Revenue funding** can also be used to fund capital expenditure (but capital funds cannot normally be used to fund revenue). This source of financing is used to deal with underspending within the capital financing budget that arises from slippage in the capital programme. It will be used in a cost-effective way to maintain future financial sustainability.

e. Capital projects that cannot be funded from any other source can be funded from external **borrowing**. The Authority is able to borrow money from the Public Works Loan Board (PWLB) to fund its capital programmes and will need to fund a repayment provision and interest costs from its revenue budget.

i. The Authority must ensure that its borrowing is affordable, sustainable and prudent which is demonstrated through its approval of Prudential Indicators.

ii. 'Internal borrowing' occurs when the Authority will use its cash balances to fund capital schemes rather than taking out long term loans with PWLB. This is managed as part of the Treasury Management process.

iii. As part of a tightening up of what government has seen as "risky" capital expenditure by some authorities, the rules about what expenditure can be funded by PWLB loans have been amended. However, the funding required by this Authority is not caught by these restrictions.

27. As well as funding the asset in a capital scheme, the Authority must also consider and take account of the ongoing implications of the scheme on the revenue budget.

a. If the scheme is to be funded from prudential borrowing, there will be an interest charge and a provision towards loan repayment.

b. The asset may have running costs (such as a maintenance charge or support agreement) or generate efficiencies, which are also incorporated in the revenue budget.

Capital Programme

28. The Capital Programme, using prudent financing assumptions and based upon the agreed Asset Management Plan and Fleet Strategy, with the usual annual provision of £0.600m for minor buildings and ICT schemes etc. is included as Appendix 1.

29. The Appendix *(Col 5, Row 66)* shows a significant increase in the programme for new vehicle replacements, but these are cyclical, and subject to inflation over the period financing costs will arise as financing costs for the assets being replaced drop out.

30. In addition, there are net re-allocations *(Col 6, Row 66)* totalling £0.059m, this is largely due to the additional cost of electric vehicles now being introduced into the fleet. It is yet to be established if these vehicles have a longer depreciation life which would allow them to be funded over a longer period.

31. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 2 to 4 and the Statement of Prudential Code Indicators and Minimum Revenue Provision Policy in Appendix 9. The actual financing will be reviewed as part of the normal budget monitoring and closedown process but the MTFP currently assumes financing as below:

		£m
Capital Budget	*(Col 7, Row 40)*	21.738
less: expenditure to 2022/23	*(Col 8, Row 40)*	(4.668)
		17.070
plus: New Schemes 2025/26	*(Col 8 Row 55)*	3.470
plus: New Schemes 2026/27	*(Col 8 Row 65)*	7.652
Total to Fund		**28.192**
Capital Receipts		8.081
Earmarked Reserves		5.223
Net Borrowing		14.888
Total Financing		**28.192**

32. Although the budget provision has been given for specific schemes within the proposed Future Buildings Provision block and as individual contracts are still subject to tender etc., individual allocations are not shown in order that the information does not compromise the Authority's negotiating position.

Expenditure Requirement

33. In February 2023 the Fire Authority approved an expenditure forecast to 2026/27, which was amended by Policy & Resources Committee in May 2023, and there are a significant number of revisions as set out below:

	2024/25 £m	**2025/26** £m	**2026/27** £m
Feb/May 2023 Projection	**41.627**	**42.382**	**43.423**
Continuation of USAR	0.001	0.239	0.239
new FFPS rates - above estimate	0.835	0.859	0.885
	42.463	43.480	44.547
Provision for pay awards	0.526	0.655	0.681
Increased Provision for Inflation	0.325	0.328	0.342
New Fire Standards - DBS/360 Reviews	0.065	0.065	0.065
Additional Capital Financing – Hereford FS			0.170
Other	(0.016)	(0.017)	(0.019)
Feb 2024 Projection	**43.363**	**44.511**	**45.786**

34. The MTFP made provision for pay awards at 2% but this now appears to be inadequate:

    a. At the point of approval of the MTFP, government had indicated that it would be giving notice to reduce the national number of USAR units and that it was probable that the grant would be stopped. Soon after the new Fire Minister announced that all units were to continue for the foreseeable future.

b. New employer contribution rates for the FFPS were expected from 2024/25, provision was made at £0.4m. The actual rates indicate a net impact of £1.2m, but this is largely offset by additional government grant – see paragraph 44 below.

c. The Support Staff award (Green Book) award for April 2024 is influenced by the significant increases in the National Living Wage (NLW), and will again require a substantial percentage increase at the lower pay points. It is not clear if the NJC has a strategy to do this and maintain pay differentials but it is felt likely that another flat cash sum across all salary ranges will be the outcome.

d. The employees' side of the NJC for Operational/Uniformed staff (Grey Book) have not yet made a submission for the July 2024 award. However, the fact that the Jan 2024 Gold book award was settled at 3%, indicates that the Grey Book award will be at least 3% and it would be prudent to provide for 3.5-4%. Any higher figure will have a further impact.

e. It is hoped that inflation will be brought under control and future pay awards will be contained within the on-going MTFP 2% assumptions.

35. Further changes relate to:

a. The impact of inflation on the costs of goods and services.

b. Cost of the new Fire Standards arising from response to national cultural issues – additional DBS checking and 360 reviews for all managers and supervisors.

c. Significant increase in the estimated construction costs of the replacement Hereford Fire Station leading to additional capital financing costs.

36. Whilst the above explanations relate to changes from the current MTFP, in accordance with previous practice and to provide a continuous record of year on year movement, Appendices 2 and 4 track the changes from the approved 2023/24 budget to that proposed for 2024/25 and Appendix 3 allocates this proposed budget to the relevant approved budget heads.

Budget Risks

37. There are two specific areas of budget risk that should be considered:

a. General Inflation costs, particularly any arising out of global economic events.

b. Pay Awards being greater than provided for. The potential impact of this is referenced at paragraph 72 below.

38. In accordance with the Reserves Strategy (see below) reserves can be used to smooth the short-term impact should any of these factors crystallise in year.

Funding Resources Projection

39. As Members will be aware funding comes from three sources: government grants, council tax-payers and local business rate-payers. However, there are interconnections between all three, especially as government has made macro-policy decisions around business rates.

40. Government also uses a “Spending Power” indicator which includes some (but not all) grants, an estimate of council tax yield and base-line business rates. This artificial measure modified last year to exclude any council tax increase and introduced a Funding Guarantee Grant to insure a minimum increase in this figure. This has made the grant position even more complicated.

41. In an attempt to make this simpler and to allow a more realistic year on year comparisons the analysis is split into three broad areas. This analysis will be different to that used by other Authorities.

Government Grant Related

42. The provisional local government settlement was issued in late December 2023 but it is not yet confirmed. Confirmation of the final settlement is expected in week commencing 5 February and, in any case, has to be approved by Parliament before 9 February.

43. As Fire Revenue grants (for New Dimensions and Firelink) are technically part of central government expenditure (rather than part of the local government settlement) they cannot be announced until late February 2024 but all indications are that this will remain as forecast.

44. The 2019/20 S31 Pension Grant has now been moved to DLUHC and included within the Revenue Support Grant (RSG) allocation. The Home Office (HO) has announced £85m of 2024/25 Pension Grant to support the increased employer contribution rates. The exact distribution of this grant will not be known until late February (see above) but an estimate can be made. This is technically only a one-year grant but will be included in HO projections for future years. Given the potential national impact it is unlikely that this will be discontinued.

45. As government has again decided to freeze some business rates there is a further increase in the Grant to support the under-indexation of the Business Rate Multiplier.

46. It is also helpful to see that the small Rural Services Delivery Grant is to continue and has indeed increased by 15.5% (£0.020m).

47. It should be noted that the Authority now receives a significant sum (around £1m) from the Funding Guarantee Grant.

48. Given that the long awaited “Fair Funding Review” of local government grants is further delayed and based on the past two years where government has allowed all Authorities a minimum increase in funding, a total increase of 2% in all grants has been assumed for 2025/26 and 2026/27.

Business Rate Related

49. In principle the Business Rates are relatively straightforward, but in practice they are the area of most complication and uncertainty. The statutory deadline for Billing Authorities to provide this information to Preceptors for budget setting purposes is 31 January 2024. This was the first date at which any indications or information became available.

50. In setting the Precept under the provisions of the Local Government Finance Act 1992 (as amended); Section 42A (3)(a) requires the Authority to make an estimate of the income for the relevant year. This income includes yield from retained business rates.

51. Projection of future business rate yield in the previous MTFP was based on the final 2023/24 estimate (which was lower than the base-line figure included in the settlement) increased by 2%.

52. The provisional settlement shows a 4.5% (£0.1m) increase in the base line, and applying the local estimate figure gives a proportionate increase in the estimated yield.

53. In previous years the Collection Fund has fluctuated between deficit and surplus and for 2023/24 was in surplus. As a precaution annual deficit has been assumed for 2024/25 onwards.

54. This currently gives an estimated increase in income of £0.070m.

55. Actual information from the Billing Authorities is expected on 31 January and will change this estimate.

Precept Related

56. Precept income is a combination of the tax-base and the Band D tax-level.

57. Based upon the Billing Authority MTFP projections the tax-base was forecast to increase by 1.2%. However, the reality is that the base has only increased by 0.65%. The picture is consistent across all Billing Authorities and reflects a slowdown in new properties' and increasing pressures on the local Council Tax Support Schemes as a result of the economic situation.

58. Future projections are again based upon the Billing Authority MTFP forecasts, as it is assumed that their Treasurers are in a better position to provide an accurate forecast than the Fire Authority Treasurer. At an average of just over 1% compared to the previous 1.2%, they reflect the issues above.

59. The Authority had approved an MTFP planning assumption of an 2024/25 increase of 2.99% in line with the prevailing referendum limit of 2.99%. For later years this dropping back to 1.99% for later years.

60. Based on the actual tax-base the MTFP assumption would now give a yield approximately £0.15m lower than the previous MTFP. This rises to a shortfall of £0.25m by 2026/27.

61. It has been indicated, but not expressed formally that future referendum limits will be set at 2.99%. This is not factored into the MTFP, which remains at 1.99% but the potential impact is referenced below.

62. Whilst it is the decision on the precept is entirely that of the Authority, it has a responsibility to balance expenditure need against tax-payers ability and willingness to pay.

63. In the absence of a Policy & Resources Committee in January 2024, Group Leaders were briefed on the information available at 30 January and supported the 2.99% increase

64. It is always possible that should the financial position improve the Authority could choose to reduce council tax in the future, or be in a position to consider investment in increased services.

65. In addition, there is a small one-off net surplus on the Collection Funds of £0.130m.

Net Changes in Resources

66. The overall impact of these changes on resources is summarized below *(note that the figures are rounded and may be slightly different to the full figures include in the appendices)*:

	2024/25 £m	**2025/26** £m	**2026/27** £m
Feb/May 2023 Projection	**(41.314)**	**(41.567)**	**(42.677)**
Continuation of USAR	0.000	(0.824)	(0.824)
2024/25 Pension Grant	(1.160)	(1.160)	(1.183)
	(42.474)	(43.551)	(44.684)
Overall Change to Formula Grants	(0.986)	(1.037)	(1.089)
Precept - slowdown in tax-base growth	0.154	0.199	0.242
Council Tax Collection Fund	(0.130)		
Estimated change to Net Business Rate Yield	(0.070)	(0.072)	(0.073)
Feb 2024 Projection	**(43.506)**	**(44.461)**	**(45.604)**

Fees and Charges

67. The Authority sets a scale of fees for chargeable services and these are now reviewed annually. It has been determined that the VAT-inclusive fee payable should be a rounded sum, so it may not be necessary to apply an increase each year. A large part of the cost is based on firefighter pay and the 2023/24 charges were based on the budgeted July 2023 award of 5%. The actual award was 7% with a further 5% in July 2024 and the new figures reflect both these changes. The proposed charges for 2024/25 are set out in Appendix 7.

2023/24 Budget and Precept and Future Years

68. The Authority is required to set a budget and precept for 2024/25, but has to consider the impact on future affordability through a MTFP.

69. The overall position has gone through two stages as shown below:

	2024/25	2025/26	2026/27
	£m	£m	£m
May 2023 MTFP			
Expenditure	41.627	42.382	43.423
Resources	(41.314)	(41.567)	(42.677)
Deficit/Surplus)	0.313	0.815	0.746
Adjusted for USAR/Pensions			
Expenditure	42.463	43.480	44.547
Resources	(42.474)	(43.551)	(44.684)
Deficit/Surplus)	(0.011)	(0.071)	(0.137)
Revised MTFP			
Expenditure	43.363	44.511	45.786
Resources	(43.506)	(44.461)	(45.604)
Deficit/Surplus)	(0.143)	0.50	0.182

70. At this stage the gaps in future years are not considered a significant risk as they are within normal estimation tolerances.

The potential increase in the precept limit to 2.99% would give the Authority flexibility to invest in services:

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit/(Surplus)	(0.143)	0.050	0.182
2025/26 Band D increase 2.99%		(0.297)	(0.306)
2026/27 Band D increase 2.99%			(0.309)
	(0.143)	(0.247)	(0.433)

71. However, the impact of future pay awards being 1% greater than the 2% would largely wipe this out at a cost of £0.224m in 2026/27 and £0.453m in 2026/27.

72. In respect of future planning, with a General Election and another CSR in the MTFP period, a future direction on grant levels cannot be ascertained and therefore, a steady state has been assumed. There is little merit in exemplifying varying degrees of grant reductions which have no basis. Suffice it to say that any significant reduction in grants in the future will have a service impact.

73. Based upon the above recommended strategies the formal precept calculation for 2024/25 is set out in Appendix 5. The Band D precept will rise by £2.82 a year (or just over 5 pence a week) to £97.22.

Reserves Strategy

74. The Authority holds reserves for a number of reasons and these can be summarised as:

    a. **Future Expenditure Reserves**: Monies set aside to fund long life equipment (e.g. cutting gear, breathing apparatus, fire control etc.) which negates the need for capital financing costs in the medium term.

    b. **Other Specific Reserves**: Held to cover the costs of known events where timing is uncertain.

    c. **Budget Reduction Reserves**: Monies to be used to smooth the transition of significant efficiency measures.

    d. **General Reserve**: unallocated and held to meet the “unknown unknowns”.

75. Future Expenditure Reserves will be spent as necessary to meet the costs of the agreed items as they are procured and an anticipated expenditure profile is included in the relevant budget appendices. It should be noted however, that ESMCP project is a centrally managed project covering all Emergency Services and has been subject to a number of programme delays and uncertainty regarding what additional elements individual Authorities may need to fund.

76. Funding these projects from reserves saves the equivalent of £0.9m in annual capital financing charges which would otherwise have to be added to the expenditure requirement and hence to the structural budget gap.

77. In approving the strategy in relation to reserves in February 2017, the Authority has confirmed that the Budget Reduction Reserve is used to close the budget gaps in the MTFP period, until major efficiencies come fully on-line. This strategy was re-approved in February 2023 and is proposed to be extended and modified to the extent that any unallocated part of the reserves will be held until there is some certainty over future funding.

78. Although there is no guidance as to the exact level of balances that an Authority should hold, the Home Office has now asked Authorities to explain any general balances above 5% of budget. At the end of 2023/24 general balances are expected to stand at £1.538m or 3.5% of the 2024/25 Core Budget.

79. The Authority has to be mindful of the opportunity to quickly replenish balances if they are called upon and this becomes much harder in a financial regime where central government controls grants, business rate levels and council tax levels.

80. Whilst this level of balances is desirable, there is an opportunity to cost of holding balances. They could be used to finance one off expenditure or temporarily reduce the Council Tax precept, which itself will have an impact on the long-term financial position. The risk of using up balances is, however, that any unforeseen expenditure could not be met.

81. The planned use of ear-marked balances in the MTFP period is set out in a summary of the Reserves Strategy in Appendix 6.

82. Reserves are higher than anticipated in the last MTFP for a number of reasons:

   a. some windfall additions at the end of 2022/23.
   b. a slower than expected start to the “Invest to Improve” projects as a consequence of limited staff resources to initiate them.
   c. delays to major building projects – of which the Authority is well aware.
   d. complications of timing of collaborative projects.

Investment Strategy

83. In accordance with the Authority’s Treasury Management Strategy, surplus funds are invested by Worcestershire County Council alongside their own funds.

84. Since October 2008 the Authority has adopted a policy of avoiding new long-term borrowing, where working capital balances permit. The Authority will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets.

85. The Authority will not borrow to invest and will only invest funds arising from cash-flows.

86. The Authority will not invest in property or other assets with the intention of generating income, other than as outlined at paragraph 23g above.

87. Investment of funds will be via the existing Treasury Management arrangement with Worcestershire County Council and will be restricted to the agreed financial loans to approved counter-parties.

88. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. Primary consideration will be given to Security, Liquidity and Yield (SLY) in that order. As a consequence, surplus funds continue to generate low returns which are factored into the budget.

Prudential Code Indicators

89. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).

90. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.

91. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objective of being consistent with, and supporting, local strategic planning, local asset management planning and proper option appraisal.

92. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be considered. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under Section 4 of the Local Government Act 2003 (Government Reserve Powers).

93. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them, in this way, would likely to be misleading and counter-productive. In particular, Local Authorities had widely differing debt positions at the start of the prudential system and the differences are likely to increase over time as a result of the exercise of local choices.

94. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

95. Recent revisions to the Code have reduced the number of mandatory indicators, but the Treasurer believes that they continue to provide useful information to the Authority so they continue to be included.

96. In setting or revising the prudential indicators, the Authority is required to have regard to the following matters:

    a. Affordability, e.g. implications for Council Tax.
    b. Prudence and sustainability, e.g. implications for external borrowing.
    c. Value for money, e.g. options appraisal.
    d. Stewardship of assets, e.g. asset management planning.
    e. Service objectives, e.g. strategic planning for the Authority.
    f. Practicality, e.g. achievability of the forward plan.

97. The Treasurer has prepared the prudential indicators having considered the matters above and they are set out in detail in Appendix 8.

Minimum Revenue Provision (MRP)

98. Minimum Revenue Provision is the amount set aside in the revenue budget to meet the future repayment of borrowing incurred to pay for capital investment.

99. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require that an Authority sets its own prudent level of MRP, by adopting a policy in advance of the year to which it relates.

100. For ease of reference the policy, which is unchanged from previous years, is set out in Appendix 8.

Budget Calculations: Personal Assurance Statement by the Treasurer

101. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (Council Tax). The Authority is required to take this report into account when making its budget and precept (Council Tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

102. The Treasurer states that, to the best of his knowledge and belief, these budget calculations are robust and have full regard to the:

a. Fire Authority budget policy.
b. Need to protect the Fire Authority's financial standing and to manage risk.
c. Current year's financial performance.
d. Financial policies of the Government.
e. Fire Authority's Medium-Term Financial Plan and Planning framework;
f. Capital programme obligations.
g. Treasury Management best practice.
h. Strengths of the Fire Authority's financial control procedures including audit consideration.
i. Extent of the Authority's balances and reserves.
j. Prevailing economic climate and future prospects.

Conclusion/Summary

103. Sound financial planning means that the Authority is in a good position and although there are small budget gaps going forward, these are not unreasonable given the uncertainties inherent in any future projections.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Yes – whole report
Strategic Policy Links & Core Code of Ethics (Identify how proposals link with current priorities & policy framework and align to the Core Code of Ethics)	Budget and Financial Plan underpins all other strategies
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	n/a

Consultation (identify any public or other consultation that has been carried out on this matter)	Yes – consultation with Business Rate-payers as required by legislation
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	n/a
Data Protection Impact Assessment (where personal data is processed a DPIA must be completed to ensure compliant handling)	n/a

Supporting Information

Appendix 1	Capital Programme
Appendix 2	Revenue Budget Changes 2023/24 to 2024/25
Appendix 3	Revenue Budget Allocation 2024/25
Appendix 4	Medium Term Financial Forecasts to 2026/27
Appendix 5	Council Tax Requirement Calculation 2024/25
Appendix 6	Reserves Strategy Summary
Appendix 7	Fees & Charges 2024/25
Appendix 8	Statement of Prudential Code Indicators and Minimum Revenue Provision Policy.