Hereford & Worcester Fire Authority
13 February 2023

Report of the Treasurer and the Chief Fire Officer

Budget and Precept 2023/24 and Medium-Term Financial Plan

Purpose of report to:

1. Determine the Revenue and Capital Budgets and the Council Tax Requirement for 2023/24.
2. Approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2023/24.
3. Approve the Capital, Investment and Reserves Strategies.
4. Approve the level of Fees and Charges for chargeable services for 2023/24.
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 the:

a. ***Capital Strategy (paragraphs 10-23) be approved.***

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

c. ***Core Net Revenue Budget of £39,396,800.00 (Appendix 3) be approved.***

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

e. ***Authority calculates that under the provisions of the relevant sections of the Local Government Finance Act 1992 (as amended), and, in relation to the year 2023/24 as set out in Appendix 5 that the:***

   i. ***Aggregate expenditure it will incur [S42A(2)(a)] will be £39,472,600.00.***

   ii. ***Aggregate income it will receive [S42A(3)(a)] will be £12,944,593.00.***

   iii. ***Amount transferred to financial reserves [S42A(2)(c)] will be £763,900.00.***

   iv. ***Amount transferred from financial reserves [S42A(3)(b)] will be £46,000.00.***

   v. ***Net collection fund surplus [S42A(10)] is £29,679.00.***

vi. Net amount of its Council Tax Requirement [S42A(4)] will be £27,216,228.00.

vii. Basic amount of Council Tax [S42B] will be £94.40 (Band D).

viii. Proportional tax-bands [S47] will be:

• ***Band A***	***£62.93***
• ***Band B***	***£73.42***
• ***Band C***	***£83.91***
• ***Band D***	***£94.40***
• ***Band E***	***£115.38***
• ***Band F***	***£136.36***
• ***Band G***	***£157.33***
• ***Band H***	***£188.80***

ix. Precept demands on the individual Billing Authorities [S48] are:

• ***Bromsgrove***	***£3,579,733.94***
• ***Herefordshire***	***£6,708,561.77***
• ***Malvern Hills***	***£3,103,164.45***
• ***Redditch***	***£2,483,282.63***
• ***Worcester***	***£3,110,987.68***
• ***Wychavon***	***£4,950,103.16***
• ***Wyre Forest***	***£3,279,394.37***

f. Reserves Strategy (paragraphs 71-79 and Appendix 6) to be approved.

g. Investment Strategy (paragraphs 80-85) to be approved.

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

i. Statement of Prudential Indicators and Minimum Revenue Provision Policy (Appendix 9) 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 2022, the Authority agreed a Medium-Term Financial Plan (MTFP) for the period from 2022/23 to 2024/25, which was based on a series of assumptions about the uncertain position beyond 2022/23. This base position

produced a broadly balanced position with small surpluses and deficits within normal parameters.

7. Uncertainty over the delayed Comprehensive Spending Review (CSR), with potential for further grant cuts, meant that the Authority continued to hold the Budget Reduction Reserve to smooth any future reductions.

8. Soon after the setting of the budget and MTFP the impact of rapidly increasing inflation rates began to be felt. This was across the range of expenditure, but particularly marked in fuel, utilities, interest rates, and consequentially on pay settlements. The potential impact of these factors was reported to the Authority during the year.

9. Whilst 2022/23 was the first year of the, much delayed CSR, there has not been a corresponding three-year settlement. 2023/24 has been a single year funding, with outline indications of future intent.

Capital Strategy

10. 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).

11. 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.

12. The main elements of the capital 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.

13. The Capital 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.

14. 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.

15. 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.

16. The **Asset Management Plan** considers the existing property base in relation to location, condition and suitability, and proposes relevant action to optimise need and provision. In this it is supported by the Strategic Property Liaison Group.

17. The **Fleet Strategy** performs the same function in relation to the operational and non-operational vehicle fleets.

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

19. 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 Vehicle Strategy is approved by the Policy and Resources Committee on a two–yearly cycle. The Asset Strategy, due to its longer term nature, is approved as and when required.
    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 Strategy) or Minor Building works arising from the condition survey supporting the Asset Strategy. 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

20. 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 and Resources Committee as part of the quarterly budget monitoring reports.

21. 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.

22. 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.

23. 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

24. 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 IT schemes etc. is included as Appendix 1. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 3 and 4. The Statement of Prudential Code Indicators and Minimum Revenue Provision Policy in Appendix 9.

25. 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

26. In Feb 2022 the Fire Authority approved an expenditure forecast to 2024/25 *(the additional years to 2026/27 were added to the Oct 2022 Fire Authority update)*, and there are a significant number of revisions as set out below:

	2023/24 £m	**2024/25** £m	**2025/26** £m	**2026/27** £m
Feb/Oct 2022 Projection	**37.569**	**38.940**	**39.934**	**40.929**
Potential Impact of 2022 Pay awards	0.794	0.810	0.826	0.842
Extra Provision for 2023 Pay awards	0.433	0.534	0.544	0.555
Extra fuel/utilities inflation	0.150	0.150	0.150	0.150
Increased Business Rates	0.140	0.143	0.146	0.149
Ill Health Pension charges	0.040	0.040		
Revised Audit Fees		0.060	0.061	0.062
Reversal of NI increases	(0.164)	(0.167)	(0.171)	(0.174)
USAR Cost Savings		(0.239)	(0.242)	(0.246)
	1.393	1.331	1.314	1.338
Investment in Digital Comms	0.100	0.102	0.104	0.106
Other	(0.003)	(0.006)	0.003	0.019
	1.490	1.427	1.421	1.463
Feb 2023 Projection	**39.059**	**40.367**	**41.355**	**42.392**

27. The MTFP made provision for pay awards at 2% but this was before larger pay demands resulting from the rapid acceleration in inflation.

a. The Support Staff award (Green book) for April 2022 was finally settled, nationally, at a level that increased these costs by 6.73%. The award was a flat cash sum across all salary ranges and had a larger impact on the lower pay levels. This was partially in an attempt to maintain a differential between the lowest pay levels and the National Living Wage.

b. The Operational/Uniformed staff (Grey book) award for July 2022 remains unresolved. The latest employers offer of 5% was rejected and the Fire Brigades Union has balloted for strike action. Provision is made for this national award to be at 5% but any higher figure will have a further impact.

c. Whilst it is hoped that inflation will be brought under control and future pay awards will be contained within the on-going MTFP 2% assumptions, it is probable that the 2023 national awards will exceed this figure. Therefore, an additional provision to 4% (Grey book) and 5% (Green book) has been provided. The higher figure for Green book in anticipation of a similar weighting to the lower scales as in 2022. This provision is speculative, but if excluded from the budget it would create a future gap.

28. Further changes relate to:

a. The increased costs of diesel, gas, electricity and increased business rates resulting from the 2023 Revaluation.

b. The requirement to pay ill health charges into the fire-fighters pension fund.

c. A significant increase in nationally negotiated external audit fees.

d. A planned investment in Digital Communications.

29. These costs are offset by:

a. Reversal of the 2022 National Insurance (NI) increase. Although as this was funded by an additional grant, there is a corresponding loss of grant and therefore the impact is broadly neutral.

b. Loss of USAR funding and consequential cost saving. Although the grant loss has a much bigger impact.

30. The previous MTFP recorded a small budget surplus in 2023/24 and it was agreed that this was would be used to meet inflationary pressures on major building projects. This funding has been assumed in the capital financing calculations and has therefore been continued.

a. Members may recall that there was an expectation that a review of capital financing costs would yield some savings. Whilst this is the case the savings have been taken up by the impact of increased interest rates.

b. In accordance with previous practice and to provide a continuous record of year on year budget changes, Appendix 3 tracks the changes from the approved 2022/23 budget to that proposed for 2023/24 and Appendix 4 allocates this proposed budget to the relevant approved budget heads.

Budget Risks

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

a. 2024/25 shows an estimate for the increased employer contribution rates for fire-fighter pensions that may be significantly incorrect. At the last revision to the rates (which was a significant cost) government provided additional grant funding, but no further funding is currently assumed.

b. At the time the budget was produced the Grey book award was not settled. If this is settled at 1% above the budgeted position at Jul 2022 and Jul 2023, the impact is £0.342 in 2023/24 and £0.392m thereafter, with an additional backdated 2022-23 cost of £0.143m.

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

Funding Resources Projection

33. 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.

34. 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 has been further modified this year to exclude any council tax increase and introduced a further grant to insure a minimum increase in this figure. This has made the grant position even more complicated.

35. 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

36. The provisional local government settlement was issued in late December 2022 but it is not yet confirmed. Parliamentary debate on the settlement is scheduled for Wednesday 8th February and confirmation of the final settlement is expected soon after.

37. 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 2023 but all indications are that this will remain as forecast, with the knowledge that USAR grant will cease after 2023/24.

38. The Pension Grant was expected to move from the Home Office (HO) to DLUHC in 2022/23 year but legal questions around the distribution mechanism under the local government settlement saw this revert back to HO. Although it was expected that these issues would be resolved, the preliminary settlement did not include it and it remains with the HO. As a consequence, this also cannot be confirmed until late February2023 but again all indications are that this will remain unchanged.

39. It is also helpful to see that the small Rural Services Delivery Grant is to continue.

40. The table below show a comparison between the MTFP assumptions and the provisional settlement with the 2022/23 position shown to provide context. The Services Grant was expected to reduce as part of it was compensation for the, now reversed, increase in NI rates.

41. The MTFP projection assumed that the business rate poundage would increase as provided in the underlying regulations. However, once again the government has chosen not to do this and is paying an additional S31 grant to compensate. In order to provide a better comparison, the 2022/23 and MTFP 2023/24 figures have been adjusted to reflect this, but within the overall resource projection.

	2022/23 Actual £m	**2023/24 MTFP** £m	**2023/24 Provisional** £m
Revenue Support Grant	2.144	2.187	2.362
Business Rate Top Up Grant	3.372	3.440	3.402
S31 Grant - Freezing Business Rates	0.562	0.627	1.005
2022/23 Services Grant	0.392	0.392	0.221
Rural Services Delivery Grant	0.115	0.115	0.115
Funding Guarantee Grant	0.000	0.000	0.114
	6.585	**6.761**	**7.219**

42. Although this appears to be a significant (£0.458m: 6.8%) over the MTFP, it should be noted that this includes compensation for a further year of under-indexation of business rate and so, other things being equal, business rates would not increase.

43. 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

Business Rate Related

44. 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 31st January 2023. This was the first date at which any indications or information became available.

45. 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.

46. Projection of future business rate yield in the previous MTFP was further complicated by the impact of the national rate revaluation at April 2023, however the actual outcome is an overall increase in yield of just under 14%.

47. In previous years the Collection Fund has exhibited a significant deficit and this assumption was continued into the previous MTFP. However, the reality is that with the exception of Bromsgrove and Redditch which have small deficits the other funds are actually in surplus giving a small net surplus overall.

48. The result of this is that resources are some £0.7m greater than the previous MTFP forecast as is shown in the table below:

	2022/23 Actual £m	**2023/24 MTFP** £m	**2023/24 Actual** £m
Baseline	2.315	2.362	2.499
NNDR1 Forecast	(0.186)	(0.190)	(0.102)
S31 Reliefs	0.555	0.566	0.095
Collection Fund	(0.630)	(0.320)	0.634
	2.054	**2.418**	**3.126**

Precept Related

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

50. 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 0.8%. The picture is mixed with 4 showing improvements over forecast, 1 showing a deterioration and 2 actually showing an overall reduction in tax-base.

51. 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.

52. The Authority had approved an MTFP planning assumption of an annual increase of 1.96% in line with the prevailing referendum limit of 1.99%.

53. Based on the actual tax-base the MTFP assumption would now give a yield approximately £0.1m lower than the previous MTFP.

54. In a policy statement released before the preliminary settlement, the government announced that the referendum limit would be increased to 2.99% for 2023/24 and 2024/25. Subsequently the 2023/24 limit was increased to £5 which is equal to 5.59%. Thus, the planning assumptions regarding the maximum amount that the Authority can increase precept are as below:

2023/24	2024/25	2025/26	2026/27
£5 (5.69%)	2.99%	1.99%	1.99%

55. The sector has worked hard in coordination with the NFCC, HO and the direct support of some of our local MPs to gain this £5 flexibility. If it is not widely taken up across the sector it is unlikely that any future calls for additional funding would be considered.

56. 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. For the first time in many years, Members have a choice between higher taxation and probable service cuts.

57. In the absence of a Policy and Resources Committee in January 2023, informal discussions with the Chair and Vice Chairs of the Authority, Committee Chairs and Group Leaders suggest that approval for a £5 annual increase is likely to gain support and this has included as the core budget plan.

58. 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.

59. For illustrative purposes the yield for various levels of precept increase is as shown. The 3.76% option being illustrative of the level needed to balance the 2023/24 budget, but leaving significant future budget gaps as further explained below.

	2023-24 increase	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Previous MTFP	1.96% (£1.75)	26.278	27.116	27.979	28.870
		0.464	*0.756*	*0.788*	*0.822*
to balance 2023/24	3.76% (£3.36)	26.742	27.872	28.767	29.692
		0.474	*0.493*	*0.510*	*0.527*
Maximum permitted	5.59% (£5.00)	27.216	28.365	29.277	30.219

60. If the Authority wishes to adopt a different position the meeting would need to adjourn to allow the Treasurer to re-run the calculations to ensure that the Authority make the correct formal decisions that underly that decision on precept

61. In addition, there is a small one off net surplus on the Collection Funds of £0.030m.

Fees and Charges

62. 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. The proposed charges for 2023/24 are set out in Appendix 7.

2023/24 Budget and Precept and Future Years

63. The Authority is required to set a budget and precept for 2023/24, but has to consider the impact on future affordability through a MTFP.

64. For the first time in many years the Authority has sufficient flexibility in setting the precept to allow it to make choices. The table below sets out how the forecasts on expenditure and funding, referred to in the report, are brought together.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Expenditure Projection	39.397	40.714	41.705	42.745
to Capital Projects Reserve	0.290			
from TIG Grant Reserve	(0.046)			
	39.641	40.714	41.705	42.745
Net Grants	(9.742)	(9.093)	(9.197)	(9.303)
Net Business Rates etc	(3.126)	(3.042)	(3.104)	(3.167)
Council Tax Collection Fund	(0.030)	0.000	0.000	0.000
	26.743	28.579	29.404	30.275
Precept at previous MTFP	(26.278)	(27.116)	(27.979)	(28.870)
	0.465	1.463	1.425	1.405
To close 2023-24 Gap	(0.465)	(0.756)	(0.788)	(0.821)
	(0.000)	**0.707**	**0.637**	**0.584**
Precept at £5	(0.474)	(0.494)	(0.510)	(0.527)
	(0.474)	**0.213**	**0.127**	**0.057**

65. Whilst it can be seen that the full precept flexibility is not necessarily required to close the 2023/24 budget, this would leave significant budget gaps in future years. Mention has already been made of the potential for the grey book pay award to be settled at an additional cost in further hundreds of pounds.

66. Whilst the resultant gap in future years could be mitigated by use of the budget reduction reserves, this is not a sustainable approach and, further, leaves no resilience if future funding is less favourable. The Authority will need to begin immediate planning for budget reductions of £0.7m-£1.1m per year, and at this level service reductions cannot be ruled out.

67. The opportunity for further precept increase is far from certain and it is suggested that the £5 increase is taken now to secure the future.

68. Based upon the above recommended strategies the formal precept calculation for 2023/24 is set out in Appendix 5. The Band D precept will rise by £5.00 a year (or just over a penny a day) to £94.40.

69. The Chief Fire Officer to provide the Authority with plans to spend the one off 2023-24 surplus on specific prevention priorities.

70. If the Authority wishes to adopt a different position the meeting would need to adjourn to allow the Treasurer to re-run the calculations to ensure that the Authority makes the correct formal decisions that underly that decision on precept

Reserves Strategy

71. 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”.

72. 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. It has recently been subject to a further two year delay.

73. 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.

74. 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 2022 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.

75. 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 2022/23 general balances are expected to stand at £1.538m or 3.9% of the 2023/24 Core Budget.

76. 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.

77. 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.

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

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

    a. some windfall additions at the end of 2021/22.

    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

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

81. 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.

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

83. The Authority will not invest in property or other assets with the intention of generating income, other than as outlined at paragraph 19g above.

84. 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.

85. 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

86. 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).

87. 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.

88. 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.

89. 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).

90. 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.

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

92. 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.

93. 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.

94. The Treasurer has prepared the prudential indicators having considered the matters above and they are set out in detail in Appendix 9.

Minimum Revenue Provision (MRP)

95. 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.

96. 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.

97. For ease of reference the policy, which is unchanged from previous years, is set out in Appendix 9.

Budget Calculations: Personal Assurance Statement by the Treasurer

98. 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.

99. 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

100. Taking advantage of the flexibility currently offered by government, coupled with 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 2022/23 to 2023/24
Appendix 3	Revenue Budget Allocation 2023/24
Appendix 4	Medium Term Financial Forecasts to 2026/27
Appendix 5	Council Tax Requirement Calculation 2023/24
Appendix 6	Reserves Strategy Summary
Appendix 7	Fees & Charges 2023/24
Appendix 8	Alternative statutory decisions
Appendix 9	Statement of Prudential Code Indicators and Minimum Revenue Provision Policy.

Background Papers

- Fire Authority, 12 Oct 2022: Financial Matters.