HIWFRA Full Authority

Purpose: Approval

Date: **27 FEBRUARY 2024**

Title: **BUDGET and PRECEPT REQUIREMENT 2024/25 INCLUDING MEDIUM TERM FINANCIAL PLAN**

Report of Chief Financial Officer

SUMMARY

1. This report presents the 2024/25 forward budget to the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) for approval. The report also includes the Medium Term Financial Plan (MTFP) covering the period 2024/25 – 2027/28.

2. The headline position is that the setting of a balanced budget is proposed. A detailed breakdown of the budget by area and type of spend is included as **Appendix A1**.

3. The provisional Local Government Finance Settlement for the Fire Authority is different from the scenarios presented to the Authority as part of the December Budget Update:

   (a) The council tax referendum limit for Fire and Rescue Authorities has been set at 2.99%, one of the two scenarios presented to the Authority in December

   (b) The inflation on grants is higher than forecast in December, closing the forecast budget gap somewhat.

   (c) Due to the low levels of grant increase for the Fire Authority, an additional one-off grant of £1.640 m has been provided, improving the 2024/25 position somewhat.

4. This report sets out details of the precept increase, showing the level of precept and increase for each council tax band. It is recommended that council tax is increased by the maximum level of 2.99% for 2024/25.

5. The report also contains information about in year spend against budget for 2023/24 and proposed in-year reserve allocations. The forecast year end position is an underspend of £0.804m.

6. The Revised Budget 2023/24 is included at **Appendix A2** and shows how the original budget agreed by the Fire Authority in February 2023 has been realigned.

7. This report also contains an update to the Medium Term Financial Plan at **Appendix B**, showing the more challenging financial position facing the service from 2025/26 onwards.

8. The capital programme for 2024/25 onwards and the funding of this are set out in this report, with details at **Appendix C1** and **Exempt Appendix C2** and are recommended for approval.

9. A Reserves Strategy is presented for approval in this report at **Appendix D**, which includes details of the current level of reserves, the reason for holding each reserve and plans for future usage.

10. The Treasury Management Strategy is presented for approval at **Appendix E.**

11. The Capital and Investment Strategy is presented for approval at **Appendix F.**

12. **Appendix G** contains the section 25 report of the Chief Financial Officer.

13. **Appendix H** contains the Authority's Efficiency Plan.

RECOMMENDATIONS

14. That the items listed below be approved by the HIWFRA Full Authority

15. The 2023/24 monitoring position as set out in paragraphs 31 – 37, including the £500,000 contribution to the Capital Payments Reserve in 2023/24 and the split of the 2023/24 underspend between the Transformation Reserve and the Capital Payments Reserve.

16. The one off pressures set out in paragraphs 65 and 66, to be funded from the Transformation Reserve.

17. The Revenue Budget for 2024/25, as set out in **Appendix A1**.

18. The Revised Revenue Budget for 2023/24 as set out in **Appendix A2**.

19. The Medium Term Financial Plan, as set out in **Appendix B**.

20. The Capital Programme and funding as set out in **Appendix C1** and exempt **Appendix C2**.

21. The Reserves Strategy as set out in **Appendix D**. This includes the contribution of £1.5m from an underspend on Capital Financing costs to the Transformation reserve as set out in paragraph 96 of the main report.

22. The Treasury Management Strategy for 2024/25 (and the remainder of 2023/24) as set out in **Appendix E**.

23. Delegated authority to the Chief Financial Officer to manage the Fire and Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

24. The Capital and Investment Strategy as set out in **Appendix F** for 2024/25, (and the remainder of 2023/24).

25. The Section 25 Report as set out in **Appendix G** which should be taken into account by the Authority in agreeing the budget and council tax.

26. The council tax requirement for the Authority for the year beginning 1 April 2024 of £59,533,418.31.

27. That the Authority's council tax be increased by 2.99% for a Band D property for the year beginning 1 April 2024 and for the properties in each band to be increased by 2.99%, as set out in paragraph 44 of this report:

Band A:	£55.23	Band E:	£101.25
Band B:	£64.43	Band F:	£119.66
Band C:	£73.64	Band G:	£138.07
Band D:	£82.84	Band H:	£165.68

28. That the precepts set out in paragraph 50 of this report, totalling £59,533,418.31 are issued on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the Authority, in proportion to the tax base of each billing authority's area as determined by them.

29. That the principle of adding any early delivery of savings from the efficiencies developed to meet the anticipated budget gap in 2025/26 to the Budget Equalisation Reserve be agreed.

BACKGROUND

30. This report builds on the position presented to the Fire Authority in December in the Budget Update report. Since that report was presented, detailed information about the Local Government Finance Settlement has been published.

2023/24 BUDGET MONITORING – QUARTER 3

31. This section covers the overall monitoring position. The forecast position for the Authority in 2023/24 is an underspend of £0.804m. A breakdown of the position is set out below:

Table 1	**2023/24 Budget**	**2023/24 Forecast**	**Over / (under) spend**
	£'000	£'000	£'000
Wholetime Firefighters	41,562	41,612	50
On-call Firefighters	8,674	7,473	(1,201)
Staff	16,430	16,722	292
Other Employee Costs	2,285	2,355	70
Premises Related Expenditure	8,183	8,476	293
Transport Related Expenditure	2,097	2,327	230
Supplies and Services	8,736	9,227	491
Third Party Payments	2,778	3,003	225
Income	(4,298)	(5,224)	(926)
Net Service Expenditure	***86,447***	***85,972***	***(476)***
Contingency	500	500	-
Capital Financing	1,029	755	(274)
Planned contributions to reserves	9,174	9,174	-
Planned draws from reserves	(3,483)	(3,483)	-
Net Expenditure	**93,667**	**92,917**	**(750)**
Funding	(93,667)	(93,721)	(54)
Net Position	**-**	**(804)**	**(804)**

32. The overall forecast position is an underspend of £0.804m. This is made up of a significant underspend on on-call firefighters, partially offset by small overspends elsewhere. The forecast underspend is slightly higher than the £0.698m forecast at the end of Quarter 2 that was reported to the Authority in December.

33. The pressure on staff costs mainly relates to the higher than budgeted green book pay award.

34. There is a pressure on transport which relates to firefighters' travel costs and the costs of maintenance and repair of our fleet. Some of this pressure will be offset by income for fleet maintenance work from other Fire and Rescue Services.

35. The is a pressure on Supplies and Services, mainly relates to backdated costs relating to radio airwaves and an increase in the external Audit fee. Funding for this pressure is proposed for inclusion in the 2024/25 budget.

36. The income forecast is higher than forecast in quarter two mainly due to additional forecast interest on investments and higher than budgeted income from the Networked Fire Services Partnership, which offsets additional costs.

37. The service holds a contingency budget as a mitigation against the risk of unforeseen in year costs. The contingency budget for 2023/24 remains unused. Therefore, it is proposed that the full amount of this contingency is transferred to the Capital Payments Reserve to address pressures on the capital programme set out later in this report. The figures in the report assume that this recommendation is approved.

2024/25 BUDGET AND PRECEPT

Overall 2024/25 Budget Position

38. Appendix A outlines the base budget for 2024/25 compared to the base budget for 2023/24 by cost type and area of spend.

39. In the December Budget Update report a scenario of a 3% council tax referendum limit suggested that there would be a deficit of £3.132m. A comparison against that position shows that the position is more favourable than anticipated. This difference is made up of some changes in funding as well as some changes in future cost assumptions. The full breakdown of these changes is set out below:

Changes since Budget Update Report	£'000
Forecast budget gap in December 2023 Budget Update report	3,132
Changes:	
On going funding increase	(2,020)
One-off funding increase	(1,640)
Firefighters pension grant	(2,687)
Delivery pressure - Audit	74
Pay inflation changes	(450)
Non-Pay inflation changes	291
FPS Employer Rate Increase	3,001
Proposed budget (surplus) / deficit	**(299)**
Contribution to Budget Equalisation Reserve	**299**
Deficit / (surplus)	**-**

40. In addition, since the December Budget Update report, the outcome of the triennial valuation of the Firefighters Pension scheme has been published. This has resulted in an increase in pension contribution rate of 8.8%, taking the employer's pension contribution rate to 37.6%. This represents an additional cost to the employer of £3.001m. Due to the allocation methodology the grant we have received for this increase totals £2.687m, meaning that there is a shortfall in grant allocation compared to the forecast cost.

41. The settlement leaves the Fire Authority in a balanced position for 2024/25, largely because of additional one-off funding.

<u>Council Tax</u>

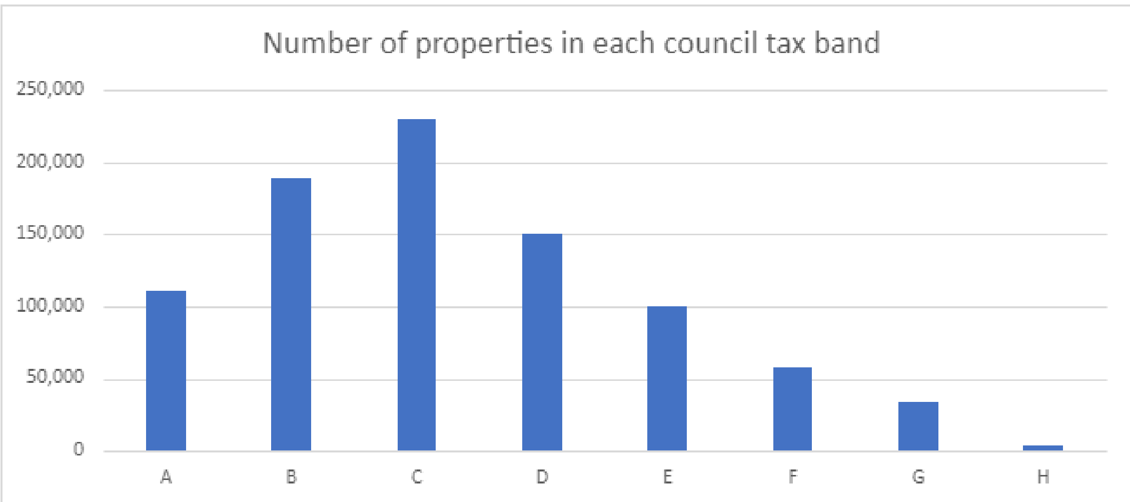
42. The Budget Update report assumed council tax base growth of 0.5%. Final figures from the district councils show growth of 0.65%, broadly in line with the assumed rate.

43. The Local Government Financial Settlement confirmed that the Council Tax referendum limit for Fire Authorities would remain at 3%. If the referendum limit had been increased to £5 on Band D properties (6.2%) this would have resulted in an additional £1.861m of available funding.

44. The table below sets out the impact of a 2.99% (£2.108m) council tax increase for each band:

Band	Increase (£)
Band A	1.61
Band B	1.88
Band C	2.15
Band D	2.41
Band E	2.95
Band F	3.49
Band G	4.02
Band H	4.82

45. With the ongoing pressures on cost of living it is important to consider the impact of a Council Tax rise on the residents of Hampshire and the Isle of Wight. The graph below illustrates that the majority of homes in Hampshire will see an increase of less than £2.41 per annum. Many residents will also benefit from Council Tax discounts and support, meaning that they will be protected from the full impact of the increase.



46. Council Tax is the most significant part of the Authority's funding and the 3% increase is essential in ensuring the financial sustainability of the Authority in 2024/25 and in later years of the plan. The increase of 3% brings in an additional £2.108m and is essential to the budget position in both 2024/25 and subsequent years. For this reason, all the figures in this report assume that a 2.99% increase is applied as recommended by the Chief Financial Officer.

47. The figures below show the council tax rates for the year beginning 1 April 2024 for the properties in each band, based on a £2.41 (3%) increase for Band D property:

48.

Band A:	£55.23	Band E:	£101.25
Band B:	£64.43	Band F:	£119.66
Band C:	£73.64	Band G:	£138.07
Band D:	£82.84	Band H:	£165.68

49. Combining the council tax base increase and the precept increase, the table below shows the precept funding due from each precepting authority for the year 2024/25.

50.

Billing Authority	Total (£)
Basingstoke	5,782,257
East Hampshire	4,357,337
Eastleigh	4,062,249
Fareham	3,660,608
Gosport	2,235,098
Hart	3,536,519
Havant	3,523,034
New Forest	5,995,255
Rushmoor	2,734,685
Test Valley	4,312,568
Winchester	4,447,816
Portsmouth	4,829,522
Southampton	5,549,369
Isle of Wight	4,507,101
Total	**59,533,418**

51. During 2023/24 there was a modest surplus across Council Tax and Business Rates Collection Funds of £0.334m. For 2024/25 there is an increase £0.373m across both collection funds.

Business Rates

52. The Authority receives a top up grant for business rates from the Government, together with a proportion of retained business rates collected by District and Unitary Councils in Hampshire and the Isle of Wight. In addition to this, following reliefs and business rate caps introduced by the Government, Section 31 grant is paid to the authority for lost business rate income it would otherwise have earned.

53. There has been a small reduction in the top-up grant, meaning that the grant will be £9.450m. This grant reduction is offset by an increase in locally retained business rates, which rise to £8.146m. This means that the total for top-up grant and locally retained business rates has increased by £0.962m since 2023/24.

54. There are a series of business rate reliefs and changes to multipliers which were introduced by the Government in response to the pandemic and cost of living crisis. Local Authorities receive Section 31 grants to compensate for the loss of business rate income due to these changes. The impact on business rates is significant in 2023/24 so grants of £4.810m will be received in 2024/25. The overall change for all business rates related funding is an increase of £1.505m.

Government Grant

55. The December Budget Update report assumed a modest increase in Revenue Support Grant (RSG). In the local government finance settlement, it was announced that RSG would increase in line with September Consumer Prices Index inflation (6.7%). This means that RSG will be £0.624m higher than in 2023/24, an improvement to the position reported in the budget update report.

56. In addition, the Pension Grant (£3.771m) received following the employer contribution rate increases as a result of the 2017 actuarial valuation of the scheme has been moved into RSG as part of the finance settlement, meaning that the overall increase in RSG is £4.395m.. A new grant, to cover the increase in employer contribution rate as a result of the 2020 actuarial valuation of £2.687m has been received. This offsets a forecast pressure of £3.00m of additional costs of employer pension contributions.

57. The Services Grant, originally introduced in 2022/23 and reduced in 2023/24 has been further reduced, leaving a remaining allocation of £0.115m. In the December Budget Update it was assumed that this grant would cease in 2024/25 so this is a marginal improvement on the position.

58. Due to the low increase in funding for the Authority, the Government have provided an additional, one-off Funding Guarantee grant of £1.640m. This grant was not included in the December budget update, so improves the position for 2024/25.

59. The Home Office previously notified that the Firelink grant, provided to cover the cost of Airwave radios, would be phased out. The reduction in this grant is reflected within the budget position.

60. It was positive to note that the unique circumstances facing island authorities were recognised with an additional £3m of support to Isle of Wight Council in the final settlement. However, it is disappointing that no additional funding was provided to HIWFRA.

Ongoing Pressures

61. Throughout the year the Authority has considered and approved papers outlining the need for ongoing additional funding to support several essential priorities. Due to the uncertainty around the service's financial position, these pressures were approved in principle for inclusion within the budget and are set out below:

Item	Cost (£'000)	Date of approval in principle
Control system	230	25th July 2023 (exempt item)
In-house HR	298	10th October 2023
HR IT system	18	10th October 2023
Contaminants posts	120	10th October 2023
Borrowing costs	500	Previous medium term financial plan
Total	**1,166**	

62. The approved amounts are now confirmed as affordable within the available funding for 2024/25 so have been included within the position presented in this report. The additional ongoing funding for the control system will be held in contingencies until the outcome of the procurement is known.

63. In addition, it is proposed that the following pressures are included within the budget:

Item	Cost (£'000)	
Fleet maintenance	75	Market conditions mean that additional funding is required to improve recruitment and retention of the fleet maintenance team
DBS checks	20	Legislative change means that FRS employees must have a DBS check
Audit fee	74	Increase due to the new national contract for external audit
Firefighters pension scheme employers' rate	3,001	Referred to elsewhere in the report, partly funded by grant for 2024/25
Total	**3,170**	

64. These pressures have been included within the figures presented in Appendix A1, bringing the total on-going pressure for 2024/25 to £4.336m. The vast majority of this relates to the increase in employers' pension contributions for the firefighters pension scheme.

<u>One off pressures</u>

65. In addition to these ongoing pressures, there are two one-off pressures for 2024/25. There may be significant costs relating to the implementation of the new control system. It is recommended that £2.25m to cover internal and supplier costs for the duration of the implementation period is earmarked in the Transformation Reserve. The overall costs of the new system are not forecast to exceed the amount approved by the Authority, as higher project costs will result in lower ongoing costs.

66. In order to deliver the Safety Plan improvements set out in a separate item on this agenda it is recommended that £0.283m is approved from the Transformation Reserve.

Efficiency measures

67. During 2024/25 our delivery of efficiencies will have three strands:

(a) Delivering non-cashable efficiencies in our processes and ways of working to ensure that we are able to continuously improve our service

(b) Delivering cashable efficiencies that can be re-invested

(c) Preparing of the delivery of cashable efficiencies to bridge the budget gap in 2025/26, covered later in this report.

68. Further detail on the delivery of efficiencies during 2023/24 and plans for 2024/25 is included as Appendix H to this report.

Contingency

69. A general contingency of £0.5m (0.5% of gross budget) is retained within the 2024/25 budget. This contingency is a sensible and prudent measure, especially given the uncertainty surrounding the level of pay awards during 2024/25.

MEDIUM TERM FINANCIAL PLAN 2024/25 – 2027/28

Overall position

70. The Medium Term Financial Plan (MTFP) is set out at Appendix B. The headline position is that even though a balanced budget has been set for 2024/25, a significant gap of £4m is forecast to emerge for 2025/26. The reason for this forecast gap and options for addressing it are set out in the following paragraphs.

71. It is important to remember that the figures in the MTFP are based on a series of prudent assumptions. Later years of the plan are less certain and should be used as a guide, rather than as a basis for immediate decision making. However, the forecast deficit for 2025/26 is significant and plans to address this deficit must be developed and implemented. It would not be prudent or sensible to wait until there is greater cost and funding certainty as plans will need to be made in a structured, co-ordinated way in order for any changes to be implemented in the most effective way, in line with the Authority's agreed financial principles.

Funding

72. Over recent years, single year funding settlements and economic turbulence have made forecasting future funding challenging. The forecast of funding in the MTFP is based on the following prudent assumptions:

(a) Funding Guarantee (£1.64m) is a one-off grant so is no longer available in 2025/26. Services Grant (£0.115m) is also assumed to be removed from 2025/26.

(b) The Council Tax referendum limit for Fire Authorities is 1.99% and the base grows by 0.5%.

(c) The new Pensions Grant relating to the 2024/25 employers' contribution rate increase remains as flat cash (i.e. there are no future inflationary increases)

(d) Other grants increase by inflation, forecast at 1.99%.

73. Overall, this means that funding is forecast to increase at a level below inflation in future years, contributing to the budget gap. The impact of the one-off Funding Guarantee being removed from the forecast budget position from 2025/26 onwards plays a significant role in this.

74. These assumptions are reflected in later years of the plan.

Pressures

75. The only known pressure in 2025/26 is the final year of increasing the revenue budget to fund the approved prudential borrowing for the Capital Programme. This is a pressure of £0.6m, however the Chief Financial Officer will work with the treasury advisors Arlingclose to meet the required borrowing at a lower than budgeted cost if possible. In addition, the plan includes a placeholder of £0.3m for future necessary delivery pressures. In line with the Authority's financial principles, it will be necessary to minimise future growth as any increase will widen the budget gap.

76. In addition, it is assumed that pay and price inflation continue to run at 3%, which is a prudent assumption given the current economic position. The assumed pressures in the paragraph above and the assumption of inflation continuing at 3% are significant factors contributing to the budget gap.

Efficiency measures

77. The forecast budget gap for 2025/26 of £4m is a result of pressures, one-off funding ceasing, and other funding increasing at a level below inflation. Should any of these assumptions prove to be incorrect, the budget gap could be greater or less than forecast. However, the prudent approach taken to forecasting means that a significant increase in gap is less likely.

78. The recommended approach for addressing the deficit has been developed with regard to the Authority's financial principles, set out in Appendix D of this report. It is worth briefly considering other options for addressing the deficit.

79. The first would be to revise assumptions on funding and expenditure, assuming that additional funding will be available during 2025/26 and that costs will not need to be incurred. However, this is neither in line with the Authority's principles, nor recommended. Should these assumptions prove to be incorrect, the Authority would be in the position of needing to make short term decisions to reduce expenditure which may not support our purpose or even be possible.

80. Similarly, the Authority could choose to reduce revenue contributions to reserves. However, this would just be deferring the issue. The reserve contributions are needed to support the agreed capital programme and to replace essential assets. Were these reserves not available in the future, it would be necessary to borrow (although this would only be possible for eligible capital expenditure), further increasing the budget gap and jeopardising the financial sustainability of the organisation. This approach goes against the Authority's financial principles and is not recommended.

81. Therefore, it is recommended that a plan is developed and implemented during 2024/25 to improve the efficiency of the service and to deliver cashable reductions in the budget from 2025/26. This plan will be based on the outputs of the Community Risk Management Plan (CRMP) work and will look at our current resources compared to risks. Changes will be proposed and implemented in line with the Authority's policies.

82. Progress on savings delivery will be monitored and reported, with any early delivery of savings being used to contribute to the Budget Equalisation Reserve.

83. This approach is recommended as it maintains financial resilience, maintains focus on our purpose "together we make life safer" and is in line with the Authority's financial principles.

CAPITAL PROGRAMME

84. Capital investment is an integral part of the delivery of public services. It involves expenditure on assets that will have an impact on service delivery not just in the short term but also over the medium and longer term. Investment in existing assets and the delivery of new ones must be well aligned with the Authority's overall priorities, need and affordability. This includes not just consideration of the availability of the initial capital funding but also the longer-term revenue impacts of capital investment decisions.

85. The Authority prepares a forward capital programme covering at least three years of planned expenditure, with the revenue implications factored into the MTFP. The capital programme may impact the revenue budget in a number of ways, be that in providing the initial funding for the project, covering the cost of borrowing, or the ongoing costs associated with operating and maintaining assets.

86. Capital expenditure can be financed in a number of ways:

(a) The Authority has limited opportunities to fund expenditure from external sources (such as partner contributions) and receives no capital grant allocations from government.

(b) Any capital receipts generated from the sale of assets can be used to fund capital expenditure, but the opportunities are limited and existing assets can only be sold once.

(c) The Authority is therefore substantially dependent on using its own revenue resources to fund capital expenditure either (a) through upfront funding using planned contributions from the revenue budget/reserves or (b) by borrowing and then paying off the capital financing costs over time from future years' revenue budgets.

87. The awareness of this dependence on the revenue budget to ultimately fund the majority of capital expenditure is reflected in the Authority's financial principles. The principles set out that revenue contributions to capital will be maintained and only reduced to balance the budget as a last resort, with capital investment aligned with strategic priorities and risks.

88. The proposed capital programme is summarised in the table below with further detail in appendices C1 and C2 (confidential). As would be expected, the programme is focused on the estate and vehicles in addition to the delivery of change to support the approved carbon reduction pathway.

Prior years £'000		Forecasts 2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Future £'000
14,834	Estate	18,981	12,187	5,737	3.262	155
11,864	Vehicles	8,965	13,582	6,276	3,319	3,184
439	Carbon reduction	500	500	500	500	500
27,137	**Total capital**	**28,446**	**26,269**	**12,513**	**7,081**	**3,839**
2,499	Revenue CPR investments	231	1,171	0	0	0
29,636	**Total CPR funded**	**28,677**	**27,440**	**12,513**	**7,081**	**3,839**

89. The programme continues to include elements of schemes that must be treated as revenue expenditure for accounting purposes, but which continue to be shown within the programme to give a complete picture of each project. Furthermore, the capital programme tables in Appendices C1 and C2 also include revenue projects being funded from the capital payments reserve to give a complete overview of how this reserve is being used.

90. Inflation and interest rate variability both continue to mean there is risk and uncertainty with relation to capital programme costs and the associated revenue impact.

91. Furthermore, the necessary funding for schemes in the programme may need to change where projects are reappraised in the light of changing requirements, for example where the development of the scheme identifies the need to a change in how the scheme needs to be designed or implemented.

92. A combination of inflation and a need to change requirements following engagement on the requirements for the scheme means that concerns have been raised by the Authority's external cost management service that the budget is no longer sufficient to deliver all the projects within the Retrospective Design Principles (RDP) programme to the updated requirements. Additional detail is provided in the confidential report presented later on the agenda to this meeting, but in summary the proposed capital programme identifies an increase in funding of the RDP programme of £4.3m funded through a combination of (a) reprofiling underspends within the existing programme, (b) reallocating funding from other works to enable

the Authority to prioritise the provision of healthy and inclusive facilities and (c) a draw from the Capital and Investment Risk Reserve and the Capital Payments Reserve.

93. There are a number of items that are likely to need to be included within the later years of the capital programme that have not yet been scoped. These include the impact of the preparatory work on fire contaminants and any potential further works on the estate, particularly on the Isle of Wight.

94. Risks related to interest rate uncertainty are mitigated by prudent assumptions within the MTFP and regular discussions with the Authority's treasury management advisor (Arlingclose). The Chief Financial Officer will continue to seek the advice of Arlingclose on the most effective and efficient way to borrow for elements of the programme to be funded in this way to minimise the financial impact on the Authority.

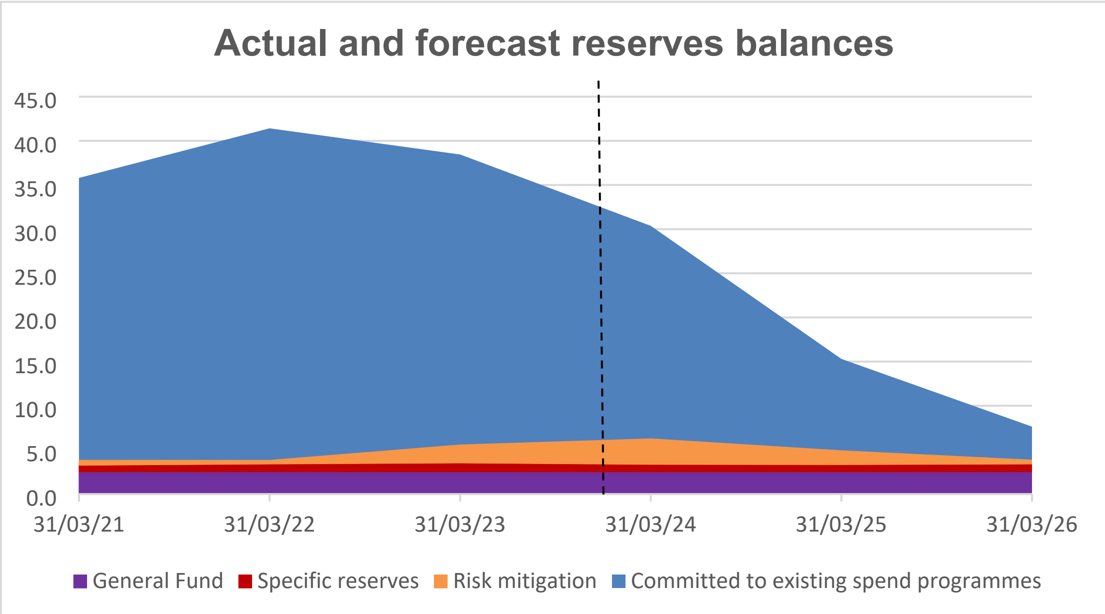
95. It is important that the repayment of the capital and interest on the Authority's planned borrowing for the capital programme is built into the revenue budget so that the increases can be managed over time and that funding to repay borrowing is available in advance of borrowing being taken out. However, due to the likely timing of borrowing during 2024/25, the whole budget will not be needed. It is therefore recommended that £1.5m is contributed to the Transformation Reserve to part-fund the implementation costs of the control system. If approved, this transfer will be made during 2024/25.

RESERVES

96. The Authority holds reserves for a number of purposes, including to provide for future planned spend and to mitigate risks as part of its medium term financial planning. Reserves and the annual contributions to reserves are an integral part of the medium term financial stability of the organisation and embedded within the Authority's seven approved financial principles.

97. An updated Reserves Strategy is included in Appendix D. This includes details of why the Authority holds reserves and the expected balances on each reserve over time, based on current forecasts and the MTFP.

98. Significant spend on the capital programme means that there is a forecast reduction in overall reserves balances over the forecast period, continuing a trend over the past two years. This is shown in the chart below.



99. **Planned annual contributions to reserves:** These are crucial to the ongoing financial sustainability of the organisation. These contributions to reserves from the revenue budget allow the Authority to fund the refresh of assets such as the estate, vehicles and equipment while avoiding where possible borrowing costs and the associated risks. They also allow the Authority to plan for the refresh of assets and delivery value for money in procurement, ensuring funding is available at the point that it is needed to coincide with the end of the useful life of assets.

100. **Risk mitigation reserves and the General Fund:** These reserves play a vital role in the financial resilience of the Authority by allowing the Authority to mitigate known risks and by providing a reserve of 'last resort' to mitigate uncertainty and unforeseen events such as a need for excessive operational activity.

RISKS AND MITIGATIONS

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY

101. The Treasury Management Strategy including the Investment Strategy for treasury investments is included at Appendix E and require approval on an annual basis. The document includes the treasury management indicators.

102. The report recommends that the following be approved:

(a) That the Treasury Management Strategy (TMS) including the annual investment strategy for 2024/25 (and the remainder of 2023/24) is approved;

(b) That authority is delegated to the Chief Financial Officer to manage the Authority's investments and borrowing according to the TMS as appropriate.

103. A key consideration for the Authority's treasury management strategy at present relates to the capital programme. The reason is twofold: (a) the Authority expects to take on new external borrowing to fund elements of the programme, with up to £37.45m of prudential borrowing approved by the Authority and (b) the expectation that reserves will reduce to meet other approved spend leading to lower available investment balances.

104. The Chief Financial Officer is advised by Arlingclose, the Authority's treasury management advisors, and will make decisions on the most effective and efficient way to borrow in line with the TMS.

CAPITAL AND INVESTMENT STRATEGY

105. The Capital and Investment Strategy combines the requirements to produce a capital strategy, an investment strategy, and an MRP statement. It requires annual approval by the Authority.

106. The **Capital Strategy** gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes the required Prudential Indicators including an update on the 2023/24 indicators as at Quarter 3.

107. The **Minimum Revenue Provision Statement** is a statement that the Authority is required to prepare and approve each year setting out its policy on making MRP in respect of the upcoming financial year. The statement sets out how the Authority proposes to discharge its duty to make prudent MRP charges to the revenue budget.

108. The **Non-treasury Investment Strategy** focuses on investments that are not made for treasury management purposes and supports transparent reporting and democratic accountability for any such non-treasury investments. It includes the required investment indicators.

SECTION 25 REPORT

109. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to give an independent view on the robustness of the estimates and adequacy of reserves to the Authority at the time it is setting its budget and council tax. This is included as Appendix G of this budget report.

FINANCIAL MANAGEMENT (FM) CODE

110. The CIPFA FM Code was formally adopted across local government from the 2021/22 financial year. A self-assessment of the Authority's financial management was undertaken by the Chief Financial Officer and the Executive Group and concluded that the Authority was compliant with the requirements of the Code, as reported to the Authority in July 2022 as part of the outturn report. Compliance will be reviewed on an ongoing basis with an update provided to the Authority annually as part of the budget setting report.

111. No significant changes to the Authority's financial management have taken place since the previous self-assessment was completed and the Chief Financial Officer and Executive Group are therefore content that the Authority continues to be compliant with the FM Code. Although compliant, the Executive Group continues to discuss opportunities to further enhance the Authority's financial management and will continue to actively do so as opportunities arise.

INSURANCE STRATEGY

112. The Fire Authority became a member of a mutual, the Fire and Rescue Indemnity Company (FRIC), on 1 November 2015. FRIC is made up of a group of thirteen Fire and Rescue Authorities. FRIC was set up to provide indemnity for its members against risks normally fully covered by a traditional insurance company. Members work together to improve risk management by following best practice and sharing learning, with any financial savings being used for the benefit of the member authorities, rather than going to an insurer.

113. There has been an increase in our 2023/24 contribution of 6.53%. This is due to various factors including inflationary pressures, liability rate increases and market wide concern relating to injury and damage arising from "Forever Chemicals". However, the FRIC model does help protect Members from these external cost issues. The increased costs continue to benchmark favourably against the wider insurance market.

114. In April 2022, the FRIC Board agreed the first refund of contributions since it started activities in 2015. It was decided to phase the return with the expectation that they would continue to refund contributions in future years. The Contribution refund received by HIWFRS in 2022 was £25,542.

115. The 2023 distribution of the contribution refund was approved by the FRIC Board in December 2023. HIWFRS is expecting a return of approximately £24,000.

116. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal and to date, no claims have been made under these additional policies. Average Weekly Earnings (AWE) inflationary measures were applied at 7.8%.

117. The charges to date are shown in the table below:

Contribution/Premium	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
FRIC Contribution	£541,826 (£12,558 Non-FRIC Covers)	£615,738 (£15,878 Non-FRIC Covers)	£647,250 (£19,183 Non-FRIC Covers)	£677,469 (£21,370 Non FRIC covers)	£725,270 (£25.151 Non FRIC Covers)
Additional Covers and Engineering Inspection	£80,473	£80,958	£84,719	£96,544	£102,795
FRIC Contribution for IOW elements (period of cover 01/04/21 – 31/10/21)		£32,587 (£590 Non-FRIC Covers)			

CONSULTATION

118. The proposals in this report have also been the subject of consultation with the business community and any comments or issues will be reported back verbally to the Authority.

RESOURCE IMPLICATIONS

119. The report covers the overall financial position for 2024/25 for revenue spending and seeks approval to the budget and council tax levels, it also provides an update on the capital programme and reserves.

IMPACT ASSESSMENTS

120. This report provides an overall summary. Any specific current or future initiatives referred to in this report would be covered by separate appropriate impact assessments.

LEGAL IMPLICATIONS

121. The proposals in this report meet the Authority's legal requirement to set a balanced budget and council tax for the next financial year prior to 1 March.

APPENDICES ATTACHED

122. Appendix A1 – 2024/25 detailed Budget
123. Appendix A2 – 2023/24 Revised Budget
124. Appendix B – Medium Term Financial Plan
125. Appendix C1 – Proposed Capital Programme and Funding - summary
126. Appendix D – Reserves Strategy
127. Appendix E – Treasury Management Strategy 2023/24 – 2024/25
128. Appendix F – Capital and Investment Strategy 2023/24 - 2025/26
129. Appendix G – Section 25 Report
130. Appendix H – Efficiency Plan.

Exempt Appendix

131. Appendix C2 – Proposed Capital Programme and Funding - detailed

BACKGROUND PAPERS

132. HIWFRA Q1 Budget Update Report

133. HIWFRA Q2 Budget Update Report

134. HIWFRA Budget and Precept Requirement 2023/24 including Medium Term Financial Plan

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