Full Authority

Purpose: Approval

Date: **21st February 2023**

Title: **BUDGET and PRECEPT REQUIREMENT 2023/24 including MEDIUM TERM FINANCIAL PLAN**

Report of the Chief Financial Officer

SUMMARY

1. This report presents the 2023/24 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 2023/24 – 2026/27.

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 A**.

3. The provisional Local Government Finance Settlement for the Fire Authority is significantly more favourable than the December forecast. This settlement, in addition to the availability of some one-off funding will allow us to achieve two significant aims:

   (a) Stabilise our Medium Term financial position by building our risk reserves, providing improved mitigation to the most significant financial risks on our Corporate Risk Register and avoiding the need for service reductions to bridge budget gaps

   (b) Investing in our organisation to make sure that we can best support our on-call workforce, seeking to reverse the downward trend in availability and ensuring that response times in rural areas are maintained.

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 in order to achieve the high level aims in paragraph 3 and further detailed throughout this report, council tax is increased by the maximum level of £5 (6.63%) for 2023/24.

5. The report also contains information about in year spend against budget for 2022/23. The forecast year end position is an underspend of £0.186m.

6. This report also contains an update to the Medium Term Financial Plan at **Appendix B**, showing the positive impact of the finance settlement on the early years of the plan and the challenges still facing the service in later years.

7. The capital programme for 2022/23 onwards and the funding of this are set out in this report, with details at **Appendix C**, and are recommended for approval.

8. 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.

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

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

11. **Appendix G** contains the section 25 report of the Chief Financial Officer, covering the adequacy of the Authority's reserves position.

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

BACKGROUND

13. 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. A revised grey book pay offer was made shortly before the publication of this report. The impact of this has been incorporated into the report.

2022/23 BUDGET MONITORING – QUARTER 3

14. The current forecast position for 2022/23 is an underspend of £0.186m which is a movement of £0.404m reported to the authority in December 2022 (Q2 underspend of £0.590m). This is shown in Table 1, with forecasts

based on the financial position as a the end of Quarter 3 (31 December). The position has been updated for the impact of the revised firefighter pay offer.

Table 1	**2022/23 Budget**	**2022/23 Forecast**	**Over / (under) spend**
	£'000	£'000	£'000
Wholetime Firefighters	37,556	39,438	1,882
On-call Firefighters	8,277	7,742	(535)
Staff	14,961	14,656	(305)
Other employee costs	2,179	2,242	63
Premises	8,744	9,541	797
Transport	1,829	2,347	518
Supplies and services	7,928	7,525	(403)
Third party payments	2,792	2,949	157
Income	(3,277)	(4,071)	(794)
Net Service expenditure	*80,989*	*82,369*	*1,380*
Contingency	800	0	(800)
Capital Financing	1,529	730	(799)
Net Current Expenditure	83,318	83,099	(219)
Funding	(83,318)	(83,285)	33
Net position	**0**	**(186)**	**(186)**

15. Inflation is the driver of significant pressures on the 2022/23 budget, as discussed in detail in the October and December 2022 reports to the Authority. It should be noted that although the pay award for Staff has been agreed and implemented, the outcome of the Firefighter pay award is not yet clear. However, on 9th February an offer of 7% from July 2022 and 5% from July 2023 was made. This is offer is the basis for the figures in this report. Similarly, the forecasts for energy costs are dependent not only on the price paid but also energy consumption. A colder or milder final quarter of the financial year than assumed in the forecast will again impact the outturn position.

16. The split between inflationary pressures and other budgetary under and overspends is shown in Table 2, with the inflationary pressures of £2.024m being the starting point for the 2023/24 budget in Appendix B:

Table 2	**Forecast (under)/ overspend**
	£'000
Excess non-pay inflation	1,158
Pay inflation	3,192

Pay contingency (3.3%)	(1,526)
Inflation and general contingencies	(800)
Sub-total inflationary pressures	**2,024**
Expenditure budget underspends	(650)
Additional income	(794)
Benefit of lower capital financing costs	(799)
Funding	33
Net position	**(186)**

17. One of the significant drivers for the underspend is the anticipated lower than budgeted spend on on-call firefighters. This is mainly driven by difficulties with recruitment and retention within the on-call workforce which is impacting on on-call availability, as previously reported to the Authority.

18. There is a significant overspend forecast for wholetime firefighters, largely related to the impact of the forecast pay award, with additional pressures created by wholetime trainees during their training period. The higher pay award means that this forecast overspend has increased since the position reported to the Authority in December. An underspend is however forecast against Staff pay budgets, partly due to difficulties in recruiting to specialist ICT roles.

19. Delays in delivering schemes in the capital programme has meant that new borrowing has not been needed as soon as original predicted, meaning a temporary underspend against the capital financing budget equating to approximately £0.8m in 2022/23. The delayed spend on the capital programme is also contributing to the Authority generating greater investment returns on its cash balances than budgeted, as not only is it is benefiting from higher interest rates on higher balances than budgeted. Additional income from partners is also contributing to the net underspend against the overall budget.

20. The forecast assumes the successful delivery of efficiency savings of £0.8m built into the 2022/23 budget, which are on track to be delivered as a result of a strong focus on financial management within the Operations directorate.

21. The Service has been successful in challenging the valuations used for business rates for a number of the properties it owns, resulting in significant one-off financial benefits. As set out in the Reserves Strategy, the outturn position assumes that a one-off contribution of £1m is made from the revenue budget to the proposed Capital and Investment Risk Reserve as a result of this work.

2023/24 BUDGET AND PRECEPT

Overall 2023/24 Budget Position

22. **Appendix A** outlines the base budget for 2023/24 compared to the base budget for 2022/23 by cost type and by area of spend.

23. A comparison against the position from the Budget Update report shows that the position has moved from a forecast deficit of £3.283m prior to the announcement of the detailed funding settlement, to a modest deficit of £0.264m. It is recommended that the deficit is covered by a draw from the Budget Equalisation Reserve. The major factor in this improved position is the impact of council tax flexibility and the increase of Revenue Support Grant and Business Rates by Consumer Prices Index Inflation. This improvement is partly offset by an additional £1.278m for firefighter pay resulting from the revised pay offer and the on-call investment.

Changes since Budget Update report	**£'000**
Forecast budget gap in December 2022 Budget Update report	3,283
Changes since Budget Update report:	
Additional Revenue Support Grant	(693)
Additional Business Rates (net)	(1,727)
Services Grant	(638)
Additional Council Tax	(1,880)
Collection Funds	(334)
Other grant changes	(58)
Delivery pressure – Health and Safety	65
Inflation on Reserve Contributions	605
Non-pay inflation changes	188
Additional firefighter pay inflation	1,278
On-call investment	800
Temporary suspension of BER contribution	(625)
Proposed budget (surplus)/deficit	**264**
Draw from the BER	**(264)**
Deficit / (surplus)	**-**

24. The settlement provides us with an opportunity to maintain or increase spending in three key areas that were not included in the budget update report. Firstly, it allows us to inflate our reserve contributions, noted as a priority within the previous report. Inflation has impacted particularly on the assets funded from reserves. If these contributions are not inflated, it will

mean that the reserves are not available to fully fund the refresh of existing assets. Therefore, this is a prudent measure to improve our financial sustainability and also to ensure that these significant assets can be procured using a planned approach that delivers value for money.

25. In previous years, the Authority has contributed to a Budget Equalisation Reserve (formally Grant Equalisation Reserve). This reserve is held to mitigate financial risks. The announcement of an increased firefighter pay award at a late stage in the budget setting process was the realisation of a financial risk. In order to manage this risk, it is proposed that the annual contribution to the BER is temporarily suspended, along with a draw from the BER of £0.264m to balance the budget. This approach gives the Authority time to consider the medium term consequences of the higher pay award. While the inability to contribute further to the BER does weaken the Authority's financial position, the confirmation of the firefighter pay award reduces one of the significant financial risks for next year.

26. In addition, the settlement allows us to make a strategic investment in our on-call workforce. The challenge of maintaining availability in our on-call workforce has been noted repeatedly in Authority performance reports. The monitoring position reflects an underspend on-call firefighters, reflecting the challenges of recruitment and retention. This strategic investment will allow us to improve the support that we as a service offer to our on-call workforce. We work with our on-call workforce to understand what support is needed for their specific station or group of stations and then use this investment to deliver improvements at a local level.

<u>Council Tax</u>

27. The Budget Update report assumed council tax base growth of 1%. Final figures from the district councils show marginally lower council tax base growth of 0.86%, representing a small reduction in expected base growth.

28. In the December Budget Update report there was an assumption that the council tax increase for Fire Authorities would be limited to a maximum of 3% (£2.26) for a band D property. The Local Government Financial Settlement provided additional flexibility for Fire Authorities to increase Council Tax by £5 (6.63% for HIWFRA) without the need for a referendum. This flexibility has been granted for a single year only, with the expectation that the referendum limit for Fire Authorities will return to 3% from financial year 2024/25 onwards.

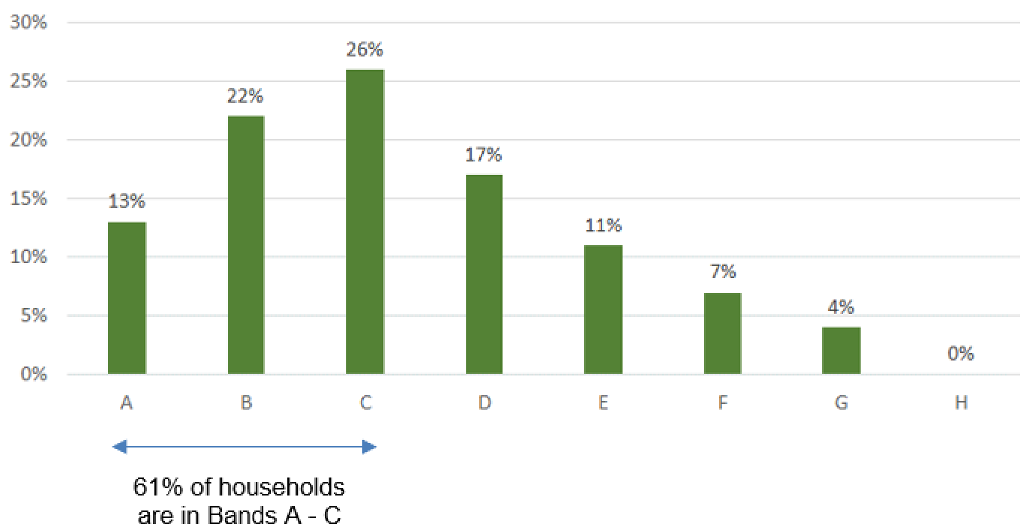
29. The table below sets out the impact of a £2.26 / 3.00% and a £5.00 / 6.63% council tax increase for each band:

	£2.26 / 3.00%	£5.00 / 6.63%
	£ per annum	£ per annum

Band A	1.51	3.33
Band B	1.76	3.89
Band C	2.01	4.44
Band D	2.26	5.00
Band E	2.77	6.11
Band F	3.27	7.22
Band G	3.77	8.33
Band H	4.53	10.00

30. With the current cost of living pressures, it is more important than ever to consider the impact that a Council Tax rise will have on the residents of Hampshire and the Isle of Wight. The graph below illustrates that 61% of properties are in bands A – C, meaning that the majority of homes in Hampshire and the Isle of Wight will see an increase of less than £5 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.

Percentage of Households by Council Tax Band



31. The additional flexibility to increase council tax brings in a potential additional £1.880m in council tax income during 2023/24 compared to the position set out in the budget update report.

32. The benefits of increasing council tax by the maximum allowable amount are set out throughout this report and become particularly clear in the MTFP section, which looks forward to future years. For 2023/24, the benefits set out in paragraphs 24 – 26 are contingent on an increase in Council Tax by

the maximum level permitted. The risks of not taking the maximum increase are also articulated as part of the MTFP. All figures in this report assume that a £5 increase is applied as recommended by the Chief Financial Officer.

33. The figures below show the council tax rates for the year beginning 1st April 2023 for the properties in each band, based on a £5 increase:

Band A:	£53.62	Band E:	£98.30
Band B:	£62.55	Band F:	£116.17
Band C:	£71.49	Band G:	£134.05
Band D:	£80.43	Band H:	£160.86

34. 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 2023/24.

Basingstoke and Deane Borough Council	£5,552,670
East Hampshire District Council	£4,229,112
Eastleigh Borough Council	£3,901,678
Fareham Borough Council	£3,550,132
Gosport Borough Council	£2,176,114
Hart District Council	£3,403,256
Havant Borough Council	£3,369,880
Isle of Wight	£4,350,217
New Forest District Council	£5,812,813
Portsmouth City Council	£4,623,165
Rushmoor Borough Council	£2,650,901
Southampton City Council	£5,393,395
Test Valley Borough Council	£4,179,786
Winchester City Council	£4,232,779
Total	**£57,425,898**

35. During 2022/23 the Council Tax Collection Fund had a surplus of £465,000 with neither deficit nor surplus on the Business Rates Collection Fund. For 2023/24 there is a modest surplus of £0.334m across both funds.

Business Rates

36. 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.

37. There has been a small reduction in the top-up grant, meaning that the grant will be £8.951m. This grant reduction is offset by an increase in locally retained business rates, which rise to £7.642m. This means that the total for top-up grant and locally retained business rates has increased by £0.866m since 2022/23.

38. 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 £4.308m will be received in 2023/24. The overall change for all business rates related funding is an increase of £2.042m.

39. As noted in paragraph 35 it is anticipated that there will be a modest surplus on the Business Rates collection fund.

Government Grant

40. The previous 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 (10.1%). This means that RSG will be £0.864m higher than in 2022/23, an improvement to the position reported in the budget update report.

41. During 2022/23 a new Services Grant was introduced. This grant was initially described as a one-off grant, but the provisional settlement announced that the grant will continue for 2023/24, albeit at a lower level of £0.637m. This is a further improvement to the position reported in the budget update report.

42. The Authority also receives a number of grants from the Home Office. During 2022/23 it was announced that the Firelink grant, provided to cover the costs of Airwave radios would be phased out. There was an in-year reduction of £33,000 with a further reduction of £59,000 in 2023/24. The grant will be fully phased out by 2026/27. Notifications of other grants received from the Home Office have yet to be received. With the exception

of the Firelink grant is has been assumed that there will be no change to these grants but until this is confirmed a risk of reductions remains.

Pressures

43. As part of the December Budget Update report a number of delivery pressures were identified. These were split into different categories. Category a (base budget increases that are essential to ensure continued high performance during the next year) and category b (one-off investments to be funded from the Transformation Reserve) were approved subject to affordability.

44. Assuming that the recommended Council Tax level is approved, these delivery pressures are now affordable so have been incorporated within the proposed budget for 2023/24. The delivery pressures totalled £0.406m. A further review of the Health and Safety function has resulted in a proposed additional funding increase of £0.065m, taking the total delivery pressures to £0.471m.

45. In addition, the Budget Update report flagged pressures on reserves (category c in the December report). The items funded from the Capital Payments, IT and Equipment reserves have been particularly impacted by inflationary increases. Since the introduction of these annual reserve contributions, the rate of inflation has been low. However, this changed considerably during the last financial year. If the reserve contributions are not increased by inflation, then there will be insufficient balances in the reserves to refresh current assets. Therefore, it is proposed that reserve contributions are inflated by CPI (subject to affordability) in this and future budgets. This creates an additional inflationary pressure of £0.605m which has been built into the base budget from 2023/24.

46. In addition, the settlement and some one-off funding will allow the Authority to improve the mitigation of the most significant financial risks it is facing. The Station Investment Programme, and the December 2022 update to the Capital Programme highlight the medium term need for the Authority to borrow. This borrowing has in impact on the revenue budget, and previous reports have identified the need to increase the budget for capital financing to £3.6m by 2025/26.

47. Currently the budget is £1.5m and it is proposed that, in line with the Medium Term Financial Plan, this is increased to £2.5m during 2023/24. However, due to the approach of using internal borrowing before borrowing externally, it is unlikely that the full £2.5m will be needed during the next financial year. The current levels of interest rates and reserve balances mean that it is likely that in the short term there will also be additional investment income. In line with the proposals in the reserve strategy (Appendix D to this report) it is proposed that this one-off underspends of £1.5m are transferred to the

newly created Capital and Investment Risk Reserve, £1m from capital financing and £0.5m from additional investment income.

48. This one-off contribution will play an important role in mitigating the risks to the capital programme from inflation or interest rate rises. It will also avoid the risk of needing to increase the capital financing budget when external borrowing is taken out.

49. In addition to these pressures, a one-off draw from the Transformation Reserve of £0.380m is requested to support the delivery of the Safety Plan Year 4 objectives.

Efficiency measures

50. The 2022/23 budget included an efficiency target of £0.800m, largely to be delivered from the Operations Directorate. This saving is on target to be delivered as a result of a strong focus on financial management within the Directorate. To deliver the two year target of £1.362m a further £0.562m of cashable efficiencies are planned to be delivered, largely as result of increased estates income and savings within the Corporate Services Directorate.

51. Further details on the Authority's approach to efficiency, including efficiencies delivered to date and future plans are included as Appendix H. This plan sets out how the Authority has delivered and will continue to deliver Public Value. To demonstrate the continued focus on efficiency, as part of the Safety Plan Year 4 objectives, Directorates have been tasked with delivering 3% efficiency savings. These will be reinvested within the service to drive improved outcomes against our priorities and to limit the need for future growth. Progress on this target will be reported to the Authority as part of the reporting on the Safety Plan deliverables.

Contingency

52. Reasonable assumptions for pay and non-pay inflation have been included within the 2023/24 budget. However, there are significant unknowns over the coming year, fire sector specific as well as the wider economic challenges affecting the whole country.

53. Given this uncertainty it is a prudent measure to include a contingency of £500,000 to allow the service to respond to unforeseen events during the coming financial year. It is worth noting that the full contingency balance was required in 2021/22 and in 2022/23 to deal with pay and non-pay inflationary pressures.

MEDIUM TERM FINANCIAL PLAN 2023/24 – 2026/27

54. The Local Government financial settlement for 2023/24 was a full single year settlement with some information about the following financial year. Although we still do not have a multi-year settlement, due to the changes in the economic climate it is sensible to fully revise the Medium Term Financial Plan (MTFP). Again, it is important to note that this plan is based on a series of prudent assumptions and has the potential to be significantly impacted by, for example, pay awards, inflation, and funding changes.

55. The plan has been prepared in line with the financial principles adopted by the Fire Authority at the December 2021 meeting, included as part of the Reserves Strategy (Appendix D). The MTFP takes the position outlined in the main Budget and Precept Report and looks forward to future years. It sets out assumptions about funding and expenditure, including the capital programme and reserves.

56. The MTFP will be updated when significant new information becomes available and at least annually.

57. Appendix B sets out a high level, indicative position for funding and expenditure for the period 2023/24 – 2026/27.

Overall position

58. An MTFP is included as **Appendix B.** The table presents incremental changes to the budget for a four year period starting with 2023/24. This illustrates that, even with the additional funding from the 2023/24 settlement and the recommended increase in Council Tax in line with the referendum limit, a modest deficit remains in 2023/24 which increases in the later years of the plan. These arise mainly due to the forecast impact of inflation, including the impact of the recently announced firefighter pay offer (outstripping the future Council Tax referendum limit) and the need to build up the financing for the Station Investment Programme borrowing.

59. Based on current assumptions it would be possible to manage the majority of the deficit in 2024/25 with a draw from the BER, leaving a balance of £0.610m to be addressed by other means. Monitoring the impact of inflation and funding announcements to ensure that the service has time to develop plans will be a key focus for the Executive Group during the early part of 2023/24.

60. The MTFP shows the vital importance of taking the opportunity to raise council tax by the maximum allowable amount during 2023/24. This increase brings in an additional £1.880m compared to the previous

referendum limit of 3%. Over the four year period of the plan this would mean a reduction in Authority resources of £7.5m if the increase were not to be approved.

61. If the council tax rise were capped at 3% it would mean that:

(a) The benefits set out in paragraphs 24 to 26 would not be able to be delivered. Inflation would erode the value of reserve contributions, meaning that assets could not be refreshed in line with current strategies.

(b) The Service would be facing a deficit of in excess of £2m during 2023/24. Closing this gap would exhaust the whole balance of the BER and would mean that other reserve contributions would have to be reduced. The service would urgently need to make plans for addressing considerable deficits from 2024/25, which would include options for service reductions.

(c) The investment in support for our on-call workforce would not be possible, although the issues with recruitment and retention would remain.

62. When considering the position set out in Appendix B, it is important to remember that the forward projections of funding are not based on information from Government about funding plans but rather on prudent assumptions. The risks inherent in this approach are covered in detail later in this report. Funding estimates and inflation forecasts are unlikely to be totally accurate, meaning that the position could be materially better or worse than expected.

<u>Funding</u>

63. Council tax is the most significant funding stream for the Fire Authority. The MTFP is built on the assumption that the Authority use the flexibility offered to HIWFRA to increase council tax by £5 (6.63%) for a band D property.

64. The referendum limit for Fire Authorities has been increased to 3% for future years and the assumption has been made that Council Tax will be raised by the referendum limit in future years. There is no suggestion that the referendum limit will be higher than 3% in future years. Given the uncertainty surrounding the medium term position, it would be an extremely high risk strategy to delay implementing a higher rise this year with the intention of implementing a higher rise in future years.

65. Council tax base has increased by 0.86% against an assumption of 1% growth in the MTFP. The threat of a recession means that it is prudent to assume that Council Tax base growth reduces to 0.5% for the remainder of the MTFP period.

66. The system of business rates is complex, with locally retained business rates, business rates top-up grant and section 31 grants to compensate for reliefs. Business rates income is impacted by the wider economy to a greater extent than council tax. These factors make estimating business rates income challenging. For the purposes of the MTFP an assumption that business rates will increase in line with forecast Consumer Prices Index inflation of 5.3% in 2024/25 has been made, with a 3% increase in future years. Any changes to business rate reliefs or wider economic turbulence are likely to have a significant impact on business rate income.

67. It is assumed that the council tax and business rate collection funds return to a position of neither surplus nor deficit from 2024/25 for the remainder of the plan. This is prudent given the mixture of surplus and deficit over recent years.

68. Government grant is assumed to continue as flat cash over the period of the MTFP with two exceptions:

    (a) Revenue Support Grant is assumed to increase in line with inflation, estimated at 5.3% for 2024/25 and two percent in subsequent years.

    (b) Services Grant was a new grant for 2023/24. The grant has continued at a significantly lower level for 2024/25. As there has been no confirmation that this grant will continue beyond 2024/25 it has been removed from the forecast for future years.

<u>Delivery pressures</u>

69. The Fire Authority receives no funding for capital priorities. At the December 2022 meeting the Authority approved a significant revision to the capital programme, including the funding of various schemes using prudential borrowing. The schemes are funded from prudential borrowing and the majority of the impact of servicing this borrowing is now fully reflected in the MTFP. This is a major source of pressure on the revenue budget during the period of the MTFP.

70. In line with our financial principles, the MTFP assumes that growth in ongoing spend is limited to essential requirements. However, provision for a modest increase of £250,000 per annum is included. This is to recognise

necessary investment that may be needed due to external requirements such as Fire Standards or to enable positive change with the Service. It is assumed that efficiencies to balance out this growth will be delivered, however dependant on the challenges the service faces in future years this may not always be possible.

71. Both pay and non-pay inflation continue to be challenging to forecast. The latest Firefighter pay award improves this uncertain position somewhat but forecasting pay and price inflation remains challenging. An assumption of a 5% pay award for firefighters and 4% for staff for 2023/24 has been included in the budget. In later years of the plan, it is assumed that pay inflation will reduce to 3%, in line with reduced inflation.

72. 2022/23 has been an exceptional year for non-pay inflation. For the purposes of the 2023/24 budget, it has been assumed that non-pay inflation will reduce to 5% with a further reduction to 3% from 2024/25 onwards.

Efficiency measures

73. Public Value is at the core of our service and so we will always seek to deliver a more efficient service to our communities. 2023/24 is the second year of an efficiency plan, which will see cashable efficiencies of £1.3m delivered. The remainder of this balance will be delivered from savings in the Corporate Services and Operations Directorates.

74. In addition to the delivery of cashable efficiencies, as part of the Safety Plan Year 4 objectives, Directors have been tasked with delivering 3% efficiency savings on their operational budgets. These savings will be reinvested in improving our performance and allowing us to manage future pressures.

75. More information is included in Appendix H of this report.

CAPITAL PROGRAMME

76. Capital expenditure can be financed by the Authority in a number of ways. The Authority has limited opportunities to fund expenditure from external sources (such as partner contributions) and receives no capital grants from government. Receipts from the sale of the Authority's assets may also be used to fund capital expenditure, but again opportunities are limited and assets can only be sold once. The Authority is therefore substantially dependent on using its own revenue resources to fund capital expenditure, either by doing so up front through planned contributions from the revenue budget/reserves, or by borrowing to fund expenditure and creating commitments in the form of capital financing costs against future years' budgets.

77. The Authority's capital expenditure is always likely to be focused on investing in its estate and vehicles. The Authority received papers on the estates capital programme and the carbon reduction pathway in December 2022, with the recommendations from these reports reflected in changes to the capital programme included in the budget update report to the same meeting alongside additional analysis of capital financing costs and the impact of interest rate uncertainty. The anticipated timing of expenditure for these aspects of the programme has been further refined since December. This is reflected in the proposed capital programme in Appendices C1 and C2. Appendix C1 is a summarised version of the capital programme, exempt appendix C2 is a more detailed programme containing commercially sensitive information.

78. The proposed programme also includes updated forecasts for the vehicle replacement programme. This reflects the anticipated timescales for expenditure as well as the impact of inflation on vehicle costs and the addition of a further year to the programme. The composition of the fleet is informed by the risk profile of the county based upon the Integrated Risk Management Plan (IRMP) covering 2020 to 2025 (the Service's Safety Plan). Any changes to the composition of the fleet as a result of the new Community Risk Management Plan will be reflected in future updates to the capital programme. The programme focuses on replacing the oldest vehicles in the fleet, providing more suitable assets, and reducing the costs of maintaining an ageing fleet.

79. 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.

80. Where the Authority has agreed to fund parts of the capital programme from prudential borrowing, the Chief Financial Officer will continue to seek the advice of the Authority's treasury management advisor (Arlingclose) on the most effective and efficient way to borrow to minimise the financial impact on the Authority.

RESERVES

81. The Authority holds specific reserves to provide for future planned spending 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. Without these contributions the Authority would not have a plan to replace existing assets or be able to do this at the right time to achieve an efficient and effective outcome.

82. A fully updated Reserves Strategy which outlines the purpose of the reserves that we hold is provided in **Appendix D.** Details of the expected balance on each of the specific reserves and the general balance over the period 2022/23 to 2026/27 are set out within the appendix.

83. Significant spend on the capital programme means that there is a forecast reduction in overall reserve balances by the end of the financial year. Balances are forecast to continue to reduce during the period of the MTFP. Forecast reserve balances at the end of this financial year remain relatively high.

84. The reserves strategy identifies that the most significant balances are fully committed to future spend. In addition, there are balances held to mitigate risk, a prudent measure given the current turbulent economic climate and the lack of certainty about funding in the medium term. The ability of the Authority to use reserves to manage the impact of the late firefighter pay offer is testament to the importance of using reserves to mitigate the impact of financial risks.

85. The reserves strategy also highlights the purposes for which reserves cannot be used, namely, to delay the need to make savings or to limit necessary increases in Council Tax. This approach would lead to a funding cliff edge in future years once reserve balances were exhausted. It would also mean that the assets which the reserve balances were committed to will not be able to be delivered, leading to service pressures in future years.

RISKS AND MITIGATIONS

86. Financial planning uncertainty has been a risk on our organisational risk register for several years. The single year settlement means that this risk is still current. The duration of settlements is outside of the control of the Authority, although the Service continues to make the case for longer term financial planning information to Government.

87. There have been no bottom line funding reductions as a result of the 2023/24 Local Government Financial Settlement. However, notifications on the level of Home Office grants have not yet been received. The assumption is that these grants will be flat cash, i.e., no inflationary increase, but in previous years there have been reductions. Therefore, the risk of funding reductions in 2023/24 cannot yet be completely ruled out. The lack of information about future years means that this risk remains live for the duration of the MTFP.

88. In addition, the impact of inflation and interest rate rises on the services medium term financial position was added to the organisational risk register during 2022. The impact on the in-year and future financial position of these current issues has been set out elsewhere in the report. However, it is likely

that inflation will continue at rate higher than the Monetary Policy Committee target of 2% for the majority of the coming financial year and a possibility for future years of the plan. Inflation has impacted significantly on the revenue budget and capital programme and is likely to continue to do so.

89. As set out in the Reserves Strategy (Appendix D) it is proposed that the previous Grant Equalisation Reserve (GER) is repurposed as a Budget Equalisation Reserve (BER) to mitigate not only the longstanding risk of funding reductions but also the current risk of inflationary pressures outstripping available revenue funding. The importance of this redesignation in managing the impact of pay inflation is set out elsewhere in this report.

90. Due to the ongoing high levels of financial risk, it is proposed that contributions to the Budget Equalisation Reserve (BER) continue. This would mean that the service was able to respond to a reduction in funding or an increase in costs outside of our control such as an unbudgeted pay award by taking a measured approach. It has been necessary to suspend the contribution in 2023/24 but it is assumed that this contribution is reinstated during 2024/25. The current MTFP assumes that the reserve is fully exhausted by 2024/25.

91. Finally, an element of one-off underspend has been used to create a Capital and Investment Risk Reserve that provides some mitigation to inflation linked cost increases to the capital programme and increases in interest rates. In addition, this reserve provides some protection to the service from changes in the values of investments.

92. While the economic outlook and therefore uncertainty about the future financial position of the service has worsened, these mitigations mean that the service continues to be in a resilient financial position in the medium term.

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY

93. The Treasury Management Strategy and Investment Strategy are attached at **Appendix E** and require approval on an annual basis. This document includes the Treasury Management Indicators.

94. The report recommends that the following be approved:

    - That the Treasury Management Strategy (TMS), including the Annual Investment Strategy for 2023/24, (and the remainder of 2022/23) is approved; and
    - That authority is delegated to the Chief Financial Officer to manage the Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

95. The strategy also takes into account the fact that the Authority will be taking out significant prudential borrowing as part of the funding of the Station

Investment Programme. This is also reflected in the Capital and Investment Strategy. It is expected that the Authority will need to take on new external borrowing either during 2023/24 or 2024/25. The Chief Financial Officer, advised by Arlingclose our Treasury Management advisors, will make decisions on the timing and level of borrowing in line the Treasury Management Strategy.

CAPITAL AND INVESTMENT STRATEGY

96. A new reporting requirement was introduced for the 2019/20 budget in respect of a Capital and Investment Strategy. This has been updated for 2023/24 and is included as **Appendix F** to this report. The Strategy gives a high-level overview of how capital expenditure, capital financing, and treasury management and investment activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. This document includes the Prudential Indicators required by the Prudential Code and the statement on Minimum Revenue Provision.

97. The Capital and Investment Strategy and the Treasury Management Strategy collectively take into account the requirements of the Prudential and Treasury Management Codes as well as DLUHC investment and MRP guidance.

SECTION 25 REPORT

98. 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**.**

99. The report sets out the importance of raising Council Tax by the referendum limit, as well as describing the key financial risks facing the Authority. The Authority is required to take this report into account in setting the budget and council tax for 2023/24.

FINANCIAL MANAGEMENT (FM) CODE

100. 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. 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

101. 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 twelve 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.

102. There has been an increase in our 2022/23 contribution of approximately 5%. This is due to various factors including inflationary pressures, liability rate increases and ongoing concerns relating to the Employee Liability risk profile. 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.

103. 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 in the expectation that they will be able to continue to refund contributions in future years The Contribution refund received by HIWFRS was £25,542.

104. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal and to date, we have not made any claims under these additional policies. Increases are due to inflationary increases, applied at 4.30%.

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

Contribution/Premium	2018/19	2019/20	2020/21	2021/22	2022/23
FRIC Contribution	£516,402 (£14,089 Non-FRIC Covers)	£541,826 (£12,558 Non-FRIC Covers)	£615,738 (£15,877.94 Non-FRIC Covers)	£647,250 (£19,183 Non-FRIC Covers)	£677,469 (£21,370 Non FRIC covers
Additional Covers and Engineering Inspection	£76,035	£80,473	£80,958	£84,719	£96,544

FRIC Contribution for IOW elements (period of cover 01/04/21 – 31/10/21)			£32,587 (£590 Non-FRIC Covers)		

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

106. This report sets out how the available funding will be directed to the priority areas within the Fire Authority and supports a continuing strong financial position.

CONSULTATION

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

RESOURCE IMPLICATIONS

108. The report covers the overall financial position for 2023/24 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

109. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation and do not change any policies.

LEGAL IMPLICATIONS

110. 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.

RECOMMENDATIONS

The Authority is recommended to approve:

111. The 2022/23 monitoring position as set out in paragraphs 14 – 21, including the £1m contribution to the Capital and Investment Risk Reserve in 2022/23.

112. The Revenue Budget, as set out in Appendix A.

113. The draw of £0.38m from the Transformation Reserve to support the delivery of the Year 4 Safety Plan priorities as set out in paragraph 49.

114. The contribution of £1.5m from one-off underspends to the Capital and Investment Risk Reserve as set out in paragraph 47.

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

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

117. The Reserves Strategy as set out in Appendix D.

118. The Treasury Management Strategy as set out in Appendix E, including the Annual Investment Strategy for 2023/24, (and the remainder of 2022/23).

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

120. The Capital and Investment Strategy as set out in Appendix F for 2023/24, (and the remainder of 2022/23).

121. 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.

122. The council tax requirement for the Authority for the year beginning 1st April 2023 of £57,425,898.

123. That the Authority's council tax be increased by £5 for a Band D property for the year beginning 1st April 2023 and for the properties in each band to be increased by 6.63%, as set out in paragraph 18 of this report:

Band A:	£53.62	Band E:	£98.30
Band B:	£62.55	Band F:	£116.17
Band C:	£71.49	Band G:	£134.05
Band D:	£80.43	Band H:	£160.86

124. That the precepts set out in paragraph 33 of this report, totalling £57,425,898 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.

APPENDICES ATTACHED

125. Appendix A – 2023/24 detailed Budget
126. Appendix B – Medium Term Financial Plan
127. Appendix C1 – Proposed Capital Programme and Funding - summary
128. Appendix D – Reserves Strategy
129. Appendix E – Treasury Management Strategy 2022/23 – 2023/24
130. Appendix F – Capital and Investment Strategy 2022/23 - 2024/25
131. Appendix G – Section 25 Report

132. Appendix H – Efficiency Plan

Exempt Appendix

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

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