

BUDGET BOOKLET

MEDIUM TERM FINANCIAL STRATEGY

INCORPORATING:

REVENUE BUDGET, CAPITAL PROGRAMME, RESERVES & BALANCES POLICY AND TREASURY MANAGEMENT STRATEGY

2023/24

**LANCASHIRE COMBINED FIRE AUTHORITY**

**MEDIUM TERM FINANCIAL STRATEGY 2023/24-2027/28**

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**SECTION 1**

**EXECUTIVE SUMMARY**

The booklet sets out the agreed revenue and capital budget set by the Combined Fire Authority at its meeting in February 2023.

The annual budget is the means by which the Authority expresses, in financial terms, its plans for service provision during the forthcoming year.

**Revenue Budget**

In considering its council tax requirements the Authority aims to balance the public’s requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to: -

* deliver services as outlined in the Risk Management Plan and other plans
* maintain future council tax increases at reasonable levels
* continue to deliver efficiencies in line with targets
* continue to invest in improvements in service delivery and facilities
* set a robust budget that takes account of known and anticipated pressures
* maintain an adequate level of reserves

The Local Government Finance Settlement confirmed funding at £26.0m an increase of 6%, and that the council tax referendum level of £5.00.

The lack of a multi-year settlement makes longer term planning more difficult as there can be no certainty around future funding forecasts. Offsetting this is the opportunity provided by the £5 council tax flexibility allowed this year. The Home Office have indicated that this flexibility is only for this year.

Raising council tax by the maximum permissible still only increases the overall council tax bill by £5 but generates £2.25m of funding for the Authority. It gives greater long term funding certainty which will form the basis of our future investment requirements, which are essential if we are to hit our ‘road to outstanding’ ambition and be the best equipped, best trained and best accommodated Service.

The final proposed revenue budget for 2023/24 is £68.2m, an increase of 8%. This results in a council tax requirement of £8227 per Band D property, an increase of £5.00 per annum (less than 10p per week).

Until such time as the outcome of next year’s Spending review is published it is impossible to provide any meaningful funding forecast, however for the purpose of medium-term financial planning we have assumed that funding is increased by 5.0% next year and 2% thereafter, and the council tax referendum principle returns to its standard 3%.

Based on this, and the other assumptions within the budget, the Authority is able to deliver a balanced budget in future years, utilising a combination of further savings and drawdown of reserves.

Looking at the medium-term plans it is clear that the key variables remain pay awards, pension costs and funding. Any significant increase in pay award over and above those built into the budget or in the cost of FF pensions will add in significant financial pressures. Similarly, should funding settlements be worse than budgeted then the level of deficit will increase accordingly.

The Authority remains in a good financial position.

**Capital Strategy/Budget**

In terms of the Authority’s Capital Programme our capital strategy is designed to ensure that the Authorities capital investment: -

* assists in delivering the corporate objectives
* provides the framework for capital funding and expenditure decisions, ensuring that capital investment is in line with priorities identified in asset management plans
* ensures statutory requirements are met, i.e. Health and Safety issues
* supports the Medium-Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets
* demonstrates value for money in ensuring the Authority’s assets are enhanced/preserved
* describes the sources of capital funding available for the medium term and how these might be used to achieve a prudent and sustainable capital programme.

In light of this, the capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, potential relocation of Headquarters, new IT requirements and new operational equipment. This gives rise to a capital program of £55m over the next five years.

Whilst the programme over the next five years requires £11m of borrowing, this is accounted for in the revenue budget, and hence the capital programme is considered affordable, prudent and sustainable.

**Reserves and Balances**

In terms of reserves and balances, the Authority has identified a General Reserves minimum target of £3.75m and a maximum target of £10.0m. After allowing for the anticipated usage the Authority estimates it will hold £4.0m of uncommitted reserves by 31 March 2023. The revenue budget identifies a need to utilise £0.15m of these in 23/24, leaving a balance of £3.85m, in excess of the minimum level, and hence the Treasurer considers these are adequate to meet our requirements.

Other reserves reduce significantly over the 5 year plan, reflecting their utilisation to support the capital programme.

**Treasury Management**

The Treasury Management strategy shows the Authority holding surplus cash, which is available for investment or to pay off existing debt. However, given the penalty associated with debt repayment, and the future need to borrow, it is not considered appropriate to pay off debt at this point in time.

**SECTION 2**

**REVENUE BUDGET 2023/24-2027/28**

In line with the Authority’s objective to deliver affordable, value for money services the Authority’s Budget Strategy remains one of: -

* Maintaining future council tax increases at reasonable levels, reducing if possible;
* Continuing to deliver efficiencies in line with targets;
* Continuing to invest in improvements in service delivery;
* Continuing to invest in improving facilities;
* Setting a robust budget;
* Maintaining an adequate level of reserves.

**Budget**

In order to determine the future budget requirement, the Authority has used the approved 2022/23 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below: -

*Table 2 Summary of Budget Changes*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Preceding Years Draft Net Budget Requirement | 63.0 | 68.5 | 71.8 | 74.5 | 76.6 |
| Add back previous years unidentified savings target | - | - | - | - | - |
| Add back previous years Vacancy Factors | 1.6 | 1.8 | 1.4 | 0.6 | 0.7 |
| Inflation | 7.5 | 2.0 | 1.7 | 1.7 | 1.7 |
| Other Pay Pressures | (0.7) | 0.7 | - | - | - |
| Committed Variations | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |
| Growth | 0.2 | - | - | - | - |
| Efficiency Savings | (1.9) | - | 0.1 | 0.1 | 0.1 |
| Gross Budget Requirement | 70.3 | 73.2 | 75.1 | 77.3 | 79.6 |
| Vacancy Factors | (1.8) | (1.4) | (0.6) | (0.7) | (0.7) |
| Net Budget Requirement | 68.5 | 71.8 | 74.5 | 76.6 | 78.9 |
| Unidentified Savings/drawdown of Reserves to balance 23/24 Budget | (0.3) |  |  |  |  |
|  | 68.2 | 71.8 | 74.5 | 76.6 | 78.9 |

**Inflation**

The following amounts have been added to the budget in respect of inflationary pressures, in line with current estimates: -

*Table 3 Details of Inflation*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| The impact of the unbudgeted pay awards in 2022/23:   * Grey book (operational staff) based on the latest pay offer of 7% (there remains a great deal of uncertainty around the eventual level of the pay award) * Green book (support staff) £1,925 per person | 2.5 | - | - | - | - |
| A 5% allowance has been built in for 2023/24 pay award and 2% thereafter | 2.4 | 1.5 | 1.2 | 1.2 | 1.2 |
| The budget allows for a general 10% inflationary increase next year in respect of non-pay, split across underfunded inflation in 22/23 and an assumed 5% inflation in 23/24. With on-going inflation of 2.5% thereafter.  In addition the on-going budget for energy and fuel has been increased to reflect current rates | 2.6 | 0.5 | 0.5 | 0.5 | 0.5 |
|  | 7.5 | 2.0 | 1.7 | 1.7 | 1.7 |

Each 1% pay award in excess of the above assumptions equates to an additional cost of £0.4m per year for grey book personnel, and £0.1m for green book personnel.

**Other Pay Pressures**

*Table4 Details of Other Pay Pressures*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Pay has been re-costed, taking account of changes to personnel, grades, public holidays, pension costs etc. | (0.3) | (0.1) | - | 0.1 | - |
| Removal of the Employers National Insurance increase of 1.25% in relation to the Health and Social Care levy | (0.4) | - | - | - | - |
| The 2020 valuation exercise on the Fire Fighters pension is on-going, with any changes arising from this anticipated to impact the 2024/25. It is not clear what impact this will have but we are likely to see an increase in employer contribution rates, the scale of which is, as yet, unknown. Therefore we have assumed a 3% increase in the 24/25 budget, pending further clarification. | - | 0.8 | - | - | - |
|  | (0.7) | 0.7 | - | 0.1 | - |

**Committed Variations**

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions.

*Table 5 Details of Committed Variations*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| The budget reflects the reduction in the drawdown against the apprentice levy, net of our 5% co-investment cost, due to the reduction in future FF recruit numbers. | - | 0.2 | 0.1 | 0.1 | - |
| The budget for pooled PPE has been adjusted in future years to reflect lifecycle replacement requirement, which see a significant increase in 25/26 and beyond reflecting the age profile of our existing stock | - | - | 0.2 | (0.1) | 0.2 |
| The budget for operational equipment has been adjusted in future years to reflect lifecycle replacement requirement | 0.1 | - | - | 0.2 | (0.2) |
| The following budgets have been increased to reflect a combination of cost pressures and increased demand:- | 0.3 | - | - | - | - |
| * Property |  |  |  |  |  |
| * ICT |  |  |  |  |  |
| * Digital |  |  |  |  |  |
| * Fleet |  |  |  |  |  |
| The budget for NWFC has been increased to reflect cost pressures within the function, which are passed on to the relevant Authorities, our share of these being 25%.  NWFC are commencing a project to replace the mobilizing software, and whilst some project costs are included in the above pressures, this does not include any allowance for the eventual cost of the replacement software, which is likely to be a very significant cost. Hence the cost in future years is likely to increase further, but as yet we have no details. | 0.1 | - | - | - | - |
| The increased capital financing charge in 27/28 reflects borrowing requirements associated with the capital programme (as referred to in the Capital budget report elsewhere on the agenda) | - | - | - | - | 0.3 |
| Other | - | 0.1 | - | 0.1 | - |
|  | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |

**Growth**

*Table 6 Details of Growth*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| There have been some increases in budget relating to specialist functions, such as the Drone Team and our Canine Teams | 0.2 | - | - | - | - |
|  | 0.2 | - | - | - | - |

**Efficiency Savings**

The Authority has a good track record of delivering efficiency savings, with the following savings identified below: -

*Table 7 Details of Efficiency Savings*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| The outcome of the ECR delivers total savings of £0.4m, with phasing as shown | (0.5) | 0.2 | (0.1) | - | - |
| The budget allows for the following recruits/apprentice FFs each year:-   * 23/24 – 60 apprentices * 24/25 – 24 apprentices * 25/26 – 24 apprentices * 26/27 – 24 apprentices * 27/28 – 24 apprentices   These forecasts take account of the timing of changes to establishment, predominantly arising from the outcome of the ECR, as well anticipated retirements/early levers. However, it should be noted that the timing and number of retirements/early leavers has varied significantly in recent years. | (0.2) | (0.3) | - | - | - |
| A number of temporary posts will be removed in future years | - | (0.3) | (0.1) | (0.1) | - |
| Interest receivable has increased in 23/24, reflecting the change in bank base rates, and the increased use of fixed term deposits.  This gradually reduces over the life of the strategy, reflecting the reduction in cash balances and falling interest rates in future years | (1.0) | 0.4 | 0.3 | 0.2 | 0.1 |
| Other | (0.2) | - | - | - | - |
|  | (1.9) | - | 0.1 | 0.1 | 0.1 |

**Gross Budget Requirement**

As set out above the overall gross budget requirement for each year is as follows: -

*Table 8 Gross Budget Requirement*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Draft Gross Budget Requirement | 70.3 | 73.2 | 75.1 | 77.3 | 79.6 |

**Vacancy Factors**

The budget needs to take account of forecast vacancy factors arising from retirement and recruitment profiles: -

*Table 9 Details of Vacancy Factors*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| The vacancy/over establishment factor for whole-time has also been updated and is based on the following: -   * Each year a number of personnel who have reached full pension benefits delay their retirement. Whilst this varies each year it averages out at approx. 6 personnel at any point in time. As such we have assumed that all bar 6 personnel who can retire do so immediately. * An updated early leavers profile, i.e., personnel who retire before reaching forecast retirement date or who resign or are dismissed, of:- * 18 in 23/24 * 12 in 24/25 * 9 in 25/26 * 6 in subsequent years * Recruit numbers are as set out earlier and we assume that all recruits successfully complete the course.   Overall, this results in a net under-establishment in 23/24, a broadly balanced position in 24/25 and a net over-establishment in 25/26 and beyond. It should be noted that any vacancies are partly offset by a potential increase in overtime costs | (0.3) | (0.2) | 0.3 | 0.1 | 0.1 |
| On Call vacancy factors have been increased from 21% to 25% reflecting the current level of staffing. However we have assumed that this reduces in future years, reflecting our desire to improve our recruitment and retention of on call personnel, reducing to 15% by 27/28. | (0.8) | (0.7) | (0.7) | (0.6) | (0.5) |
| Support staff vacancy factor has been set at 7.5% in 23/24, lower than its current level; on the assumption that we are successful in our current recruitment campaigns.  We have reduced this in subsequent years, down to 2.5% by 25/26. | (0.7) | (0.5) | (0.2) | (0.2) | (0.3) |
|  | (1.8) | (1.4) | (0.6) | (0.7) | (0.7) |

**Net Budget Requirement**

As set out above the overall net budget requirement for each year is as follows: -

*Table 10 Net Budget Requirement*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Draft Budget Requirement | 68.5 | 71.8 | 74.5 | 76.6 | 78.9 |
| Budget Increase | 8.7% | 4.8% | 3.9% | 2.8% | 2.9% |

**Proposed Budget Requirement**

In order to balance to available funding in 2023/24 a further £0.3m of budget reductions are required, as referred to later in the report. This gives a revised budget requirement in 202/24 of £68.2m.: -

*Table 11 Proposed Budget Requirement*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Draft Budget Requirement | 68.5 | 71.8 | 74.5 | 76.6 | 78.9 |
| Additional Saving/drawdown of reserve | (0.3) | - | - | - | - |
| Final Proposed Budget | 68.2 | 71.8 | 74.5 | 76.6 | 78.9 |
| Budget Increase | 8.2% | 5.3% | 3.9% | 2.8% | 2.9% |

**Analysis of Budget by Service Area**

*Table 23 Budget by Service Area*

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2023/24 Budget | | 2024/25 Budget | | 2025/26 Budget | | 2026/27 Budget | | 2027/28 Budget | |
|  | £m | | £m | | £m | | £m | | £m | |
| Service Delivery | 39.223 | | 41.090 | | 42.520 | | 43.404 | | 44.402 | |
| Prevention and Protection | 3.210 | | 3.383 | | 3.475 | | 3.551 | | 3.627 | |
| Control | 1.610 | | 1.671 | | 1.734 | | 1.799 | | 1.866 | |
| Special Projects | 0.036 | | 0.037 | | 0.037 | | 0.038 | | 0.038 | |
| Service Development | 1.962 | | 2.048 | | 2.111 | | 2.155 | | 2.199 | |
| Training | 4.571 | | 4.456 | | 4.673 | | 4.882 | | 5.066 | |
| Fleet Services | 3.282 | | 3.403 | | 3.461 | | 3.748 | | 3.581 | |
| ICT | 3.330 | | 3.415 | | 3.519 | | 3.608 | | 3.699 | |
| Digital Transformation | 0.609 | | 0.635 | | 0.662 | | 0.625 | | 0.638 | |
| Human Resources | 1.071 | | 1.119 | | 1.093 | | 1.116 | | 1.139 | |
| Occupational Health | 0.318 | | 0.330 | | 0.342 | | 0.350 | | 0.357 | |
| Corporate Communications | 0.386 | | 0.403 | | 0.420 | | 0.429 | | 0.438 | |
| Health & Safety | 0.288 | | 0.299 | | 0.311 | | 0.318 | | 0.324 | |
| Executive Board | 1.124 | | 1.177 | | 1.211 | | 1.236 | | 1.261 | |
| Central Admin Hub | 0.955 | | 0.999 | | 1.045 | | 1.067 | | 1.088 | |
| Finance | 0.221 | | 0.231 | | 0.242 | | 0.247 | | 0.252 | |
| Procurement | 0.667 | | 0.676 | | 0.907 | | 0.856 | | 1.080 | |
| Property | 4.012 | | 4.120 | | 4.232 | | 4.338 | | 4.448 | |
| Pensions Expenditure | 1.399 | | 1.475 | | 1.480 | | 1.547 | | 1.619 | |
| Other Non-DFM Expenditure | 0.219 | | 0.791 | | 1.073 | | 1.331 | | 1.754 | |
| **Gross Budget Requirement** | **68.493** | | **71.757** | | **74.548** | | **76.642** | | **78.876** | |
| Unidentified Savings/Use of Reserves | (0.310) | |  | |  | |  | |  | |
| **Net Budget Requirement** | **68.183** | | **71.757** | | **74.548** | | **76.642** | | **78.876** | |
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**Analysis of Budget by Type of Expenditure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 Budget | 2024/25 Budget | 2025/26 Budget | 2026/27 Budget | 2027/28 Budget |
|  | £m | £m | £m | £m | £m |
| Employee |  |  |  |  |  |
| Uniformed | 43.871 | 45.877 | 47.228 | 48.158 | 49.234 |
| Support staff | 8.976 | 9.161 | 9.493 | 9.654 | 9.870 |
| Pensions | 1.392 | 1.468 | 1.473 | 1.540 | 1.612 |
| Other Employee Related Exp | 0.064 | 0.065 | 0.067 | 0.069 | 0.070 |
|  | 54.303 | 56.571 | 58.261 | 59.421 | 60.786 |
| Premises |  |  |  |  |  |
| R&M | 1.235 | 1.265 | 1.297 | 1.329 | 1.362 |
| Utilities | 1.821 | 1.866 | 1.913 | 1.960 | 2.009 |
| Cleaning | 0.070 | 0.071 | 0.073 | 0.074 | 0.076 |
| PFI | 0.743 | 0.761 | 0.780 | 0.800 | 0.820 |
| Other | 0.062 | 0.064 | 0.065 | 0.067 | 0.068 |
| Rent/Rates | 1.415 | 1.485 | 1.558 | 1.635 | 1.717 |
|  | 5.344 | 5.512 | 5.686 | 5.866 | 6.052 |
| Transport |  |  |  |  |  |
| Repairs | 0.950 | 0.974 | 0.998 | 1.023 | 1.048 |
| Running Costs | 0.590 | 0.605 | 0.620 | 0.635 | 0.651 |
| Travel costs | 0.486 | 0.498 | 0.511 | 0.523 | 0.536 |
| insurance | 0.244 | 0.250 | 0.256 | 0.263 | 0.269 |
| Other | 0.006 | 0.006 | 0.006 | 0.006 | 0.006 |
|  | 2.276 | 2.333 | 2.390 | 2.450 | 2.511 |
| Supplies & Services |  |  |  |  |  |
| Hydrants | 0.082 | 0.084 | 0.086 | 0.088 | 0.090 |
| Operational equipment | 0.785 | 0.825 | 0.805 | 1.030 | 0.799 |
| Clothing & Uniform | 0.488 | 0.483 | 0.700 | 0.645 | 0.865 |
| Printing, stationery, postage | 0.519 | 0.531 | 0.544 | 0.558 | 0.571 |
| Comms-Network Costs | 1.178 | 1.208 | 1.238 | 1.269 | 1.300 |
| Telephony | 0.221 | 0.227 | 0.233 | 0.238 | 0.244 |
| Computers | 1.684 | 1.726 | 1.769 | 1.814 | 1.859 |
| Subsistence | 0.105 | 0.108 | 0.110 | 0.113 | 0.115 |
| Fire Safety Expenses | 0.332 | 0.341 | 0.349 | 0.358 | 0.367 |
| Training Expenses | 0.505 | 0.517 | 0.530 | 0.543 | 0.557 |
| insurance | 0.280 | 0.285 | 0.291 | 0.297 | 0.303 |
| Members Expenses | 0.193 | 0.197 | 0.202 | 0.207 | 0.212 |
| Misc Equipment | 0.099 | 0.101 | 0.104 | 0.106 | 0.109 |
| Other | 1.401 | 1.590 | 1.777 | 2.055 | 2.172 |
| Catering | 0.094 | 0.097 | 0.099 | 0.102 | 0.104 |
| PTV Residential | 0.108 | 0.110 | 0.113 | 0.116 | 0.119 |
|  | 8.074 | 8.431 | 8.950 | 9.537 | 9.787 |
| Other |  |  |  |  |  |
| Contracted Services | 1.274 | 1.357 | 1.380 | 1.311 | 1.344 |
| Other | 0.004 | 0.004 | 0.005 | 0.005 | 0.005 |
|  | 1.278 | 1.362 | 1.384 | 1.316 | 1.348 |
| Capital Financing Costs | 4.100 | 4.100 | 4.100 | 4.100 | 4.400 |
| Income | (6.882) | (6.552) | (6.223) | (6.046) | (6.007) |
| **Gross Budget Requirement** | **68.493** | **71.757** | **74.548** | **76.642** | **78.876** |
| Unidentified Savings/Use of Reserves | (0.310) | 0.000 | 0.000 | 0.000 | 0.000 |
| **Net Budget Requirement** | **68.183** | **71.757** | **74.548** | **76.642** | **78.876** |

**Revenue Funding 2023/24-2027/28**

**Grant Funding**

The Government’s Budget will set the overall total for public sector spending which will then be allocated out to departments as part of the Spending Review, and these are then allocated out to individual Authorities as part of the Local Government Finance Settlement, the final version being announced on 6 February.

Due to economic uncertainty the anticipated multi-year settlement has been postponed again, hence the draft settlement only covers 23/24.

Similarly, the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a revised Business Rates Retention Scheme, have both been put on hold for at least a further 12 months.

The 2023/24 Local Government Finance Settlement showed an increase in the Government’s Settlement Funding Assessment of 6.05%. The Settlement Funding Assessment comprises:-

*Table 11 Details of Settlement Funding Assessment 2023/24*

|  |  |
| --- | --- |
| Revenue Support Grant (from the Government) | £9.7m |
| Business Rates (from local billing authorities) | £11.6m |
| Business Rates Top-Up (from the Government) | £4.7m |
|  | £26.0m |

Looking beyond 23/24, the policy statement that accompanied the finance settlement stated “The core settlement will continue in a similar manner for 2024-25. The major grants will continue as set out for 2023-24: Revenue Support Grant will continue and be uplifted in line with Baseline Funding Levels”. We have therefore assumed that the settlement funding assessment will grow in line with inflation in 24/25 (assumed to be 5.0%) and thereafter by 2.0% (the Governments inflation target). The table below sets out our assumed level of funding (Settlement Funding Assessment) over the next 5 years: -

*Table 12 Forecast Settlement Funding Assessment 2023/24-2027/28*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Estimated Settlement Funding Assessment | 26.0 | 27.3 | 27.8 | 28.4 | 29.0 |
| Growth | 6.0% | 5.0% | 2.0% | 2.0% | 2.0% |

**Service Grant**

The Service Grant has been reduced to 0.6m, reflecting the removal of the elements relating to the increase in employer National Insurance Contributions identified last year, but which has now been reversed.

*Table 13 Forecast Service Grant*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Service Grant | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |

**Business Rates Adjustments**

We have received final details of Business Rates from billing authorities, confirming that our local retention of business rates at £4.3m, £0.4m than allowed for in the settlement above.

In addition to the above Business Rates the Authority receives Section 31 grant from the Government to compensate for specific reliefs it has agreed as part of policy decisions, i.e. small business relief etc. This year the anticipated grant has increased to £3.9m, reflecting the higher Government multiplier being applied this year. We have assumed these increases in line with inflation in future years.

Billing Authorities have conformed an overall surplus on the collection fund of £133k. Given the volatility of this we have assumed a breakeven position I future years.

*Table 14 Forecast Business Rates Adjustments*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Local Business Rate adjustment, as per Billing Authorities | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) |
| Section 31 Grant – Business Rates Reliefs | 3.9 | 4.0 | 4.1 | 4.2 | 4.3 |
| Business Rates Collection Fund Surplus | 0.1 | - | - | - | - |
| Total Business Rates Adjustment | 3.6 | 3.6 | 3.7 | 3.8 | 3.9 |

**Council Tax**

In setting the council tax, the Authority aims to balance the public’s requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

The Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services. Last year the Government allowed the 8 FRAs with the lowest precept levels to increase council tax by £5, with Lancashire being one of the Authorities that took advantage of this flexibility. Despite this our council tax of £77.27 is still below the national average of £82.65, and our increase of just 21.4% since 2010/11 compares with an average increase of 25.5% over the same period.

*Graph 1 Comparative Council Tax 2022/23*

Chart, bar chart

Description automatically generated

*Graph 2 Comparative Council Tax Cumulative Increase 2011-2023*

*Chart, bar chart

Description automatically generated*

The Local Government Settlement confirmed that the Government setting a 3% core referendum threshold, whilst allowing all Fire Authorities to increase council tax by £5 for one year only in 2023/24. It is worth highlighting that prior to last year this flexibility had not been granted since 2013/14. Furthermore, the Government has confirmed that at the present time its intention is for the 3% referendum threshold to be applied in 24/25.

An increase of £5 would result in a council tax of £82.27 per band D property. Based on our estimated tax base this will generate £2.3m of funding compared with £1.1m from a 3% increase, an additional £1.2m. Furthermore, it should be emphasised that this additional funding will set a new council tax baseline and hence becomes a recurring increase.

**Council Tax-Base**

The Authorities council tax-base has increased by 1.8% in 23/24. For the purpose of medium term forecasting we have assumed that the taxbase increases by 1.5% in subsequent years in line with historic averages.

*Table 15 Forecast Council Tax-Base*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Estimated Number of Band D equivalent properties | 457,949 | 464,819 | 471,791 | 478,868 | 486,051 |

Billing Authorities have now confirmed on overall collection fund surplus is £275k. We have assumed a £400k surplus on the collection fund each, in line with historic averages in future years:-

*Table 16 Forecast Council Tax Collection Fund*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | £m | £m | £m | £m | £m |
|  | £m | £m | £m | £m | £m |
| Council Tax Collection Surplus | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |

**Draft Council Tax Requirements**

*Table 17 Forecast Council Tax Requirements*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Draft Budget Requirement | 68.5 | 71.8 | 74.5 | 76.6 | 78.9 |
| Less Settlement Funding Assessment | (26.0) | (27.3) | (27.8) | (28.4) | (29.0) |
| Less Service Grant | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) |
| Less Business Rates Adjustment | (3.6) | (3.6) | (3.7) | (3.8) | (3.9) |
| Less Council Tax Collection Surplus | (0.3) | (0.4) | (0.4) | (0.4) | (0.4) |
| Equals Precept | 38.0 | 39.8 | 41.9 | 43.4 | 45.0 |
| Estimated Number of Band D equivalent properties | 457,949 | 464,819 | 471,791 | 478,868 | 486,051 |
| Equates to Council Tax Band D Property | £82.95 | £85.55 | £88.87 | £90.60 | £92.51 |
| Increase in Council Tax | 7.3% | 3.1% | 3.9% | 1.9% | 2.1% |

(For information, a 1% change to the council tax equates to £0.35m.)

As can be seen the increases in 23/24, 24/25 and 25/26 are all above the referendum thresholds. As such the Authority will need to reduce its budget requirement in these years in order to deliver a balanced budget within the referendum thresholds:-

*Table 18 Budget Reductions Required*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| Budget reduction required | 0.3 | 0.4 | 0.8 | 0.3 | - |

The Authority can achieve this by either utilising reserves, identifying additional savings or a combination of both.

**Reserves**

A reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement.

As such a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this incorporates issues such as higher than anticipated inflation, including pay awards, increased pension costs, particularly those arising from McCloud Sergeant, successful implementation of the ECR, and costs associated with potential industrial action. given the latest pay offer and the Finance Settlement policy Statements indication about future funding, the treasurer recommends reducing the minimum requirement to £3.75m. As at 31 March 2023 we anticipate holding £4.0m, providing scope to utilise approx. £0.25m of reserves. (Note, it may be possible to reduce this minimum level further if the current grey book 2 year pay offer is accepted.)

Therefore, the Treasurer considers this reserve is at an appropriate level.

**Robustness of the Revenue Budget 2023/24**

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer is required to make a statement about the robustness of the budget.

The professional opinion of the Treasurer is that the budget has been prepared on a robust basis for the following reasons:

* The budget is reflective of existing service plans;
* The budget takes account of the anticipated on-going revenue impact of current and future capital programmes;
* The allowances included for inflation and pay awards represent a best estimate of the likely cost of this, as set out below:-

*Table 20 Inflationary Allowance Included in Budget*

|  |  |
| --- | --- |
|  | 2023/24 |
| Uniformed Pay Award (7% backdated pay award allowed for 22/23) | 5.0% |
| Non-Uniformed Pay Award | 5.0% |
| Non-Pay Inflation  (In addition to the backdated adjustments to reflect inflation levels in 22/23) | 5.0% |

* As part of the budget setting process all estimates, including savings and income forecast, are assessed for reasonableness;
* The situation in respect of future funding, and in particular the outcome of next year’s Local Government Finance Settlement and any subsequent Spending Review will be kept under review and reported to the Authority in due course.
* The level of and appropriateness of reserves has been reviewed by the Treasurer, based on the potential risks faced by the Authority;
* The following significant financial risks have all been assessed and the Treasurer feels that these are adequately covered within the budget estimates presented or within the level of reserves currently held: -
  + Reductions in funding levels over and above those forecast;
  + Reduction in funding via Business Rates retention scheme;
  + Reduction in council tax funding due to changes in collection rates, localisation of council tax support, reducing tax base and/or council tax referendum limits;
  + Higher than anticipated inflation;
  + Larger increases in future pension costs/contributions;
  + Significant changes in retirement profiles;
  + Increase in costs arising from demand led pressures, i.e., increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;
  + Inadequacy of insurance arrangements

**Summary Council Tax 2022/23**

We are recommending a £5.00 increase in council tax for an average band D property:-

*Table 19 Detailed Council Tax Requirement 2023/24*

|  |  |
| --- | --- |
|  | £m |
| Gross Budget Requirement | 68.5 |
| Less Budget reduction required | (0.3) |
| Net Budget Requirement | 68.2 |
| Less Settlement Funding Assessment | (26.0) |
| Less Service Grant | (0.6) |
| Less Business Rates Adjustment | (3.6) |
| Less Council Tax Collection Surplus | (0.3) |
| Equals Precept | 37.7 |
| Estimated Number of Band D equivalent properties | 457,949 |
| Equates to Council Tax Band D Property | £82.27 |
| Increase in Council Tax | £5.00 |

The increase of £5.00 per annum equating to 10p per week for an average band D property.

It is also worth highlighting that Fire accounts for a very small proportion of the total council tax bill, with the 2022/23 average band D bill in Lancashire being £2,075, of which ‘Fire’ accounts for £77, less than 4%

*Graph 3 Council Tax in Lancashire 2022/23*

Chart, pie chart

Description automatically generated

**Summary and Conclusions**

The lack of a multi-year settlement makes longer term planning more difficult as there can be no certainty around future funding forecasts. Offsetting this is the opportunity provided by the £5 council tax flexibility allowed this year

Raising council tax by the maximum permissible still only increases the overall council tax bill by £5 but generates £2.3m of funding for the Authority. It is proposed to utilise a combination of drawdown from reserves and further savings to bridge funding gap in 23/24 and beyond, the extent of this requirement being dependant upon final pay award agreement and future funding settlements.

As proposed the council tax increase/budget gives greater long term funding certainty which will form the basis of our future investment requirements (as reflected in the Medium Term Financial Strategy and the Capital Programme), which are essential if we are to hit our ‘road to outstanding’ ambition and be the best equipped, best trained and best accommodated Service.

Whilst the council tax is expressed as a Band D equivalent figure, there are actually 8 property bandings, each of which has a council tax set in proportion to the band D figure (i.e. a band A property is 2/3rds that of a band D charge, and band H is twice that of a band D charge). The individual Council Tax bandings are set out below: -

*Table 20 Council Tax by Band*

|  |  |
| --- | --- |
| Band A | £54.85 |
| Band B | £63.99 |
| Band C | £73.13 |
| Band D | £82.27 |
| Band E | £100.55 |
| Band F | £118.83 |
| Band G | £137.12 |
| Band H | £164.54 |

The overall precept is then apportioned between the 14 District & Unitary Authorities pro-rata to their Council Tax base, and they are responsible for billing and collection of this, which they will pay over to the Fire Authority on a pre-determined instalment basis. The precept for each Authority is: -

*Table 21 Precept by Billing Authority*

|  |  |
| --- | --- |
| Blackburn With Darwen Borough Council | £2,985,812 |
| Blackpool Borough Council | £3,112,275 |
| Burnley Borough Council | £1,936,965 |
| Chorley Borough Council | £3,154,440 |
| Fylde Borough Council | £2,631,736 |
| Hyndburn Borough Council | £1,805,416 |
| Lancaster City Council | £3,502,975 |
| Pendle Borough Council | £2,038,355 |
| Preston City Council | £3,381,133 |
| Ribble Valley Borough Council | £2,055,105 |
| Rossendale Borough Council | £1,713,520 |
| South Ribble Borough Council | £3,056,600 |
| West Lancashire District Council | £3,134,139 |
| Wyre Borough Council | £3,167,034 |
| TOTAL | £37,675,505 |

**SECTION 3**

**CAPITAL STRATEGY/BUDGET 2023/24-2027/28**

**Capital Budget Strategy**

The Authority’s capital strategy is designed to ensure that the Authority’s capital investment:

* assists in delivering the corporate objectives
* provides the framework for capital funding and expenditure decisions, ensuring that capital investment is in line with priorities identified in asset management plans
* ensures statutory requirements are met, i.e. Health and Safety issues
* supports the Medium-Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets
* demonstrates value for money in ensuring the Authority’s assets are enhanced/preserved
* describes the sources of capital funding available for the medium term and how these might be used to achieve a prudent and sustainable capital programme.

**Managing capital expenditure**

The Capital Programme is prepared annually through the budget setting process and is reported to the Authority for approval each February. The programme sets out the capital projects taking place in the financial years 2023/24 to 2027/28 and will be updated in May to reflect the effects of the final level of slippage from the current financial year (2022/23).

The majority of projects originate from approved asset management plans, subject to assessments of ongoing requirements. Bids for new capital projects are evaluated and prioritised by Executive Board prior to seeking Authority approval.

A budget manager is responsible for the effective financial control and monitoring of their elements of the capital programme. Quarterly returns are submitted to the Director of Corporate Services on progress to date and estimated final costs. Any variations are dealt with in accordance with the Financial Regulations (Section 4.71). Where expenditure is required or anticipated which has not been included in the capital programme, a revision to the Capital Programme must be approved by Resources Committee before that spending can proceed.

**Proposed Capital Budget**

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

**Vehicles**

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives:-

*Table 3 Vehicle Requirements (Numbers and cost by type per year)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | No of Vehicles | | | | |
| **Type of Vehicle** | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Pumping Appliance | 13 | - | 3 | 6 | 11 |
| Climate Change Vehicle | 2 | - | - | - | - |
| Command Unit | 3 | - | - | - | - |
| Water Tower | 2 | - | - | - | - |
| Aerial appliance | 1 | - | - | - | - |
| All-Terrain Vehicle | 1 | - | - | - | - |
| Prime mover | 2 | - | - | - | - |
| Pod | 3 | - | - | - | 1 |
| Operational Support Vehicles | 37 | 20 | 12 | 16 | 18 |
|  | 64 | 20 | 15 | 22 | 30 |
|  | Budget (£m) | | | | |
| Pumping Appliance | 1.930 | - | 0.660 | 1.320 | 2.420 |
| Climate Change Vehicle | 0.500 | - | - | - | - |
| Command Unit | 0.715 | - | - | - | - |
| Water Tower | 1.027 | - | - | - | - |
| Aerial appliance | 0.534 | - | - | - | - |
| All-Terrain Vehicle | 0.018 | - | - | - | - |
| Prime mover | 0.260 | - | - | - | - |
| Pod | 0.083 | - | - | - | 0.030 |
| Operational Support Vehicles | 1.030 | 0.678 | 0.315 | 0.512 | 0.584 |
|  | 6.097 | 0.678 | 0.975 | 1.832 | 3.034 |

(Note several of the vehicles shown in 23/24 have already been ordered and are subject to phased payment, hence the cost shown is the element which is due in 23/24)

Numbers are based on order date. Several of the vehicles have long lead times, and stage payments, hence the actual timing of spend is subject to change, with any deliveries spanning across years inevitably resulting in the need to move spend between years, usually this will be in the form of slippage into subsequent years, but occasionally there will be a need to pull budget forward to reflect an earlier delivery/stage completion date. This will be reported to Resources Committee as delivery dates are agreed.

All vehicles are replacements for existing vehicles, although in the case of the Water Towers and Climate Change vehicles these are in lieu of standard pumping appliances.

It is worth noting that LFRS currently has several vehicles provided and maintained by Government under New Dimensions (5 Prime Movers and 1 Utility Terrain Vehicle), which under LFRS replacement schedules would be due for replacement during the period of the programme. However, our understanding is that Government will issue replacement vehicles if they are beyond economic repair, or if the national provision requirement changes. Should LFRS be required to purchase replacement vehicles, grant from Government may be available to fund them. Based on the current position, we have not included these vehicles (or any potential grant) in our replacement plan.

In addition, Fleet Services continue to review future requirements for the replacement of all vehicles in the portfolio, hence there may be some scope to modify requirements as these reviews are completed, and future replacement programmes will be adjusted accordingly. It is worth noting that as electric vehicles continue to develop we will consider the suitability of these for future replacements which, based on current price differentials, will increase the costs shown above.

**Operational Equipment**

With the exception of Body Armour all requirements are replacements for existing end of life equipment: Each of these groups of assets is subject to review prior to replacement, which may result in a change of requirements or the asset life.

*Table 4 Equipment Requirements (Cost per year)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| **Replacement of Existing Equipment** |  |  |  |  |  |
| Thermal Imaging Cameras | 0.325 | - | - | - | - |
| Breathing Apparatus (BA) and Telemetry equipment | - | - | 1.000 | 0.900 | 0.320 |
| Cutting and extrication equipment | 0.750 | 0.750 | - | - | - |
| Disposable Gas Tight suits |  | 0.042 |  |  |  |
| **New Equipment** |  |  |  |  |  |
| Body Armour | 0.250 |  |  |  |  |
|  | 1.325 | 0.792 | 1.000 | 0.900 | 0.320 |

The replacement Breathing Apparatus project is in its early stages. Until such time as actual requirements in terms of type, numbers, telemetry and communications are known we will not be in a position to produce a more accurate cost or timing projection, however we currently anticipate some phasing of the implementation, hence costs are spread over 3 years. This may change as we progress through the project.

Body armour requirements are subject to a trial and hence requirements may change following the outcome of this.

**ICT**

The spend is on replacement/upgraded systems. All replacements identified in the programme will be subject to review, with both the requirement for the potential upgrade/replacement and the cost of such being revisited prior to any expenditure being incurred.

*Table 5 ICT Requirements (Cost per year)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| **Replace Existing Systems** |  |  |  |  |  |
| Pooled PPE system | - | 0.100 | - | - | - |
| Stock Management system | - | 0.100 | - | - | - |
| Asset Management system | 0.100 | - | - | - | - |
| HFSC referral system | 0.100 | - | - | - | - |
| Fire Risk Management System | 0.100 | - | - | - | - |
| Rota management package (WT/On call) | - | 0.100 | - | - | - |
| Storage Area Network | - | 0.200 | 0.090 | - | - |
| GIS Risk Info | - | 0.100 | - | - | - |
| WAN | - | - | 0.450 | - | - |
| IRS/MIS | - | - | 0.050 | - | - |
| Firewall | 0.235 | - | - | - | - |
| Wi-Fi | 0.135 | - | - | - | - |
| **New Operational Communications** |  |  |  |  |  |
| Digitisation of Fire appliances - additional VMDS units | 0.254 | - | - | - | - |
| **Replace Operational Communications** |  |  |  |  |  |
| ESMCP (Airwave replacement – assumed funded by grant) | - | - | 1.000 | - | - |
| Incident Ground Radios | 0.230 | - | - | - | - |
| UPS | - | - | - | - | 0.060 |
| **Total ICT Programme** | 1.219 | 0.500 | 1.690 | - | 0.060 |

(Note HR & Payroll and the Finance system are both outsourced and form part of on-going SLAs, as such no allowance has been made for their future replacement, as it is assumed that any replacement costs are covered by the existing SLA. If at some point the Service moved away from the current SLAs, then we will incur costs in implementing new systems. We have not allowed for this.)

**Buildings**

The only new scheme included in the above programme is Estate Improvements provision, which is a sum to enable us to make improvements to the estates on an on-going basis.

*Table 6 Building Requirements (Cost per year)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|  | £m | £m | £m | £m | £m |
| **New Schemes** |  |  |  |  |  |
| Estate Improvements | 0.250 | 0.250 | 0.250 | 0.250 | 0.250 |
| **Existing Schemes** |  |  |  |  |  |
| Upgrade WYLFA Prop | 0.125 |  |  |  |  |
| W30 – Blackpool Welfare | 0.500 | - | - | - | - |
| Drill tower replacements (notional 4 per year) | 0.600 | 0.600 | 0.600 | 0.600 | 0.600 |
| C50 – Preston replacement station | - | 5.000 | 5.000 | - | - |
| STC Props | - | 2.500 | 2.500 | - | - |
| SHQ relocation | - | - | - | 7.500 | 7.500 |
|  | 1.475 | 8.350 | 8.350 | 8.350 | 8.350 |

In terms of all the building proposals it must be noted that we are still developing requirements/designs hence costings are indicative only.

The replacement of Preston Fire Station is subject to the outcome of a review of response provision within the Preston area and does not include any allowance for acquisition of a new site (should one be required), as it is assumed this will be offset by the sale of the existing site.

Th investment in Service Training Centre (STC) Props reflects the need to upgrade/replace some of the training props at STC which are nearing end of life.

The project to replace SHQ has been pushed back to 26/27, as a definitive decision on the project is required in order to further develop cost and timing. If the relocation does not go ahead, then we will need to review the existing provision and the need to undertake improvement works to ensure appropriate accommodation provision for the next 10 years.

The budget does not include any allowance for updating our property infrastructure to meet future Electric Vehicle charging requirements. This is estimated at £70k per site, but we need to develop a plan to roll out new electric vehicles in line with future regulations and modify sites to cope with this. It is unrealistic to implement this on a big bang approach, hence some phasing of this roll out will need to be incorporated into future capital programmes.

**Total Capital Requirements**

The following table details capital requirements over the five-year period:

*Table 7 Summary Capital Requirements*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | TOTAL |
|  | £m | £m | £m | £m | £m | £m |
| Vehicles | 6.097 | 0.678 | 0.975 | 1.832 | 3.034 | 12.616 |
| Operational Equipment | 1.325 | 0.792 | 1.000 | 0.900 | 0.320 | 4.337 |
| IT Equipment | 1.219 | 0.500 | 1.690 | - | 0.060 | 3.469 |
| Buildings | 1.475 | 8.350 | 8.350 | 8.350 | 8.350 | 34.875 |
|  | 10.116 | 10.320 | 12.015 | 11.082 | 11.764 | 55.297 |

**Capital Funding**

Capital expenditure can be funded from the following sources:

**Prudential Borrowing**

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, any future borrowing will incur a financing charge against the revenue budget for the period of the borrowing.

Given the financial position of the Authority we have not needed to borrow since 2007 and repaid a large proportion of our borrowing in October 2017.

**Capital Grant**

Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

There is an expectation that the ESMCP project costs will be offset by capital grant, however we have not had any confirmation of this.

To date no other capital grant funding has been made available, nor has any indication been given that capital grant will be available in future years, and hence no allowance has been included in the budget.

**Capital Receipts**

Capital receipts are generated from the sale of surplus property and vehicle assets, with any monies generated being utilised to fund additional capital expenditure either in‑year or carried forward to fund the programme in future years.

The Authority expects to hold £1.7m of capital receipts as at 31 March 2023. This will be fully utilised during the 5-year programme.

It is worth highlighting that the relocation of SHQ would provide an opportunity to sell part or all of the site, subject to any changes at Fulwood Fire Station, however any sale proceeds will not be realised within the timeframe of this programme.

**Capital Reserves**

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. The Authority expects to hold £18.6m of capital reserves as at 31 March 2023. Over the life of the programme we anticipate utilising all these reserves.

**Revenue Contribution to Capital Outlay (RCCO)**

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in‑year or carried forward to fund the programme in future years.

As referred to in the Revenue Budget report, elsewhere on this agenda, the revenue contribution to capital is currently set at £4.0m per year, giving total funding of £20.0m over the 5 years. This reduces the need to borrow and hence the capital financing charge associated with this.

**Drawdown of Earmarked Reserves**

£0.4m has been drawn down from the Innovation Reserve/Earmarked Reserve to fund the digitisation of fire appliances project and part of the WYLFA prop upgrade.

**Drawdown of General Reserves**

No allowance has been made for the drawdown of any of the general reserve.

**Total Capital Funding**

The following table details available capital funding over the five-year period:

*Table 8 Summary Capital Funding*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | TOTAL |
|  | £m | £m | £m | £m | £m | £m |
| Capital Grant | - | - | 1.000 | - | - | 1.000 |
| Capital Receipts | 1.683 | - | - | - | - | 1.683 |
| Capital Reserves | 4.069 | 6.320 | 7.015 | 1.197 | - | 18.601 |
| Earmarked Reserves | 0.364 | - | - | - | - | 0.364 |
| Revenue Contributions | 4.000 | 4.000 | 4.000 | 4.000 | 4.000 | 20.000 |
|  | 10.116 | 10.320 | 12.015 | 5.197 | 4.000 | 41.648 |

**Summary Programme**

Based on the draft capital programme as presented we have a shortfall of £13.6m:

*Table 9 Summary Capital Requirements and Funding Available*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | TOTAL |
|  | £m | £m | £m | £m | £m | £m |
| Capital Requirements | 10.116 | 10.320 | 12.015 | 11.082 | 11.764 | 55.297 |
| Capital Funding | 10.116 | 10.320 | 12.015 | 5.197 | 4.000 | 41.648 |
| **Surplus/(Shortfall)** | - | - | - | (5.885) | (7.764) | (13.649) |

This show there is a significant funding gap.

**Impact on the Revenue budget**

The capital programme shows the Authority utilising all of its capital reserves and receipts part way through 2026/27, meaning that the remainder of the capital programme will need to be met from either capital grant (if available), additional revenue contributions or from new borrowing.

The draft budget as set out shows a need to borrow £13.6m. As we have already set aside £2.0m of funds, this would entail £11.6m of new borrowing. This has a significant impact on the revenue budget, in terms of interest payments and setting aside a sum equivalent to the Minimum Revenue Provision (MRP), as shown in the table below. (Note both the interest rate and the life over which MRP is charged are subject to change.)

*Table 10 Cost of Borrowing*

|  |  |  |
| --- | --- | --- |
|  | 26/27 Impact | 27/28 Impact |
| Interest per annum | £88k | £350k |
| MRP (MRP is only charged in year after purchase) | - | £118k |
|  | £88k | £468k |

The cost of this borrowing is incorporated into the revenue budget in future years, but the full year effect of this borrowing will not be felt until 28/29, where the total cost would be £0.8m.

**Programme Assumptions**

It is also worth highlighting that the programme is based around a number of assumptions which could change: -

* All costings are subject to refinement during the design and procurement phases;
* Vehicle replacements are based on the Fleet Asset management Plan, however the scale of replacements in 23/24 is extremely high and hence some slippage is likely, furthermore whilst we have extended the life of appliances to 13 years a review of our scope to extend this further is underway
* New Dimensions vehicle replacements are expected to be carried out by Government; however this position may change;
* No allowance has been made for developments in operational equipment, which may justify future investments. At the present time this would need to be met from the Innovation reserve, of which we have £0.25m remaining, or from the revenue budget;
* ICT software replacements are subject to review prior to replacement, which has led in the past to significant slippage;
* Operational Communications replacements (ESMCP) are subject to a great deal of uncertainty in terms of both timing and costs as they are related to a national replacement project, in addition there may be grant funding available for this which is also unknown at this time;
* The costs and timing for replacement of Preston Fire Station, investment in STC Props and relocation of SHQ are estimates only at this stage;
* Capital grant may be made available in future years, in order to assist service transformation and greater collaboration, although this is felt to be unlikely

**Summary**

Without borrowing the current programme is not balanced, as such the Authority will need to borrow £11.6m over the life of the programme. The cost of this borrowing is incorporated into the revenue budget, however this only impacts the last year of the Medium Term Financial Strategy. Given this the Treasurer considers that the programme is prudent, sustainable and affordable in the medium term.

As noted above, should any of the funding assumptions or expenditure items within the programme change, this will have an impact on the overall affordability of the programme.

**Prudential Indicators**

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, in determining the level of borrowing, the Authority must prepare and take account of a number of Prudential Indicators aimed at demonstrating that the level and method of financing capital expenditure is affordable, prudent and sustainable. These Indicators are set out at Appendix 1, along with a brief commentary on each. The Prudential Indicators are based on the programme set out above. These indicators will be updated to reflect the final capital outturn position and reported to the Resources Committee at the June meeting.

The main emphasis of these Indicators is to enable the Authority to assess whether its proposed spending and its financing is affordable, prudent and sustainable and in this context, the Treasurer's assessment is that, based on the indicators, this is the case for the following reasons: -

* In terms of prudence, the level of capital expenditure, in absolute terms, is considered to be prudent and sustainable at an annual average of £10.5m over the 3-year period. The trend in the capital financing requirement and the level of external debt are both considered to be within prudent and sustainable levels. Whilst new borrowing is required this only occurs in the last two years of the programme.
* In terms of affordability, the negative ratio of financing costs is attributable to interest receivable exceeding interest payable and Minimum Revenue Provision payments in each of the three years. This reflects the effect of the previous decision to set aside monies to repay debt.

**Capital Expenditure and Financing**

The objective in consideration of the affordability of the Authority’s capital plans is to ensure that total capital expenditure remains within sustainable limits.

Capital expenditure 2021/22 to 2025/26

The actual expenditure for 2020/21 and forecast expenditure 2021/22, and estimates of capital expenditure to be incurred in future years, as per the proposed capital programme and allowing for slippage from the 2021/22 programme, are:

*Table 12 Capital expenditure by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| Capital Expenditure | 3.350 | 3.271 | 10.116 | 10.320 | 12.015 |

This indicator for 2022/23 will also be updated at the year-end to reflect actual capital expenditure incurred.

Capital financing 2021/22 to 2025/26

All capital expenditure must be financed, either from external resources (government grants and other contributions), the Authority’s own resources (revenue contributions, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 13 Capital financing by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| Grants and Contributions | - | - | - | - | 1.000 |
| Own Resources | 3.350 | 3.271 | 10.116 | 10.320 | 11.015 |
| Debt | - | - | - | - | - |
| **Total** | 3.350 | 3.271 | 10.116 | 10.320 | 12.015 |

**Borrowing Strategy**

Capital Financing Requirement (CFR) 2021/22 to 2025/26

*Table 14 Capital financing requirements by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| Capital Financing Requirement (Debt only) | - | - | - | - | - |

The capital financing requirement measures the authority’s underlying need to borrow for a capital purpose and reflects the effects of previous investment decisions as well as future planned expenditure. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending, but in the medium term the Treasurer anticipates that borrowing is undertaken for capital purposes only. These capital financing requirements then feed through into the anticipated level of external debt as reported in the Treasury Management Strategy elsewhere on the agenda but repeated here for completeness. As reported in the Treasury Management Strategy the Authority has made additional MRP provisions since 2010/11 in order to reduce capital financing requirements to nil.

Authorised limit and operational boundary for its total external debt

In respect of its external debt the Authority is required to set two limits over the three-year period: an authorised limit and an operational boundary. Both are based on the planned capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. It should be noted that these limits have then been uplifted to include potential borrowing associated with a future decision to go ahead with a replacement Headquarters.

The operational boundary is based on the most likely, but not worst case, scenario and represents the maximum level of external debt projected by these estimates. However, unexpected cashflow movements can occur during the year and some provision needs to be made in setting the authorised limit to deal with this.

The two indicators are as follows:

*Table 15 Borrowing Limits by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| **Authorised Limit for External Debt** |  |  |  |  |  |
| Borrowing | 6,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Other long-term liabilities | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| **Total** | **36,000** | **34,000** | **34,000** | **34,000** | **34,000** |
| **Operational Boundary for External Debt** |  |  |  |  |  |
| Borrowing | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Other long-term liabilities | 17,000 | 16,000 | 16,000 | 16,000 | 15,000 |
| **Total** | **20,000** | **19,000** | **19,000** | **19,000** | **18,000** |

Gross debt and the Capital Financing Requirement

The Prudential Code requires that debt does not exceed the Capital Financing Requirement except in the short term, in order to ensure that over the medium term that debt will only be for capital purposes. This is a key indicator of prudence.

As reported in the Treasury Management Strategy, the Authority has made additional MRP provisions since 2010/11 in order to reduce Capital Financing Requirements and hence the charges associated with this, and in order to set monies aside to pay off debt as it matures. It used these monies to pay off £3.2m of debt in October 2017. As a result of this the level of debt now held, £2.0m, exceeds the capital financing requirement, has been zero after MRP payments made during 2019/20: -

*Table 16 Debt and the Capital Financing Requirements by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| Debt | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 |
| Capital Financing Requirement | - | - | - | - | - |

**Revenue Budget Implications**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (MRP, or debt repayments) are charged to revenue, offset by interest receivable. The net annual charge is known as financing costs.

As shown within the Treasury Management Strategy report elsewhere on the agenda, the financing costs are as follows:

*Table 17 Impact on Revenue Budget by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
|  | £m | £m | £m | £m | £m |
| Interest payable | 0.090 | 0.090 | 0.090 | 0.090 | 0.090 |
| MRP | 0.010 | 0.010 | - | - | - |
| Interest receivable | (0.206) | (0.770) | (1.300) | (1.000) | (0.650) |
| **Net financing costs** | **(0.106)** | **(0.680)** | **(1.210)** | **(0.910)** | **(0.560)** |

Proportion of financing costs to net revenue stream

*Table 18 Proportion of financing costs to net revenue stream by year*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2021/22**  **Actual** | **2022/23**  **Forecast** | **2023/24**  **Estimate** | **2024/25**  **Estimate** | **2025/26**  **Estimate** |
| Net financing costs | (£0.106m) | (£0.680m) | (£1.210m) | (£0.910m) | (£0.560m) |
| Ratio of Financing Costs to Net Revenue Stream | (0.18%) | (1.08%) | (1.85%) | (1.28%) | (0.76%) |

The negative percentage of this indicator reflects the low level of underlying debt (following the repayment of the majority of our long-term loans during 2017/18) for the Authority in comparison to the authority’s level of investment income, i.e. interest receivable is significantly higher than interest payable.

**SECTION 4**

**RESERVES AND BALANCES POLICY 2023/24-2027/28**

The National Framework includes a section on reserves. The main components of which are: -

* General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
* Each fire and rescue authority should publish their reserves strategy on their website. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should provide information for at least two years ahead.
* Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority’s medium-term financial plan.
* Information should be set out in a way that is clear and understandable for members of the public, and should include:
* how the level of the general reserve has been set;
* justification for holding a general reserve larger than five percent of budget;
* whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is so committed; and
* a summary of what activities or items will be funded by each earmarked reserve, and how these support the fire and rescue authority’s strategy to deliver good quality services to the public.

The reserves policy complies with these requirements.

**General Reserves (General Fund)**

These are non-specific reserves which are kept to meet short/medium term unforeseeable expenditure and to enable significant changes in resources or expenditure to be effectively managed in the medium term.

The Authority needs to hold an adequate level of general reserves to provide: -

* A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
* A contingency to cushion the impact of unexpected events;
* A means of smoothing out large fluctuations in spending requirements and/or funding available.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

*Table 2 Summary of General Reserves (General Fund)*

|  |  |
| --- | --- |
| Name | General Reserves (General Fund) |
| Purpose | This covers uncertainties in future years budgets, such as:   * future grant settlements being lower than forecast; * higher levels of inflation than budgeted; * increasing cost of and changes to pensions; * service demands increasing, putting additional pressure on demand led budgets; * changes in legislation impacting on future service provision; * potential cost of industrial action. |
| Utilisation | This is utilised to offset any in-year overspend that would occur when comparing budget requirement to the level of funding generated. |
| Controls | The utilisation of this is agreed as part of the annual budget setting process. Any further utilisation requires the approval of the Resources Committee. |
| Review | The adequacy of this is reviewed annually, as part of the budget setting process. |

Review of Level of Reserves

In determining the appropriate level of general reserves required by the Authority, the Treasurer is required to form a professional judgement on this, taking account of the strategic, operational and financial risk facing the Authority. This is completed based on guidance issued by CIPFA and includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority’s financial management arrangements. In addition, the assessment should focus on both medium and long-term requirements, taking account of the Medium-Term Financial Strategy (MTFS) (as set out in the draft budget report elsewhere on this agenda).

For Lancashire Combined Fire Authority this covers issues such as: uncertainty surrounding future funding settlements and the potential impact of this on the revenue and capital budget; uncertainty surrounding future pay awards and inflation rates; the impact of changes to pension schemes and the remedy for the McCloud judgement; demand led pressures; risk of default associated with our investments, cost associated with maintaining operational cover in the event of Industrial Action etc.

There remains a great deal of uncertainty over long term funding, as a result, the anticipated multi-year settlement has been postponed again. The Local Government Finance Settlement only covered 2023/24, although the policy statement that accompanied it stated “The core settlement will continue in a similar manner for 2024-25. The major grants will continue as set out for 2023-24: Revenue Support Grant will continue and be uplifted in line with Baseline Funding Levels”. Whilst this provides a basis for estimating future funding increases, as set out in the revenue budget paper, it does not provide any certainty.

Furthermore, the outcome of the fair funding review of relative needs and resources and the Government intention to move to greater retention of Business Rates have also been postponed.

The position in terms of pay awards has still not been resolved, however the likelihood of this being significantly higher than the budgetary allowance and the likelihood of industrial action have both reduced as a result of the latest pay offer.

Whilst future pension costs remain uncertain, with Authorities still awaiting definitive guidance on how to implement changes following the McCloud judgement, and with the next revaluation of the FF pension scheme being due this year, the draft budget for 24/25 already includes a 3% allowance for this.

As such the Treasurer considers it prudent to reduce the minimum target reserves level to £3.75m, 5.5% of the 2023/24 net revenue budget, reflecting the level of uncertainty. (Note, it may be possible to reduce this minimum level further if the current grey book 2 year pay offer is accepted.) This is slightly higher than the 5% threshold identified by the Home Office above which the Authority is required to justify why it holds the level of reserves, reflecting the increasing uncertainty about future funding, pension costs and pay awards.

Should reserves fall below this minimum level the following financial year's budget will contain options for increasing reserves back up to this level. (Note, this may take several years to achieve.)

Whilst this exercise sets a minimum level of reserves it does not consider what, if any, maximum level of reserves is appropriate. In order to do this the level of reserves held should be compared with the opportunity cost of holding these, which in simple terms means that if you hold reserves that are too high you are foregoing the opportunity to lower council tax or invest in further service improvements.

Whilst the settlement provides greater flexibility to increase council tax in 23/24, this is a one-off relaxation of the referendum principles and current indications are that it will not be repeated in future years. Hence the scope to increase council tax in future years to restore depleted reserves is limited, without holding a local referendum. Therefore, any maximum reserve limit must take account of future anticipated financial pressures and must look at the long-term impact of these on the budget and hence the reserve requirement. Based on professional judgement, the Treasurer feels that this should be maintained at £10.0m.

Should this be exceeded the following financial year’s budget will contain options for applying the excess balance in the medium term, i.e. over 3-5 years.

Level of General Reserves

The overall level of the general fund balance, i.e., uncommitted reserves, anticipated at the 31 March 2023 is £4.0m, providing scope to utilise approx. £0.25m of reserves.

The draft budget as presented elsewhere on the agenda identifies a funding gap of £0.3m in 23/24, which could be me from a combination of a drawdown against this reserve and additional in-year savings. The Treasurer therefore considers this reserve is at an appropriate level.

Looking at the medium term the need to drawdown reserves will be affected by:-

* Council tax – The revenue budget assumes that council tax is increased by the maximum permissible each year, enabling the Service to deliver a balanced budget each year, after allowing for relatively low level of reserve drawdown/additional savings. If this is not the case, then we may need to utilise reserves in future years to balance the budget.
* Pension costs – the revenue budget assumes that the only pension costs that fall on the Service are employer contributions, and that all other costs are met by the Government via the Pension Holding Account. If this is not the case, then reserves would be required to meet these one-off costs which will be very significant. Furthermore it assumes that the employer contribution rate will increase by 3% following the next tri-annual revaluation exercise, but at the present time no details are available hence contribution rates could increase by a greater amount.
* Future funding - The revenue budget assumes future funding increases by 5% in 24/25 followed by 2% increases thereafter. If that is not the case and it is frozen as part of the next mufti-year settlement, this would reduce funding levels by £0.6m each year, a cumulative reduction of £1.9m over the medium-term financial strategy, and this would impact on the need to drawdown reserves
* Future inflation - The revenue budget assumes pay awards running at 5% in 23/24 before returning to the Government’s 2% target. If this is not the case each 1% more than this increases the recurring budget requirement by £0.4m, i.e. £2.9m over the next 5 years, which may impact on the usage of reserves.

At the present time, the MTFS identified funding gaps in the next 4 years. Assuming 50% of these are met by additional in-year savings with the balances being drawdown form this reserve, we will potentially see this reserve falling to £3.2m by March 27. This is below our current minimum requirement. However the forecasts are subject to a number of variable factors , as set out above, and these will continue to be reviewed to refine forecasts and ensure that reserves remain above our minimum threshold throughout the duration of the MTFS.

**Earmarked Reserves**

These are reserves created for specific purposes to meet known or anticipated future liabilities and as such are not available to meet other budget pressures. They can only be used for that specific purpose, for which they were established, and as such it is not appropriate to set any specific limits on their level, but as part of the annual accounts process their adequacy will be reviewed and reported on.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

*Table 3 Summary of Earmarked Reserve*

|  |  |
| --- | --- |
| Name | Earmarked |
| Purpose | This covers monies set aside for specific purposes. |
| Utilisation | Once set up these reserves can only be used for the specific purpose for which they were established. |
| Controls | The utilisation of these are discussed at quarterly DFM meetings between the budget holder, relevant Executive Board member, and the Director of Corporate Services. |
| Review | The level of earmarked reserves is reviewed each year as part of the revenue outturn/annual accounts process to ensure these are reasonable and remain relevant. |

The Director of Corporate Services has delegated authority to create new earmarked reserves valued at up to £100,000; any request which exceeds this must be reported to the Resources Committee for approval.

Specific earmarked reserves will be closed when there is no longer a requirement to hold them, at which point they will either hold a nil balance or when any outstanding balance will be transferred into the general reserve.

Level of Earmarked Reserves

The following table provides a breakdown of the £2.6m of earmarked reserves forecast to be held at 31st March 2023, and a forecast of the anticipated position as at 31 March 2028: -

*Table 4 Earmarked Reserve Balances*

|  |  |  |  |
| --- | --- | --- | --- |
|  | Forecast at 31 March 2023 | Forecast at 31 March 2028 |  |
|  | £m | £m |  |
| Specific Grant C/Fwd. | 0.2 | - | This reserve carries forward unspent specific grants   * Protection Uplift Grant * Building Risk Review Grant * Grenfell Infrastructure Grant * ESMCP Grant * Efficiency Grant   We anticipated utilising these in the new financial year.  There are no contractual or legal obligations against this reserve |
| DFM Reserve | 0.3 | 0.3 | Devolved Financial Management Reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits.  This reserve provides greater flexibility to individual budget holder to carry forward underspends within their own budget area to meet future costs and optimise the use of resources.  Examples of areas where these balances have been used previously would-be one-off replacements of equipment, or enhancement to station facilities etc.  The levels of individual DFM reserves are reviewed each year as part of the revenue outturn/annual accounts process, to ensure that they are reasonable and that budget holders are not building up excessive reserves. As a result of this exercise we have stripped out £0.1m and transferred this into the capital funding reserve (referred to later in the report)  At present there are no contractual or legal obligations against this reserve, as any such commitments would be included in the base revenue budget. |
| Insurance Aggregate Stop Loss (ASL) | 1.1 | 1.1 | The Authority has aggregate stop losses (ASLs) on both its combined liability insurance policy (£0.4m) and its motor policy (£0.3m). This means that in any one year the Authority’s maximum liability for insurance claims is capped at the ASL. As such the Authority can either meet these costs direct from its revenue budget or can set up an earmarked reserve to meet these. Within Lancashire we have chosen to meet the potential costs through a combination of the two. Hence the amount included in the revenue budget reflects charges in a typical year, with the reserve being set up to cover any excess over and above this. As such the reserve, combined with amounts within the revenue budget, provides sufficient cover to meet 2 years’ worth of the maximum possible claims, i.e. the ASL. (It is worth noting that the revenue budget allocation has also been reduced in recent years reflecting the claims history. Without holding this reserve to cushion any major claims that may arise this would not have been possible.)  None of this reserve is legally committed at the present time, although as soon as a claim arose this position would change. |
| Prince’s Trust | 0.4 | 0.4 | This reserve has been established to balance short term funding timing differences and to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found.  Without this reserve any significant loss of funding would have an immediate impact on our ability to deliver the PT programme, and hence improve the lives of younger people.  This reserve has been capped at £0.5m.  There are no legal or contractual commitments against this, however forecasts show this budget reducing reflecting the uncertainty over future funding |
| Apprentices | 0.1 | - | This reserve was created from previous in-year underspends relating to the appointment of apprentices, which was delayed awaiting national developments.  As such the reserve was set up to offset some of the pay/training costs that will be incurred in future years, with the balance being met direct from the revenue budget.  This clearly contributes to addressing apprenticeship targets, set by the Government, as well as addressing capacity issues within departments.  There are no contractual commitments against this. |
| Innovation Fund | 0.5 | 0.1 | The Authority created an Innovations Fund to meet costs arising from new initiatives/developments which improve service delivery or fire fighter safety, but which are not included in the capital programme.  Any requests to utilise the fund require the approval of the Executive Board.  The capital program shows £0.4m of this being utilised in 24/25 to fund the provision of a second Vehicle Mounted Data Systems (VMDS) unit in each fire appliances, thus enhancing the capabilities of crews whilst mobile  If the opportunity arises this will be topped up from future savings.  None of this reserve is contractually or legally committed at the present time. |
|  | 2.6 | 1.9 |  |

Based on this the Treasurer believes these are adequate to meet future requirements in the medium term.

**PFI Reserve**

This reserve was created specifically to smooth out the annual net cost to the Authority of the existing PFI schemes, and will be required to meet future contract payments.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

*Table 5 Summary of Earmarked Reserve*

|  |  |
| --- | --- |
| Name | Earmarked |
| Purpose | This covers monies set aside to smooth out costs associated with the Authorities PFI schemes, and is required to meet future contract payments. |
| Utilisation | This reserve can only be used for the specific purpose for which it was established, i.e. meet future PFI costs. |
| Controls | The utilisation of this is set out in the budget agreed at the start of the year, any variance in requirements from this are agreed by the Treasurer as part of the budget setting/revenue outturn/annual accounts processes. |
| Review | The level of the reserve is reviewed each year as part of the revenue outturn/annual accounts process to ensure these are reasonable and remain relevant. |

Level of PFI Reserve

At 31 March 2023, the Authority anticipates holding £4.9m of PFI reserve. The reduction of this reserve in subsequent years reflecting its drawdown to offset future charges, with the reserve reducing to £3.7m by March 2028.

Assuming RPI returns to 3% in future years the whole of this reserve is contractually committed over the next 20 years.

Based on this the Treasurer believes this is adequate to meet future requirements.

**Capital Reserves and Receipts**

Capital Reserves have been created from under spends on the revenue budget to provide additional funding to support the capital programme in future years; as such they cannot be used to offset any deficit on the revenue budget, without having a significant impact on the capital programme that the Authority can support.

Capital Receipts are generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme. Under revised regulations receipts generated between April 2016 and March 2020 can be used to meet qualifying revenue costs, i.e. set up and implementation costs of projects/schemes which are forecast to generate on-going savings. The on-going costs of such projects/schemes do not qualify. Whilst the Authority currently holds £1.7m of capital receipts only £0.2m of this arose in the relevant period. Given the small amount eligible we do not currently have any plans to use this in line with new regulations and hence for the purpose of planning all capital receipts will be used to meet future capital costs, not qualifying revenue expenditure.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

*Table 6 Summary of Capital Reserves and Receipts*

|  |  |
| --- | --- |
| Name | Capital reserves and receipts |
| Purpose | This covers monies set aside to fund the future capital programme. |
| Utilisation | Once set up these reserves can only be used to fund capital expenditure |
| Controls | The proposed utilisation of these is reported to the Authority as part of the capital programme setting and monitoring arrangements. |
| Review | These are reviewed on an annual basis as part of the year end outturn, reported to Resources Committee and as part of the capital budget setting report to the Authority. |

At 31 March 2023, the Authority anticipates holding £20.3m of capital reserves and receipts. Based on the capital programme presented elsewhere on this agenda we anticipate fully utilising these by 31 March 2027. Of the total reserve £5.0m is contractually committed.

Based on this the Treasurer believes these are adequate to meet future requirements in the short to medium term, but recognises that they will be exhausted March 2025.

**Summary Reserve Position**

The following table sets out the anticipated position in terms of reserves and balances, a more detailed year on year analysis by reserve is attached as appendix 1: -

*Table 7 Summary Use of Reserves March 22 to March 28*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Reserve | Earmarked Reserve | PFI Reserve | Capital Reserves & Receipts | Total Reserves & Balances |
|  | £m | £m | £m | £m | £m |
| Balance 31/3/22 | (6.0) | (4.7) | (5.1) | (19.4) | (35.1) |
| Change in year | 2.0 | 2.1 | 0.2 | (0.9) | 3.3 |
| Balance 31/3/23 | (4.0) | (2.6) | (4.9) | (20.3) | (31.8) |
| Change in year | 0.2 | 0.1 | 0.2 | 5.8 | 6.2 |
| Balance 31/3/24 | (3.9) | (2.0) | (4.7) | (14.5) | (25.1) |
| Change in year | 0.2 | 0.0 | 0.2 | 6.3 | 6.7 |
| Balance 31/3/25 | (3.7) | (1.9) | (4.5) | (8.2) | (18.3) |
| Change in year | 0.4 | 0.0 | 0.2 | 7.0 | 7.6 |
| Balance 31/3/26 | (3.3) | (1.9) | (4.3) | (1.2) | (10.7) |
| Change in year | 0.2 | 0.0 | 0.2 | 1.2 | 1.6 |
| Balance 31/3/27 | (3.1) | (1.9) | (4.0) | 0.0 | (9.1) |
| Change in year | (0.0) | 0.0 | 0.3 | 0.0 | 0.2 |
| Balance 31/3/28 | (3.2) | (1.9) | (3.7) | 0.0 | (8.8) |

*Graph 1 Reserve Balances March 22 to March 28*

Chart, bar chart

Description automatically generated

##### The level of reserves reduces by over £20m over the next 3 financial years, reflecting the scale of the capital programme. Our general reserve remains above our minimum requirement throughout the period, reflecting the increase in council tax included in the revenue budget report. The position will be subject to significant change as pension costs, funding, inflation, pay awards etc become clearer in future years. The annual refresh of this policy will identify the impact of any changes as they develop.

**Provisions**

In addition to the above reserves the Authority also has two provisions to meet future estimated liabilities: -

Insurance Provision

This covers potential liabilities associated with outstanding insurance claims. Any claims for which we have been notified and where we are at fault will result in a legal commitment, however as the extent of these cannot be accurately assessed at the present time this provision is created to meet any element of cost for which we are liable, i.e. which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits. This provision fully covers all estimated costs associated with outstanding claims.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

*Table 8 Summary of Insurance Provision*

|  |  |
| --- | --- |
| Name | Insurance Provision |
| Purpose | This covers monies set aside to meet future insurance claims. |
| Utilisation | Once set up the provision can only be utilised to meet insurance claims. |
| Controls | The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee. |
| Review | The level of the provision is reviewed annually based on existing and anticipated outstanding insurance claims to ensure these are reasonable and remain relevant. |

This provision stood at £0.6m at 31 March 2022. Given the uncertainty in terms of future insurance claims we have assumed that the provision will be maintained at this level throughout the 5-year period. There are no existing legal obligations associated with this provision, as the legal obligation only arises when settlement of outstanding claims is agreed.

Business Rates Collection Fund Appeals Provision

This covers the Authority’s share of outstanding appeals against business rates collection funds, which is calculated each year end by each billing authority within Lancashire based on their assumptions of outstanding appeal success rates, as part of their year-end accounting for the business rates collection fund.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

*Table 9 Summary of Business Rates Collection Fund Appeals Provision*

|  |  |
| --- | --- |
| Name | Business Rates Collection Fund Appeals Provision |
| Purpose | This covers monies set aside to meet the Authority’s share of the cost of successful business rates appeals. |
| Utilisation | Once set up the provision can only be utilised to meet costs associated with settlement of such appeals. |
| Controls | The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee. |
| Review | The level of the provision is reviewed annually based on each billing authority’s assumptions regarding success rates to ensure these are reasonable and remain relevant. |

At 31 March 2022 this provision stood at £0.9m to cover anticipated costs of outstanding business rates appeals. Whilst a significant element of this will be utilised in the current financial year, reflecting the settlement of outstanding appeals, it is impossible to accurately predict the extent of this usage or the need for any additional provision to meet appeals that arise in year, until such time as a full review is undertaken by billing authorities as part of the financial year end process. Therefore, for the purpose of this report we have assumed that the level of business rates appeals provision remains unchanged. Until the outcome of any appeal is known there is no legal obligation arising from the appeal.

The Treasurer feels that the levels of provisions are sufficient to meet future requirements in the medium term.

**SECTION 5**

**TREASURY MANAGEMENT STRATEGY 2023/24**

Treasury Management is defined as “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Local Government Act 2003 (the Act) and supporting Regulations requires the Authority to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable. The Code also requires the Authority to approve a treasury management strategy before the start of each financial year. The authority also adheres to investment guidance issued by the then Ministry of Housing, Communities and Local Government (MHCLG).

The definition of investments in the codes is wide raging and includes non-treasury investments for example loans to third parties and the holding of property to make a profit. Where these are held a separate strategy is required. However, it is not considered that the Combined Fire Authority hold any such assets and it does not propose to engage in any such investments in 2023/24.

# Treasury Management Strategy for 2023/24

This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code of Practice. Accordingly, the Lancashire Combined Fire Authority's Treasury Management Strategy will be approved by the full Authority, and there will also be a mid-year and a year-end outturn report presented to the Resources Committee. In addition, there will be monitoring and review reports to members in the event of any changes to Treasury Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Authority has adopted the following reporting arrangements in accordance with the requirements of the revised Code: -

*Table 2 Treasury Management reporting arrangements*

|  |  |  |
| --- | --- | --- |
| Area of Responsibility | Committee/ Officer | Frequency |
| Treasury Management Policy Statement | Resources  Committee/Authority | Annually |
| Treasury Management Strategy  / Annual Investment Strategy / MRP policy – scrutiny and approval | Resources Committee/  Authority | Annually before the start of the year |
| Treasury Management mid-year report, | Resources  Committee | Mid-year |
| Treasury Management Strategy  / Annual Investment Strategy / MRP policy – updates or revisions at other times | Resources  Committee | As required |
| Annual Treasury Management Outturn Report | Resources Committee/  Authority | Annually by 30 September after the end of the year |
| Treasury Management Monitoring Reports | Director of  Corporate Services | Quarterly |
| Treasury Management Practices | Director of  Corporate Services | Annually |

The Treasury Management Strategy, covers the following aspects of the Treasury Management function:-

* Prudential Indicators which will provide a controlling framework for the capital expenditure and treasury management activities of the Authority;
* Current Long-term debt and investments;
* Prospects for interest rates;
* The Borrowing Strategy;
* The Investment Strategy;
* Policy on borrowing in advance of need.

**Setting the Treasury Management Strategy for 2023/24**

In setting the treasury management strategy the following factors need to be considered as they may have a strong influence over the strategy adopted:

* economic position and forecasts,
* Interest rate forecasts
* the current structure of the investment and debt portfolio
* Future Capital Programme and underlying cash forecasts

**Economic background:**

Key factors to consider in assessing the impact on the Strategy are the expectation for economic growth, inflation and the possible impact on interest rates

The overall picture for next year is that growth will be weak with the Bank of Englands quarterly Monetary Policy Report (MPR) for November forecasting a prolonged but shallow recession in the UK. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the Bank of England forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024. The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%

CPI inflation is expected to have peaked in the last calendar quarter of 2022 and then fall from early in 2023 partly as a result of previous increases in energy prices drop out of the annual comparison. The Bank of England forecast that inflation will fall sharply and be below the 2% target, in two years’ time and to fall further below the target in three years’ time. With any forecast there is uncertainty and the Bank of England state that the risks are to the upside.

**Arlingclose Forecast**

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021.

The Authority’s treasury management adviser Arlingclose in its latest forecast estimate that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target. They expect that there will further interest rate rises over the forecast horizon despite looming recession. Bank Rate is forecasted to rise to 4.25% by June 2023. (subsequent to the forecast being produced the base rate was increased to 4% in February 2023).

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025.

Details of the latest forecast are shown in the table below:

*Table 3 Forecast interest rates*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Bank Rate % | 3 month money market rate% | 5 year gilt yield % | 10 year gilt yield % | 20 year gilt yield % | 50 year gilt yield % |
| Dec-22 | 3.50 | 3.00 | 3.43 | 3.47 | 3.86 | 3.46 |
| Mar-23 | 4.00 | 4.40 | 3.60 | 3.50 | 3.85 | 3.60 |
| Jun-23 | 4.25 | 4.40 | 3.80 | 3.60 | 3.85 | 3.60 |
| Sep-23 | 4.25 | 4.40 | 3.80 | 3.60 | 3.85 | 3.60 |
| Dec-23 | 4.25 | 4.35 | 3.80 | 3.60 | 3.85 | 3.60 |
| Mar-24 | 4.25 | 4.30 | 3.70 | 3.60 | 3.85 | 3.60 |
| Jun-24 | 4.00 | 4.25 | 3.60 | 3.50 | 3.85 | 3.60 |
| Sep-24 | 3.75 | 4.00 | 3.50 | 3.50 | 3.85 | 3.60 |
| Dec-24 | 3.50 | 3.75 | 3.40 | 3.50 | 3.85 | 3.60 |
| Mar-25 | 3.25 | 3.50 | 3.30 | 3.50 | 3.85 | 3.60 |
| Jun-25 | 3.25 | 3.40 | 3.30 | 3.50 | 3.85 | 3.60 |
| Sep-25 | 3.25 | 3.40 | 3.30 | 3.50 | 3.85 | 3.60 |
| Dec-25 | 3.25 | 3.40 | 3.30 | 3.50 | 3.85 | 3.60 |

In the above table 'bank rate' refers to the policy rate of the Bank of England. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long term interest rates. The Authority can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 4.27%, 3.47% plus 0.80%.

**Current Treasury Portfolio Position**

At the 31 December 2022 the debt and investments balances were: -

*Table 4 Debt and Investments balances*

|  |  |  |
| --- | --- | --- |
| **Debt** | Principal | % |
| £m |
| Fixed rate loans from the Public Works Loan Board | 2.000 | 100 |
| Variable rate loans |  | - |
|  | 2.000 | 100 |
| **Investments** |  |  |
| Variable rate investments with Lancashire County Council | 20.730 | 58.0 |
| Fixed rate investments | 15.000 | 42.0 |
|  | 35.730 | 100 |

The level of investments represents the Authority’s cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is a net investment figure of £34m.

# Borrowing and Investment Requirement

In the medium term LCFA borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which currently exists, this gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing. The table gives an indication of the minimum borrowing or investment requirement through the period.

The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme which currently assumes that there will be no borrowing until 2026/27. A voluntary MRP was made in 2019/20 to take the future loans element of the MRP to nil.

*Table 5 Borrowing/Investment Need*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|  | £m | £m | £m | £m |
| Capital Financing Requirement | 12.795 | 12.351 | 11.868 | 11.339 |
| *Less long term*  *liabilities (PFI and finance leases)* | -12.795 | -12.351 | -11.868 | -11.339 |
| *Less* external borrowing | -2.000 | -2.000 | -2.000 | -2.000 |
| Borrowing requirement | -2.000 | -2.000 | -2.000 | -2.000 |
|  |  |  |  |  |
| Reserves and working  capital | 31.571 | 28.771 | 22.971 | 15.871 |
| Borrowing/(Investment) need | 33.571 | 30.771 | 24.971 | 17.871 |

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Authority’s total debt should be lower than its highest forecast CFR over the next three years. However, the table above shows that the level of loans was above the CFR at 31/3/22. This was the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment.

The table above indicates that rather than having a need for borrowing it is estimated that the authority has an underlying need to invest although the available balances are forecast to reduce.

Although the Authority does not have plans for new borrowing until 2026/27 it does currently hold £2.0m of loans as part of its strategy for funding previous years' capital programmes.

**Liability benchmark**

The liability benchmark is an indicator required by the CIPFA Code. It looks to compare the Council’s actual borrowing requirements against an alternative strategy, a liability benchmark, which shows the minimum level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk. In addition it reflects the latest Capital Programme information which shows a borrowing requirement in 2026/27 and 2027/28.The liability benchmark is shown in the graph below:

*Graph 1 showing Liability Benchmark and Borrowing Scenarios*

# The benchmark shows that from 2026/27 there is likely to be a long term requirement to borrow but that this does not necessarily have to be at the level of the loans CFR, which represents the maximum borrowing. The borrowing requirement is also reducing over time which may influence the length and type of borrowing to be taken.

# Borrowing Strategy

The draft Capital Programme implies there may be a requirement to use borrowing to fund the capital programme in the later years. At this stage it is extremely unlikely that borrowing will be required in 2023/24. However, it is still best practice to approve a borrowing strategy and a policy on borrowing in advance of need. In considering a borrowing strategy the Authority needs to make provision to borrow short term to cover unexpected cash flow shortages or to cover any change in the financing of its Capital Programme.

In the past the Authority has raised all of its long-term borrowing from the Public Works Loan Board, but if long term borrowing was required other sources of finance, such as local authority loans, and bank loans, would be investigated that may be available at more favourable rates.

Short term borrowing if required would most likely be taken from other local authorities.

Therefore, the approved sources of long-term and short-term borrowing are:

* Public Works Loan Board
* UK local authorities
* any institution approved for investments
* any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
* UK public and private sector pension funds

# Policy on Borrowing in Advance of Need

In line with the Prudential Code the Authority will not borrow purely in order to profit from the investment of the extra sums borrowed. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds and relationships.

In determining whether borrowing will be undertaken in advance of need the authority will:-

* Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
* Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered.
* Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
* Consider the merits and demerits of alternative forms of funding.
* Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**Debt Restructuring**

The Authorities debt has arisen as a result of prior years' capital investment decisions. It has not taken any new borrowing out since 2007 as it has been utilising cash balances to pay off debt as it matures, or when deemed appropriate with the authority making early payment of debt. The anticipated holding of debt at 31 March 2022 is £2.0m. All the debt is from the Public Works Loans Board (PWLB) and is all at fixed rates of interest and is repayable on maturity. The table below shows the maturity profile and interest rate applicable on these:-

*Table 6 Outstanding Loans*

|  |  |  |
| --- | --- | --- |
| Loan Amount | Maturity Date | Interest rate |
| £650k | December 2035 | 4.49% |
| £650k | June 2036 | 4.49% |
| £700k | June 2037 | 4.48% |

(Note, this debt was taken out in 2007 when the base rate was 5.75% and when the Authority was earning 5.84% return on its investments.)

Given the change in interest rates, the opportunities for debt repayment/restructuring have been reconsidered.

The level of penalty applicable on early repayment of loans now stands at £0.199m. (As previously reported the level of penalty is dependent upon two factors, the difference between the interest chargeable on the loan and current interest rates, the greater this difference the greater the penalty, and the length to maturity, the greater the remaining time of the loan the greater the penalty. Hence as interest rates increase or as loans get closer to maturity the level of penalty will reduce.)

Outstanding interest payable between now and maturity is £1.228m.

*Table 7 Implications of Repaying Loans*

|  |  |
| --- | --- |
| Penalty incurred | 0.199 |
| Savings on interest payable | (1.228) |
| Gross Saving | (1.029) |

However as highlighted previously, any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. The extent of which is dependent upon future interest rates. It is estimated that if interest rate on investments are at 3.43% over the remaining period of the loan then repaying the loans now will be broadly neutral.

It is also worth noting that the capital budget does allow for additional borrowing within the next 5 years. Current long-term borrowing rates are 4.85% for a 20-year loan and 4.46% for a 50-year loan, both of which exceed the breakeven position noted above. Hence given the penalties it is considered beneficial to retain these loans.

# Investment Strategy

At 31st December 2022 the Authority held £35.7m invested funds, representing income received in advance of expenditure plus existing balances and reserves. During the year the Authority’s investment balance has ranged between £26.7m and £46.9m. The variation arises principally due to the timing of the receipt of government grants. It is anticipated that there will be reduced cash levels in the forthcoming year, due to a drawdown in reserves to finance capital expenditure.

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Therefore in line with the guidance the Treasury Management Strategy is developed to ensure the Fire Authority will only use very high quality counterparties for investments.

The Authority may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

*Table 8 Investment Counterparties*

|  |  |  |  |
| --- | --- | --- | --- |
| **Counterparty** |  | **Cash limit** | **Time limit** |
| Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody’s and Standard & Poor’s is: | AAA | £5m each | 5 years |
| AA+ | 3 years |
| AA | 2 years |
| AA- | 2 years |
| Call Accounts with banks and other organisations with minimum A- credit rating |  | £10m | next day |
| Call Account with Lancashire County Council |  | unlimited | next day |
| UK Central Government (irrespective of credit rating) |  | unlimited | 50 years |
| UK Local Authorities (irrespective of credit rating) |  | £5m each | 10 years |
| Secured Bond Funds AA rating and WAL not more than 3 yrs |  | £5m each | n/a |
| Secured Bond Funds AAA rated and WAL not more than 5 yrs |  | £5m each | n/a |

Allowable bond funds are defined by credit rating and weighted average life (WAL). Investing in senior secured bonds backed by collateral provides a protection against bail-in. Although the average life of the securities within the fund will be either 3 or 5 years, funds can be redeemed within 2 days of request but in general these should be seen as longer term investments.

Regarding the risk of investing with another local authority, only a very few authorities have their own credit rating, but those that do are the same or one notch below the UK Government reflecting the fact that they are quasi-Government institutions. On the whole credit ratings are seen as unnecessary by the sector because the statutory and prudential framework within which the authorities operate is amongst the strongest in the world. In addition, any lender to a local authority has protection, under statute, by way of a first charge on the revenues of that authority. No local authority has ever defaulted to date and this also may be an indication of security. However, when the UK credit rating by the rating agencies has been downgraded those local authorities with a rating saw a reduction in their ratings. Therefore, consideration has been given to reducing the risk associated with the investment with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting their approved strategy. For periods longer than two years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

*Table 9 Investment Limits with Local Authorities*

|  |  |  |  |
| --- | --- | --- | --- |
|  | Maximum individual investment (£m) | Maximum total investment (£m) | Maximum period |
| Up to 2 years | 5 | 40 | 2 years |
| Over 2 years | 5 | 25 | 10 years |

The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

Whilst the investment strategy has been amended to allow greater flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Director of Corporate Services and LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

In respect of banks taxpayers will no longer bail-out failed banks instead the required funds will be paid by equity investors and depositors. Local authorities' deposits will be at risk and consequently although currently available within the policy it is unlikely that long term unsecured term deposits will be used at the present time.

Currently all of the Authority's investments are with other local authorities.

The Authority currently has access to a call (instant access) account with a local authority, which pays bank base rate, this is currently 3.5%. Each working day the balance on the Authority's current account is invested to ensure that the interest received on surplus balances is maximised.

In addition longer term loans have been placed with an UK local authorities to enhance the interest earned. To this end at the following investments are already impacting 2023/24

*Table 10 Current Investments*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Start Date | End Date | Principal | Rate | Interest 2023/24 |
| 21/03/2022 | 21/03/2024 | £5,000,000 | 1.50% | £72,945 |
| 07/10/2022 | 06/10/2023 | £5,000,000 | 4.00% | £103,014 |
| 27/10/2022 | 26/10/2023 | £5,000,000 | 3.30% | £94,028 |

Consideration is given fixing further investments if the maturity fits with estimated cash flows and the rate is considered to be attractive. This will continue to be reviewed. Suggested rates payable by other local authorities indicated:

*Table 11 Indicative Interest Rates on Investments with other Local Authorities*

|  |  |
| --- | --- |
| 3 month investment | 3.79 - 3.99% |
| 6 month investment | 3.84 - 4.04% |
| 12-month investment | 3.94 - 4.14% |
| 3-year investment | 3.99 - 4.19% |
| 4-year investment | 4.04 - 4.24% |

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2023 is £0.283m on an average balance of £40.1m at an annualised rate of 2.87%. This compares favourably with the benchmark 7 day LIBID rate which averages a yield of 1.73% over the same period.

In addition to the above the authority uses NatWest for its operational banking. Balances retained in NatWest are very low, usually less than £5,000. However, if required monies are retained at NatWest this would be in addition to the limits set out above.

**Minimum Revenue Provision (MRP)**

Under Local Authority Accounting arrangements the Authority is required to set aside a sum of money each year to reduce the overall level of debt. This sum is known as the minimum revenue provision (MRP).

The Authority will assess their MRP for 2023/24 in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Authority made a voluntary MRP in 2019/20 and it is anticipated that the MRP on loans will be nil in 2023/24 this will be the case until capital expenditure is financed by borrowing.

Whilst the Authority has no unsupported borrowing, nor has any plans to take out any unsupported borrowing in 2023/24 it is prudent to approve a policy relating to the MRP that would apply if circumstances change. As such in accordance with guidelines, the MRP on any future unsupported borrowing will be calculated using the Asset Life Method. This will be based on a straightforward straight – line calculation to set an equal charge to revenue over the estimated life of the asset. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Assets held under a PFI contracts and finance leases form part of the Balance Sheet. This has increased the overall capital financing requirement and results in an MRP charge being required. The government guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

**Revenue Budget**

The capital financing budget currently shows that income received exceeds expenditure. This excludes the PFI and Finance lease payments, which are included in other budgets. Based on the Strategy outlined above then the proposed budget for capital financing are:

*Table 12 Capital Financing Charges Included in Revenue Budget*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|  | £m | £m | £m | £m |
| Interest payable | 0.090 | 0.090 | 0.090 | 0.090 |
| MRP | 0.010 | - | - | - |
| Interest receivable | (0.770) | (1.300) | (1.000) | (0.650) |
| Net budget | (0.680) | (1.210) | (0.910) | (0.560) |

**Prudential Indicators for 2022/23 to 2025/26 in respect of the Combined Fire Authority's Treasury Management Activities.**

In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, the Combined Fire Authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

The following table sets out the debt and investment-related indicators which provide the framework for the Authority’s proposed borrowing and lending activities over the coming three years. These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators, but need to be reaffirmed and approved as part of this Treasury Management Strategy.

It should be noted that contained within the external debt limits, there are allowances for outstanding liabilities in respect of the PFI schemes and leases. However, accounting standards are likely to change in relation to recording leases. In effect more leases are likely to be included on the balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long term liabilities limits may be subject to change.

# Treasury Management Prudential Indicators

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*Table 13 Treasury Management Prudential Indicators*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2022/23Revised** | **2023/24** | **2024/25** | **2025/26** |
|  | £m | £m | £m | £m |
| 1. **Adoption of the Revised CIPFA Code of Practice on Treasury Management (2011)** | Adopted for all years | | | |
| 1. **Authorised limit for external debt** - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements. |  |  |  |  |
| Borrowing | 4.000 | 4.000 | 4.000 | 4.000 |
| Other long-term liabilities | 30.000 | 30.000 | 30.000 | 30.000 |
| TOTAL | 34.000 | 34.000 | 34.000 | 34.000 |
| 1. **Operational boundary for external debt** - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans. |  |  |  |  |
| Borrowing | 3.000 | 3.000 | 3.000 | 3.000 |
| Other long-term liabilities | 16.000 | 16.000 | 16.000 | 15.000 |
| TOTAL | 19.000 | 19.000 | 19.000 | 18.000 |
| **4. Upper limit for fixed interest rate exposure** |  |  |  |  |
| Upper limit of borrowing at fixed rates | 100% | 100% | 100% | 100% |
| Upper limit of investments at fixed rates | 100% | 100% | 100% | 100% |
| **5. Upper limit for variable rate exposure** |  |  |  |  |
| Upper limit of borrowing at variable rates | 50% | 50% | 50% | 50% |
| Upper limit of investments at variable rates | 100% | 100% | 100% | 100% |
| **6. Upper limit for total principal sums invested for over 364 days (per maturity date)** | 25.000 | 25.000 | 25.000 | 25.000 |
| **7. Maturity Structure of Debt** | Upper Limit % | | Lower Limit % | |
| Under 12 months | 100 | | - | |
| 12 months and within 24 months | 50 | | - | |
| 24 months and within 5 years | 50 | | - | |
| 5 years and within 10 years | 75 | | - | |
| 10 years and above | 100 | | - | |