



**Hampshire  
& Isle of Wight**  
FIRE & RESCUE AUTHORITY

## **HIWFRA Full Authority**

Purpose: Approval

Date: **15 February 2022**

Title: **BUDGET and PRECEPT REQUIREMENT 2022/23 including MEDIUM TERM FINANCIAL PLAN**

Report of the Chief Financial Officer

### SUMMARY

1. This report presents the 2022/23 forward budget to the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) for approval. The report also includes the Medium Term Financial Plan (MTFP) covering the period 2022/23 – 2024/25. Paragraphs 18 – 48 cover the budget and precept requirements for 2022/23. Paragraphs 49 – 75 discuss the medium term position.
2. The headline position is that the setting of a balanced budget is proposed. A detailed breakdown of the budget by area and type of spend is included as **Appendix A**.
3. This report sets out details of the precept increase, showing the level of precept and increase for each council tax band. It is recommended that due to the financial pressures set out in this report council tax is increased by the maximum level of £5 (7.10%) for 2022/23.
4. The report also contains information about in year spend against budget for 2021/22. The forecast year end position is an underspend of £0.871m.
5. The Government announced a further one year funding settlement in December 2021. Despite the lack of a medium term financial settlement, a Medium Term Financial Plan (MTFP) has been produced, covering the period 2022/23 to 2024/25. This is set out in **Appendix B**. It is important to note that a series of prudent assumptions have been used to build the plan due to the lack of concrete information.

6. The report contains some recommendations on pensions matters and the continued suspension of the Immediate Detriment Framework.
7. The capital programme for 2021/22 onwards and the funding of this are set out in this report, with details at **Appendix C**, and are recommended for approval.
8. A Reserves Strategy is presented for approval in this report at **Appendix D**, which includes details of the current level of reserves, the reason for holding each reserve and plans for future usage.
9. The Treasury Management Strategy is presented for approval at **Appendix E**.
10. The Capital and Investment Strategy is presented for approval at **Appendix F**.
11. Appendix G contains the section 25 report of the Chief Financial Officer, covering the adequacy of the Authority's reserves position.

## BACKGROUND

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

## 2021/22 BUDGET MONITORING – QUARTER 3

13. The forecast position for 2021/22 is an underspend of £0.871m, which is largely in line with what was reported to the Authority in December 2021 (Q2 underspend of £0.897m).
14. The table below shows the budget monitoring for 2021/22 as at 31<sup>st</sup> December 2021:

2021/22 budget monitoring at 31 December 2021	2021/22 Budget	2021/22 Forecast	2021/22 Over / (Under) spend
	£'000	£'000	£'000
Wholetime Firefighters	37,648	37,365	(283)
On-call Firefighters	8,030	7,660	(370)
Staff	14,187	13,896	(291)
Other employee costs	2,416	2,434	19
Premises	8,569	8,675	106
Transport	1,803	1,956	153
Supplies and services	9,996	9,862	(134)
Third party payments	2,493	2,488	(5)
<i>Expenditure</i>	<i>85,142</i>	<i>84,336</i>	<i>(806)</i>
Income	(3,665)	(3,818)	(153)
<i>Net current expenditure</i>	<i>81,477</i>	<i>80,519</i>	<i>(958)</i>
Funding	(81,477)	(81,390)	87
<b>Over / (under) spend</b>	<b>0</b>	<b>(871)</b>	<b>(871)</b>

15. The overall position is a net underspend of £0.871m. This is mainly driven by underspend in staff costs due to reducing reliance on the use of Fixed

Term Contracts and the impact of some difficulties in filling specialist roles, particularly in IT.

16. There are pressures in premises and transport mainly driven by reactive maintenance and increased fuel costs.
17. Within the position, there are £0.575m of costs associated with Covid-19, but these have been offset by Covid-19 grant carried forward from 2020/21. Covid-19 grant funding is largely fully committed.

## 2022/23 BUDGET AND PRECEPT

### Council Tax

18. The Budget Update report assumed council tax base growth of 1%. Final figures from the district councils show council tax base growth of 1.42%, representing a modest increase in expected base growth.
19. In the Budget Update report there was an assumption that the council tax increase for Fire Authorities would be limited to a maximum of 1.99% (£1.40) for a band D property. The Local Government Financial Settlement provided additional flexibility for the eight Fire Authorities with the lowest council tax rates to increase council tax by £5 (7.10%) for a band D property. As the Authority with the 7<sup>th</sup> lowest council tax rate, HIWFRA has the flexibility to do this. This flexibility has been granted for a single year only.
20. The table below sets out the impact of a £1.40 / 1.99% and a £5.00 / 7.10% council tax increase for each band:

	1.99% / £1.40	7.10% / £5.00
	£ per annum	£ per annum
Band A	0.93	3.33
Band B	1.09	3.89
Band C	1.25	4.44
Band D	1.40	5.00
Band E	1.71	6.11
Band F	2.02	7.22
Band G	2.34	8.33
Band H	2.80	10.00

21. The additional flexibility to increase council tax brings in a potential additional £2.512m in council tax income during 2022/23. Coupled with an increase due to the final council tax base position of £0.246m, the council tax income for 2022/23 would be £2.758m higher than forecast in the

Budget Update report, if the flexibility to increase council tax by the maximum rate were to be exercised.

22. The benefits of increasing council tax by the maximum allowable amount are set out throughout this report and become particularly clear in the MTFP section, which looks forward to future years. The risks of not taking the maximum increase are also articulated as part of the MTFP. All figures in this report assume that a £5 increase is applied as recommended by the Chief Financial Officer.

23. The figures below show the council tax rates for the year beginning 1st April 2022 for the properties in each band, based on a £5 increase:

Band A:	£50.29	Band E:	£92.20
Band B:	£58.67	Band F:	£108.96
Band C:	£67.05	Band G:	£125.72
Band D:	£75.43	Band H:	£150.86

24. Combining the council tax base increase and the precept increase, the table below shows the precept funding due from each precepting authority for the year 2022/23.

Basingstoke and Deane Borough Council	£5,115,919
East Hampshire District Council	£3,915,476
Eastleigh Borough Council	£3,648,802
Fareham Borough Council	£3,319,116
Gosport Borough Council	£2,048,241
Hart District Council	£3,154,170
Havant Borough Council	£3,150,814
Isle of Wight	£4,064,161
New Forest District Council	£5,440,170
Portsmouth City Council	£4,315,328
Rushmoor Borough Council	£2,473,749
Southampton City Council	£4,989,393
Test Valley Borough Council	£3,872,425
Winchester City Council	£3,888,725
<b>Total</b>	<b>£53,396,489</b>

25. During 2021/22 the Council Tax Collection Fund was in deficit. For 2022/23 there is a forecast surplus on the collection fund of £465,000. This is against an assumption of neither a surplus or deficit in the Budget Update Report.

### Business Rates

26. The Authority receives a top up grant for business rates from the Government, together with a proportion of retained business rates collected by District and Unitary Councils in the County. In addition to this, following reliefs and business rate caps introduced by the Government, Section 31 grant is paid to the authority for lost business rate income it would otherwise have earned.
27. There has been no increase to the top up grant, which remains £9.043m for 2022/23.
28. The level of locally retained business rates for 2022/23 is expected to be consistent with 2021/22 at £7.492m. In years prior to the Covid 19 pandemic this funding has generally increased year on year. At the time of writing this is based on estimates from billing authorities. The continued local economic impact of Covid-19 and the complexities around business rates reliefs provided by Government mean that this position is still subject to change.
29. Section 31 grant compensates authorities for lost income as a result of Government reliefs. At this stage we are assuming a slight increase in grant to counteract the impact of additional Government reliefs, with the total assumed to be £1.882m. This figure is also still subject to change.
30. The business rates collection fund position relating to 2021/22 is also not complete at this point in time and based on the figures received to date an assumption of no surplus or deficit has been made. This assumption will be updated once more information becomes available.

### Government Grant

31. The previous Budget Update report assumed that Revenue Support Grant (RSG) would increase by inflation, assuming a total RSG of £8.424m for 2022/23.
32. The provisional local government financial settlement provided an RSG figure for the new CFA of £8.528m. The additional increase is a result a higher rate of inflation used to update RSG than forecast.
33. In addition, the settlement announced an additional one-off allocation of Services Grant, totalling £1.131m in 2022/23. This is a new grant that is

currently for 2022/23 only. In part it is in recognition of the cost of the rise in National Insurance contributions to the Authority. This grant was not expected and therefore not included in the position presented in the Budget Update report.

34. Notifications of grants received from the Home Office have yet to be received, so this report has been produced on the basis that there is no change to any of these grants.

### Delivery Pressures

35. As part of the annual budget setting process, a number of essential delivery pressures were identified. These were presented to the HIWFRA in the December Budget Update report and were agreed to be included within the budget, subject to affordability.
36. The settlement means that these delivery pressures are now affordable, if the recommendations in this report are accepted, so have been incorporated within the proposed budget for 2022/23. The delivery pressures totalled £0.592m.
37. In addition, the Budget Update report flagged the need to increase ICT reserve contributions by £0.218m to support a timely refresh of ICT equipment. The proposal was to fund this from one-off resources in 2022/23. Council tax flexibility means that this is now affordable from 2022/23 so it is recommended that this delivery pressure is also built into the base budget. This will mean that sufficient resources to enable an efficient and timely refresh of ICT equipment are secured.

### Efficiency measures

38. The budget update report proposed efficiencies of £1.362m during 2022/23 with the potential for further efficiencies in later years. Since that report, the Executive Group have carried out further work on high-level plans for delivering these efficiencies. Work to deliver the efficiencies will complete during financial year 2022/23. However, the timing of this work means that the full year effect of the savings will not be realised until 2023/24. Therefore, the efficiency target included within the 2022/23 budget is £0.800m, with the remaining £0.592m moving to 2023/24.
39. The change in the phasing of the efficiencies means that the service will have time to balance the need to develop efficiency measures alongside other priorities, particularly providing assistance to partners in the on-going response to the Covid-19 pandemic.

### Contingency

40. The budget update report provided for a specific non-pay inflation contingency of £300,000 to be managed centrally to address the risk presented by exceptional levels of inflation in some categories of spend.
41. Inflation continues to be a challenge. In particular, energy prices have reached historically high levels and market conditions mean that price increases are likely to continue into the next financial year. The UK Exit from the EU and the on-going impact of the Covid-19 pandemic are factors which may impact price inflation during the next financial year. These pressures may impact on the capital programme as well as the revenue budget.
42. Therefore, it is recommended to include an additional contingency of £500,000 within the base budget. This will allow the service to manage inflationary pressures as well as any service delivery pressures that may emerge during this period of continuing uncertainty. The £5 council tax increase allows the introduction of this prudent measure into the budget.
43. It is worth noting that the £0.5m contingency included within the base budget for 2021/22 was needed in full to contribute towards an unbudgeted pay award. Had the contingency not been included, this would have become a significant pressure on the 2021/22 revenue budget.

### Isle of Wight Estate

44. As covered in a paper coming to this Fire Authority meeting, there is a need for a further investment in the Isle of Wight Estate. This is year 2 of a three year investment programme. The funding required for year 2 is £1.7m. It is recommended that this funding is approved from the revenue budget in 2022/23, utilising the remaining one-off Services Grant allocation and collection fund surplus.

### Overall 2022/23 Budget Position

45. **Appendix A** outlines the base budget for 2022/23 compared to the base budget for 2021/22 by cost type and by area of spend.
46. A comparison against the position from the Budget Update report shows that the position has moved from a forecast deficit of £1.333m prior to the announcement of the detailed funding settlement, to a balanced position. The major factor in this improved position is the impact of council tax flexibility.



<b>Changes since Budget Update report</b>	<b>£'000</b>
Forecast deficit in December 2021 Budget Update report	1,333
<u>Changes since Budget Update report:</u>	
Council tax increase	(2,758)
Collection fund increase	(465)
Services grant	(1,131)
Other grant changes	(32)
Recommended additional contingency	500
Efficiencies to 2023/24	562
Bring forward ICT reserve contribution	218
One off contribution to Capital Payments Reserve	73
Isle of Wight Estate – Year 2	1,700
<b>Proposed budget (surplus)/deficit</b>	<hr/> - <hr/>

47. This illustrates the importance of making use of council tax flexibility to the 2022/23 budget position. This flexibility allows for continued necessary investment in our infrastructure and the inclusion of a prudent additional contingency. The additional funding does not mean that efficiencies are not required or will not be delivered. Rather it allows for a rephrasing of the initial efficiencies and the time to develop a further plan as set out in the MTFP.
48. The budget report indicated that the plan for addressing the £1.333m deficit was to spend the entire balance of the Grant Equalisation Reserve (GER) and to utilise a proportion of the 2021/22 underspend to bridge the gap. This is no longer required so the GER balance can be retained to smooth the funding position in later years as set out in the MTFP.

## MEDIUM TERM FINANCIAL PLAN 2022/23 – 2024/25

49. As outlined above, the Local Government financial settlement for 2022/23 was once again a single year settlement. Due to the number of single year settlements, a full Medium Term Financial Plan (MTFP) has not been produced for several years. Despite the lack of certainty about the medium term position, the production of an MTFP is now essential. The plan is based on the single year settlement with prudent assumptions about future funding.
50. The plan has been prepared in line with the financial principles adopted by the Fire Authority at the December 2021 meeting. The MTFP takes the position outlined in the main Budget and Precept Report and looks forward to future years. It sets out assumptions about funding and expenditure, including the capital programme and reserves.
51. An update to the MTFP will be provided annually. A full update to the MTFP will be provided when a multi-year funding settlement is announced.
52. Appendix B sets out a high level, indicative position for funding and expenditure for the period 2022/23 – 2024/25.

### Funding

53. Council tax is the most significant funding stream for the Fire Authority. The MTFP is built on the assumption that the Authority use the flexibility offered to HIWFRA as a low tax Authority to increase council tax by £5 (7.10%) for a band D property.
54. The ability to raise council tax by more than 1.99% has only been offered to low tax authorities and there is no stated intention to offer this flexibility in future years. Given the uncertainty surrounding the medium term position, it would be an extremely high risk strategy to delay implementing a higher rise this year with the intention of implementing a higher rise in future years.
55. The MTFP assumes that after the £5 rise this year, the referendum limit of 1.99% holds for the remainder of the period. The MTFP also assumes an increase of 1% in the council tax base per year over the period. This is a realistic assumption but could be an overestimate if the economic climate worsens over the period.
56. The system of business rates is complex, with locally retained business rates, business rates top-up grant and section 31 grants to compensate for reliefs. Business rates income is impacted by the wider economy to a

greater extent than council tax. These factors make estimating business rates income challenging. For the purposes of the MTFP an assumption of flat cash for business rates has been made i.e.no increase from current levels.

57. It is assumed that the council tax and business rate collection funds return to a position of neither surplus nor deficit from 2023/24. This is prudent given the mixture of surplus and deficit over recent years.
58. Government grant is assumed to continue as flat cash over the period of the MTFP with two exceptions:
  - (a) Revenue Support Grant is assumed to increase in line with inflation, estimated at 2% for the period
  - (b) Services Grant is a new one-off grant for 2022/23. The grant was received in part to compensate Fire Authorities for the on-going impact of the national insurance rise so it is hoped that some funding will be made available for this in future years. However, as the grant is one-off it has been treated as such in the MTFP.

#### Delivery pressures

59. The Fire Authority receives no funding for capital priorities. Major station investments at Cosham and Redbridge were approved by the Fire Authority and work on these important schemes is underway. The schemes are funded from prudential borrowing and the majority of the impact of servicing this borrowing is reflected in the MTFP by 2024/25, with a remaining £0.270m in 2025/26. This is a major source of pressure on the revenue budget during the period of the MTFP.
60. Borrowing may be needed for future capital schemes, including implementing the agreed design principles retrospectively across our existing estate and addressing the impacts of the carbon reduction surveys approved by the Fire Authority in July 2021. It is likely that spend will be incurred towards the end of the MTFP period. Funding for additional schemes will be addressed as part of reports or business cases presented to the Authority. The ongoing implications of this borrowing will be factored into updates of the MTFP and may result in the need to deliver further efficiencies.
61. In line with our financial principles, the MTFP assumes that growth in ongoing spend is limited to essential requirements. However, provision for a modest increase of £250,000 per annum is included. This is to recognise necessary investment that may be needed due to external requirements

such as Fire Standards or to enable positive change with the Service. Delivery pressures will be scrutinised annually by the Executive Group and brought to the Fire Authority for approval. Should additional delivery pressures in excess of this amount be identified it will be necessary to prioritise these within available funding or find efficiencies elsewhere to fund the reinvestment.

62. Both pay and non-pay inflation are currently difficult to estimate. Pay inflation has been capped at modest levels over the last few years. The state of the wider public finances mean that this is likely to continue. However, cost of living pressures are affecting all parts of society so it is likely that pressure for higher pay rises to match inflation will grow. In light of the uncertainty it has been assumed that pay increases for both green and grey book staff will be 2% per annum for the period of the MTFP.
63. As noted previously, non-pay inflation is currently significantly higher than it has been in recent years. Some areas, such as energy, are experiencing even higher levels of price growth. Additional budget for non-pay price growth has been included in the 2022/23 budget. The MTFP assumes that non-pay inflation returns to 2% per annum for the remainder of the MTFP.
64. In addition to these pressures, a one-off draw from the Transformation Reserve of £0.250m is requested to support the delivery of the Safety Plan Year 3 objectives.

#### Efficiency measures

65. Public Value is at the core of our service and so we will always seek to deliver a more efficient service to our communities. Significant efficiencies have been delivered over recent years, which have allowed budget gaps to be addressed or reinvestment in improved services. Efficiencies of £1.3m are planned for delivery during the first two years of the MTFP. The slightly longer phasing of these efficiencies will allow for the successful delivery of these measures while balancing the other demands currently facing the service.
66. During subsequent financial years, efficiencies will be sought to allow for reinvestment in service delivery. These will be identified and reported to the Authority during the annual budget setting process, with progress on delivery reported throughout the year.
67. Planning for further efficiencies will be an integral part of the development of the Authority's Community Risk Management Plan, which will take effect from financial year 2025/26. There is an excellent opportunity to fully align

the Authority's financial planning with the development of the CRMP, leading to a new MTFP from 2025/26.

68. If there were to be a multi-year financial settlement that provided greater insight into the medium term funding position of the Authority then these plans may need to be revisited.

#### Overall position

69. An MTFP is included as **Appendix B**. The table presents incremental changes to the budget for a three year period starting with 2022/23. This illustrates that in both financial years 2023/24 and 2024/25 there is a forecast modest budget deficit. This will be managed using draws from the Grant Equalisation Reserve (GER), a reserve held for this purpose.
70. The starting point for the MTFP is the recurring deficit of £0.778m brought forward from 2021/22. The changes outlined in the budget report are reflected in table, resulting in a balanced position for 2022/23.
71. In subsequent years a deficit emerges, largely as a result of the impact of the borrowing to fund the schemes already approved as part of the Station Investment Programme. If the assumptions around cost pressures and funding are borne out, it will be necessary to be prepared to implement an efficiency programme to address the emerging budget deficit to deliver savings from 2025/26.
72. The MTFP shows the vital importance of taking the opportunity to raise council tax by the maximum allowable amount during 2022/23. This increase brings in an additional £2.512m, ignoring the impact of base changes. Over the three year period of the plan this would mean a reduction in Authority resources of £7.536m if the increase were not to be approved.
73. If the council tax rise were capped at 1.99% it would mean that:
  - (a) It would not be possible to include recommended contingency levels that would allow the Authority to respond to the risk of significant price rises and other unforeseen cost pressures over the period of the plan
  - (b) It is likely that investment in the Isle of Wight Estate may need to be funded via prudential borrowing, leading to greater revenue pressures in the future.
  - (c) The Authority would be facing a significant recurring deficit in the region of £3.5m by 2024/25 over the period of the plan, meaning

that options for service reduction would need to be explored over the coming year. Reserves committed for other purposes would have needed to be used to balance the position in the intervening years.

74. When considering the position set out in Appendix B, it is important to remember that the forward projections of funding are not based on any information from Government about funding plans but rather on prudent assumptions. The risks inherent in this approach are covered in detail later in this report. However, it is important to remember that the funding estimates are unlikely to be totally accurate, meaning that the position could be materially better or worse than expected.
75. Similarly, the current economic climate makes the estimation of inflation particularly challenging.

#### CAPITAL PROGRAMME

76. The proposed capital programme for 2021/22 to 2025/26, including spend to date and the proposed financing, is set out at **Appendix C** of this report.
77. The only addition to the capital programme since last year is the allocation for electric vehicle charging points, approved by the Authority in July 2021 as part of the Carbon Reduction Pathway. This spend is funded from the Capital Payments Reserve. A number of other schemes are making good progress and significant spend is expected in the coming financial year.
78. Delays in the Vehicle Replacement Programme (VRP) have continued during 2021/22, with particular challenges around the whole supply chain. However, the service has been working proactively to address these issues, including providing firm commitments to purchase a significant number of vehicles. During 2022/23 deliveries will commence, with significant spend expected over the coming two financial years.
79. The inflationary pressures outlined previously are also impacting on the schemes that form the capital programme. Project managers are working to manage these pressures within approved budgets. This approach means that schemes are currently forecast to be delivered within approved budgets. Any issues will be flagged to the Authority during regular updates on the approved capital programme or by exception as required.
80. The Budget Update report in December 2021 explained the range of upcoming capital priorities. The Isle of Wight Estates Year Two work was identified as the most pressing priority, and the funding for this has been covered elsewhere in the report.

81. Funding for the final year (year three) of the Isle of Wight Estate (likely to be around £1.4m) will be addressed as part of the setting of the 2023/24 budget. It is still necessary to determine the level and source of funding needed for the works identified following surveys approved as part of the Carbon Reduction Pathway. This will also be carried out as part of the 2023/24 budget setting process and will include the identification of any efficiency savings these works may deliver.
82. In the medium term plans will be developed to retrospectively introduce the Authority's design principals to existing buildings. This work will focus on fireground decontamination and inclusive facilities. The funding for this work will need to be identified.
83. Finally, further SIP schemes at Fareham and Gosport, East Cowes and Newport are under consideration. These schemes would be subject to a full business case approved by the Authority which would also consider funding.

#### RESERVES

84. The Authority holds specific reserves to provide for future planned spending as part of its medium term financial planning.
85. An updated Reserves Strategy which outlines the purpose of the reserves that we hold is provided in **Appendix D**. Details of the expected balance on each of the specific reserves and the general balance over the period 2021/22 to 2025/26 are set out within the appendix.
86. Forecast reserve balances at the end of this financial year remain high. The main reason for this is the delay in the Vehicle Replacement Programme, which is funded entirely from the Capital Payments Reserve. Despite the current high balance, this reserve is fully committed over the period of the plan.
87. Other reserves are held for the replacement of ICT and operational equipment. Funding is contributed annual to allow the refresh of equipment to be planned to achieve value for money.
88. As well as ensuring that the service has sufficient resources to invest for the medium term, the reserve contributions also allow the Authority to respond to short term pressures if they arise.
89. A contribution from the Isle of Wight Council reserves will be made following the closure of accounts for the current financial year. At this stage, a contribution of £0.900m has been included, although this is subject to final confirmation. This one-off contribution has been added to the Capital Payments Reserve to fund future investment.

## RISKS AND MITIGATIONS

90. Financial planning uncertainty has been a risk on our organisational risk register for several years. The single year settlement means that this risk is still current. The duration of settlements is outside of the control of the Authority, although the Service continues to make the case for longer term financial planning information to Government.
91. However, the ability to raise council tax by £5 has improved our financial position and strengthened some of our mitigations. There are two main risks around the medium term financial position of the Authority:
  - (a) The risk of reduced central government funding
  - (b) The risk of increased costs
92. Both of these risks would result in a financial pressure on the Authority. Although these risks remain current, mitigations mean that the Authority is in a strong position to deal with the impact, should these risks emerge.
93. The impact of reduced central Government funding would be worse if little notice was given of an intention to reduce funding. Proposed reviews of local Government funding make reduced central Government funding more likely. The finance team and the wider Executive Group use links with national groups to ensure that they are up to date with Government plans and are able to factor these into the MTFP. Prudent assumptions are made about future funding.
94. If a short notice cut were to be announced, it would be possible to draw from the Grant Equalisation Reserve in the first instance to balance the budget. Once this reserve was exhausted, revenue contributions to reserves, particularly the Capital Payments Reserve, could be temporarily reduced to balance the budget. This would lead to pressures in future years so is a last resort, but would give the Authority time to address the budget deficit via planned savings.
95. Budget management activities are undertaken throughout the service and these would give an early indication of areas where cost pressures were emerging. The service would then be able to make decisions about whether it was possible to manage pressures by reducing activity or delaying plans. The next step would be to consider allocating contingencies. These have been added during the budget setting process and have strengthened the mitigation of this risk. Finally, actions similar to those outlined above could be considered in the event of a longer term pressure.



## TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY

96. The Treasury Management Strategy and Investment Strategy are attached at **Appendix E** and require approval on an annual basis. This document includes the Treasury Management Indicators.
97. The report recommends that the following be approved:
- That the Treasury Management Strategy (TMS), including the Annual Investment Strategy for 2022/23, (and the remainder of 2021/22) is approved; and
  - That authority is delegated to the Chief Financial Officer to manage the Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
98. The strategy also takes into account the fact that the Authority will be taking out significant prudential borrowing as part of the funding of the Station Investment Programme. This is also reflected in the Capital and Investment Strategy.

## CAPITAL AND INVESTMENT STRATEGY

99. A new reporting requirement was introduced for the 2019/20 budget in respect of a Capital and Investment Strategy. This has been updated for 2022/23 and is included as **Appendix F** to this report. The Strategy gives a high-level overview of how capital expenditure, capital financing, and treasury management and investment activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. This document includes the Prudential Indicators required by the Prudential Code and the statement on Minimum Revenue Provision.
100. The Capital and Investment Strategy and the Treasury Management Strategy collectively take into account the requirements of the Prudential and Treasury Management Codes as well as MHCLG investment and MRP guidance.

## SECTION 25 REPORT

101. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to give an independent view on the robustness of the estimates and adequacy of reserves to the Authority at the time it is setting its budget and council tax. This is included as **Appendix G** of this budget report.
102. The Authority is required to take this report into account in setting the budget and council tax for 2022/23.

## INSURANCE STRATEGY

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

104. There has been an increase in our 2021/22 contribution of approximately 5% (excluding Isle of Wight elements for 2020/21). This is due to various factors including our claims experience, emerging risks and other external factors. The global insurance market continues to harden as a result of political and economic issues including Covid which is affecting the stability of the insurance market. However, the FRIC model does help protect Members from these external cost issues.

105. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal and to date, we have not made any claims under these additional policies. Increases are due to asset numbers on the engineering aspect and increase in payroll for the additional covers.

106. There has been an adjustment to the 2020/21 costs following the onboarding of the Isle of Wight elements to the protection cover from 1 April 2021.

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

<b>Contribution/Premium</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
FRIC Contribution	£522,066	£500,667	£516,402 (£14,089 Non-FRIC Covers)	£541,826 (£12,558 Non-FRIC Covers)	£615,738 (£15,877.94 Non-FRIC Covers)	£647,250 (£19,183 Non-FRIC Covers)
Additional Covers	£92,867	£96,088	£76,035	£80,473	£80,958	£84,719
FRIC Contribution for IOW elements (period of cover 01/04/21 – 31/10/21)					£32,587 (£590 Non-FRIC Covers)	

## PENSIONS MATTERS – IMMEDIATE DETRIMENT FRAMEWORK

108. The Authority, via the Standards and Governance Committee as pension scheme manager, took the decision to adopt the Immediate Detriment Framework at its 16th November meeting. This framework was developed between the Local Government Association and the Fire Brigades Union as a way to implement the Court of Appeal's judgment in the McCloud and Sergeant cases. These cases established that the changes made by Government to public service pension schemes in 2014 and 2015 caused discrimination on grounds of age by only providing protections for older members. The Immediate Detriment Framework was a mechanism for allowing firefighters to access the benefits of their legacy pension scheme prior to the introduction of legislation to remedy the discrimination, which is expected to be fully in force by October 2023.
109. Since the adoption of the Immediate Detriment Framework, the Home Office has withdrawn its informal Immediate Detriment guidance. This was based on a change in interpretation of section 61 of the Equality Act 2010. The Treasury now believe that Section 61 may not be sufficient to allow immediate detriment cases to be processed.
110. The Treasury's current view is that immediate detriment cases cannot be processed before the legislation is in place without considerable risk, uncertainty and administrative burden to individuals, schemes and employers.
111. This new information fundamentally changes the risks of adopting the Immediate Detriment Framework and therefore undermines the basis on which Standards and Governance made their decision. This information was not available at the time that the original decision was made.
112. In light of this new information the Chief Financial Officer took an urgent decision to suspend the framework in December 2021 until the Standards and Governance Committee meeting in February 2022. Due to a change in timing of the Standards and Governance Committee, a further decision was taken to extend the suspension until the Fire Authority meeting in February.
113. The position on Immediate Detriment remains unclear and further national updates are expected, including from the Local Government Association and the Fire Brigades Union. Officers are working to understand the possible options and the risks of different courses of action and will be incorporating any further national guidance into this analysis. A full report including an update on the position and if possible, further recommendations will be brought to the May Standards and Governance committee. It is recommended that the suspension of the framework remains in place until this meeting.

114. The Pension Board has been consulted on this approach. The board heard representation about the issues and risks to both the Authority as an employer and of pensioners and current employees about the continued uncertainty and delay and the difficult situations that are being faced by some firefighters when considering their retirement options. However, due to the continuing high levels of uncertainty and risks for both the Fire Authority and individuals, the Board was supportive of the continued suspension of the framework while more information is sought.
115. This is a fast moving situation and a timely resolution of the immediate detriment issue is in the interests of both the Fire Authority and individuals. The Fire Authority is therefore asked to delegate authority to the Chief Financial Officer in consultation with the Chairman of the Authority, the Chairman of Standards and Governance Committee and the Chief Fire Officer to make decisions about immediate detriment in advance of the May Standards and Governance Committee meeting, should the current position change. This would include delegated authority to apply immediate detriment in very exceptional circumstances where significant hardship could be caused by not applying it (for example in the case of a terminally ill firefighter).

#### SUPPORTING OUR SAFETY PLAN AND PRIORITIES

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

#### CONSULTATION

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

#### RESOURCE IMPLICATIONS

118. The report covers the overall financial position for 2022/23 for revenue spending and seeks approval to the budget and council tax levels, it also provides an update on the capital programme and reserves.

#### IMPACT ASSESSMENTS

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

## LEGAL IMPLICATIONS

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

## OPTIONS

121. There are no options for consideration within the report, although budget setting and forecasting by its very nature mean that assumptions are made around several variables that can change over time.

## RECOMMENDATIONS

The Authority is recommended to approve:

122. The additional delivery pressure of £0.218m per annum for contributions to ICT reserves.
123. The one-off Transformation Reserve draw of £0.250m to support the delivery of the Safety Plan year 3 objectives.
124. That the Authority agrees to continue the suspension of the Immediate Detriment Framework until the Standards and Governance Committee meeting currently scheduled for May 2022.
125. That the Authority delegates authority to the Chief Financial Officer in consultation with the Chairman of the Authority, the Chairman of Standards and Governance and the Chief Fire Officer to make necessary decisions about Immediate Detriment in the interim, including decisions to apply immediate detriment in very exceptional circumstances where significant hardship could be caused by not applying it.
126. The Revenue Budget, as set out in Appendix A.
127. The Medium Term Financial Plan, as set out in Appendix B.
128. The Capital Programme and funding as set out in Appendix C.
129. The Reserves Strategy as set out in Appendix D.
130. The Treasury Management Strategy as set out in Appendix E, including the Annual Investment Strategy for 2022/23, (and the remainder of 2021/22).

131. Delegated authority to the Chief Finance Officer to manage the Fire and Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
132. The Capital and Investment Strategy as set out in Appendix F for 2022/23, (and the remainder of 2021/22).
133. The Section 25 Report as set out in Appendix G which should be taken into account by the Authority in agreeing the budget and council tax.
134. The council tax requirement for the Authority for the year beginning 1<sup>st</sup> April 2022 of £53,396,489.
135. That the Authority's council tax be increased by £5 (7.10%) for the year beginning 1<sup>st</sup> April 2022 and for the properties in each band to be increased by 7.10%, as set out in para 18 of this report:
- |         |        |         |         |
|---------|--------|---------|---------|
| Band A: | £50.29 | Band E: | £92.20  |
| Band B: | £58.67 | Band F: | £108.96 |
| Band C: | £67.05 | Band G: | £125.72 |
| Band D: | £75.43 | Band H: | £150.86 |
136. That the precepts set out in para 24 of this report, totalling £53,396,489 are issued on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the Authority, in proportion to the tax base of each billing authority's area as determined by them.

#### APPENDICES ATTACHED

137. Appendix A – 2022/23 detailed Budget  
 138. Appendix B – Medium Term Financial Plan  
 139. Appendix C – Proposed Capital Programme and Funding  
 140. Appendix D – Reserves Strategy  
 141. Appendix E – Treasury Management Strategy 2022/23 – 2024/25  
 142. Appendix F – Capital and Investment Strategy 2022/23 - 2024/25  
 143. Appendix G – Section 25 Report

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