Bedfordshire
Fire and Rescue Service

2019/20 BUDGET BOOK

AND

MEDIUM-TERM FINANCIAL STRATEGY

2019/20 to 2022/23

CONTENTS

INTRODUCTION AND BACKGROUND

Welcome to the Budget Book for 2019/20 that includes key strategic financial information and documents such as the Medium-Term Financial Strategy (MTFS).

The Fire and Rescue Authority set the 2019/20 budget on 7 February 2019. It is a budget that takes into account the aims and objectives of the Service and prioritises the resources available for frontline services.

There has been a considerable amount of work towards the 2019/20 budget setting undertaken during 2018/19. This included a robust review and scrutiny of budgets by the Head of Finance/Treasurer and Principal Officers, review and challenge meetings by the Corporate Management Team and two Member budget workshops. This work has covered both the revenue budget and the Capital Programme.

Outcome of Comprehensive Spending Review (CSR) and Formula Funding

The final settlement for 2019/20 was confirmed on 29 January 2019. There is a 3% reduction from 2018/19 to 2019/20 of the settlement funding assessment. The attached MTFS uses prudent assumptions and estimates for the years 2020/21 to 2022/23.

Table 1: Formula Funding Settlement

	2018/19 £m	**2019/20 £m**	**% change**
Revenue Support Grant (RSG) *	*2.664	2.283	(14.3%)
Business Rates baseline funding	5.716	5.847	2.3%
Settlement Funding Assessment	**8.380**	**8.130**	**(3%)**

Budget and Precept for 2019/20 and the Medium-Term Revenue Plan

In setting the budget for 2019/20, the Authority took into account the implications for the following year's financial strategy, namely 2020/21 to 2022/23. There are significant efficiency savings over the coming years, which will require action in the short-term if they are to be secured within the planned timescales.

The MTFS sets out the budget projections for 2019/20 to 2022/23 and the key features of the projections, including assumptions of the level of formula funding and council tax funding.

The Medium-Term Plan assumes that the Authority will achieve year-on-year cashable efficiencies.

The final 3 financial years of the MTFS will be reconsidered annually in future budget setting rounds.

Based on the assumptions and proposals noted, Table 2 below details the key budget information. The budget requirement for 2019/20 was set at £29.836m.

It is worth noting the Collection Fund surplus of £0.231m (£0.291m in 2018/19 budget setting) from the three unitary authorities that is identified in the table below.

Table 2: Key Budget Information

	2018/19 £m	**2019/20 £m**	**Change £m**
Budget Requirement (£m)	**29.437**	**29.836**	**0.399**
Funded by:			
Precept Requirement (£m)	19.972	20.973	1.001
Central and Local Government Funding (£m)	8.717	8.284	(0.433)
Section 31 Business Rates grant	0.187	0.258	0.071
Collection Fund surplus/(deficit)	0.291	0.231	(0.06)
Use of Reserve (Collection Fund)	0.27	0	(0.27)
Business Rates Levy redistribution	0	0.09	0.09
Funding Total (£m)	**29.437**	**29.836**	**0.399**
Tax Base (Band D equiv. properties)	208,933	213,017	4,084
Band 'D' Council Tax	£95.59	£98.45	£2.86

The Section 31 grant included in the table above was new in 2014/15 and is a payment from Government to compensate for the 2% cap on business rates announced by the Chancellor in his autumn statement. The business rates normally increase in line with the Retail Price Index (RPI). The Grant also covers compensation for small business rate relief, retail relief and long term empty property relief.

Table 3 below details the Council Tax per band. As there is a 3% (2.99%) increase from the previous financial year's level, there are updates to all of the valuation bands. The Council Tax of £98.45 equates to, for a Band D equivalent property, 26 pence per day for the Fire and Rescue Service.

Table 3: Council Tax Per Band:

Valuation Band	**Tax Payable Compared to Band D (Expressed in Fractions)**	**Council Tax for Band £**
A	6/9	65.63
B	7/9	76.57
C	8/9	87.51
D	***1***	***98.45***
E	11/9	120.33
F	13/9	142.21
G	15/9	164.08
H	2	196.90

Table 4 below details the 2019/20 precepts that the Authority levies on the three councils for the Council Tax set, the Collection Fund surpluses and the Business Rates.

Unitary Councils (1)	**£ (2) Council Tax**	**£ (3) Deficit/(surplus)**	**£ (4) Business Rates**
Bedford Borough	5,907,993	84,000	641,000
Luton Borough	4,987,920	88,000	643,838
Central Bedfordshire	10,077,539	59,000	937,000
Total	**20,973,452**	**231,000**	**2,221,838**

In addition to the Authority's own Council Tax, there are separate Council Taxes for the Police, the local authorities of Central Bedfordshire, Bedford, Luton and where applicable their associated parishes.

<u>Use of Balances</u>

A prudent level of reserves, along with appropriate contributions to and from reserves, should be part of the overall budget. This risk assessment undertaken, and referred to in the MTFS, suggests that the minimum level of balances, taking all known risks into account along with the gross expenditure requirement, should be in the order of at least £2.6m for 2019/20. This equates to 9% of the Authority's budget requirement, which is circa the average for all Combined Fire Authorities. This is after a comprehensive review and setting up of specific ear-marked reserves of £2.375m (not including some specific reserves such as the Transformational reserve and Capital Contingency Reserve). The 2018/19 year end underspend was allocated to the Transformational Reserve. The Transformational reserve will be £4.655m at the 2018/19 year end, prior to any in year underspend allocation. It is currently considered adequate enough based on projections to fund transformational initiatives and balance the forecast 2023/24 budget gap and beyond. This is detailed at the foot of the MTRP on page 8.

The reserves strategy is included in the attached MTFS. In summary, the strategy in recent years has been to increase the Transformational ear-marked reserve with underspends and budgeted contributions to enable this to be used in future years' budget setting processes. The 2015/16 and 2016/17 revenue underspend was allocated to a Collaboration Reserve, with a view that revenue and/or capital expenditure is likely in the medium term. It is recommended that the 2018/19 underspend is allocated to the Transformation reserve. The 2017/18 underspend was allocated here too.

Medium-Term Capital Programme

The Authority's Capital Programme to date has been mainly funded by Government Grant and loans.

In the 2012/13 financial year, the Authority received £1.058m of Fire Capital Grant. The 2013/14 and 2014/15 financial years were subject to a bidding round. The Authority did not receive any funding for bids but did receive an allocation from the residual monies post successful bids, which was £0.832m in each year.

For 2015/16, there was again a bidding round for £75m revenue and capital. The prior capital funding of £70m per annum was reduced to £40m and £35m was top sliced from revenue funding to create the £75m funding pot.

The Authority was successful in one individual bid for a Retained Duty System review including new communications hardware £308k and two joint bids. The joint bids were with eight other Fire and Rescue Services to set up insurance pool £220k in total and £1.4m with two other Fire and Rescue Services for IT Service Transformational Efficiency Programme (STEP) developments.

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. There is now a base budget revenue contribution of £1.3m per annum from 2016/17 onwards. This is with the assumption that capital grants are not forthcoming. If the capital funding from 2020/21 changes, the base budget revenue contributions could reduce.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Capital Strategy Team also reviewed and assessed the bids made, approving the schemes that are contained on page 12 the 2019/20 Capital Programme.

Key items of note in the 2019/20 Capital Programme of £1.736m are:

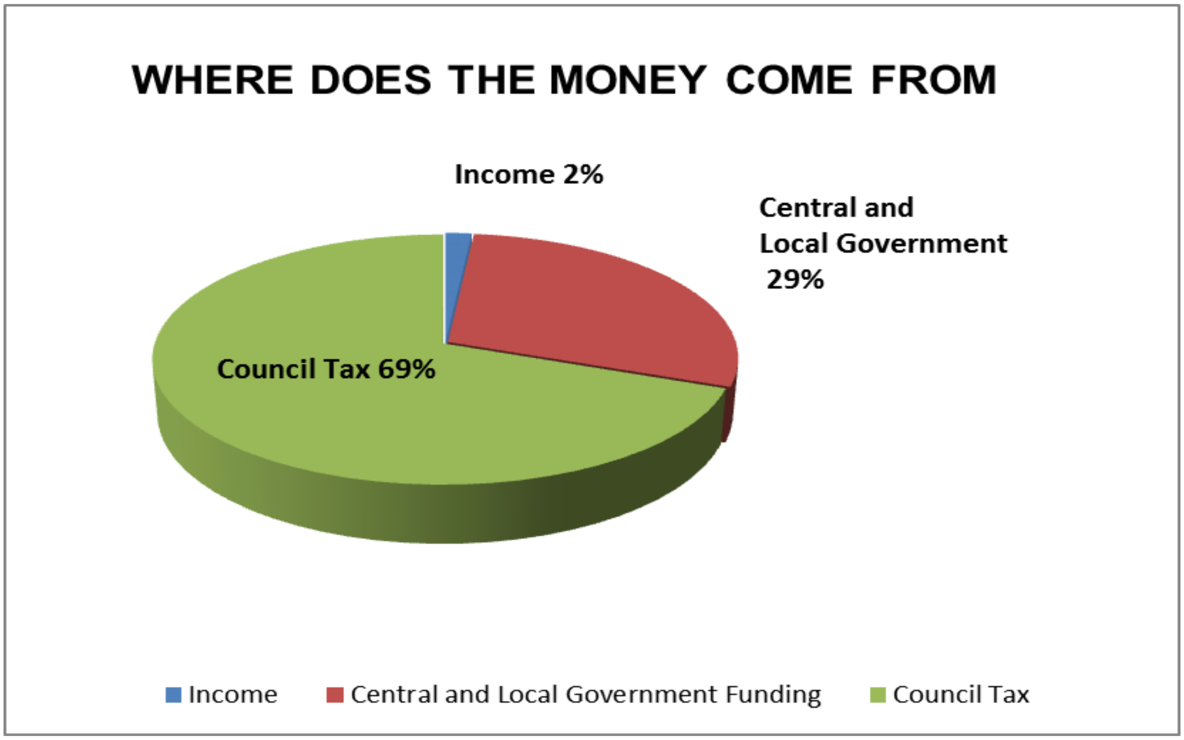
- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT.
- Investment in the modernisation of our buildings and community provision.

Medium-Term Financial Strategy

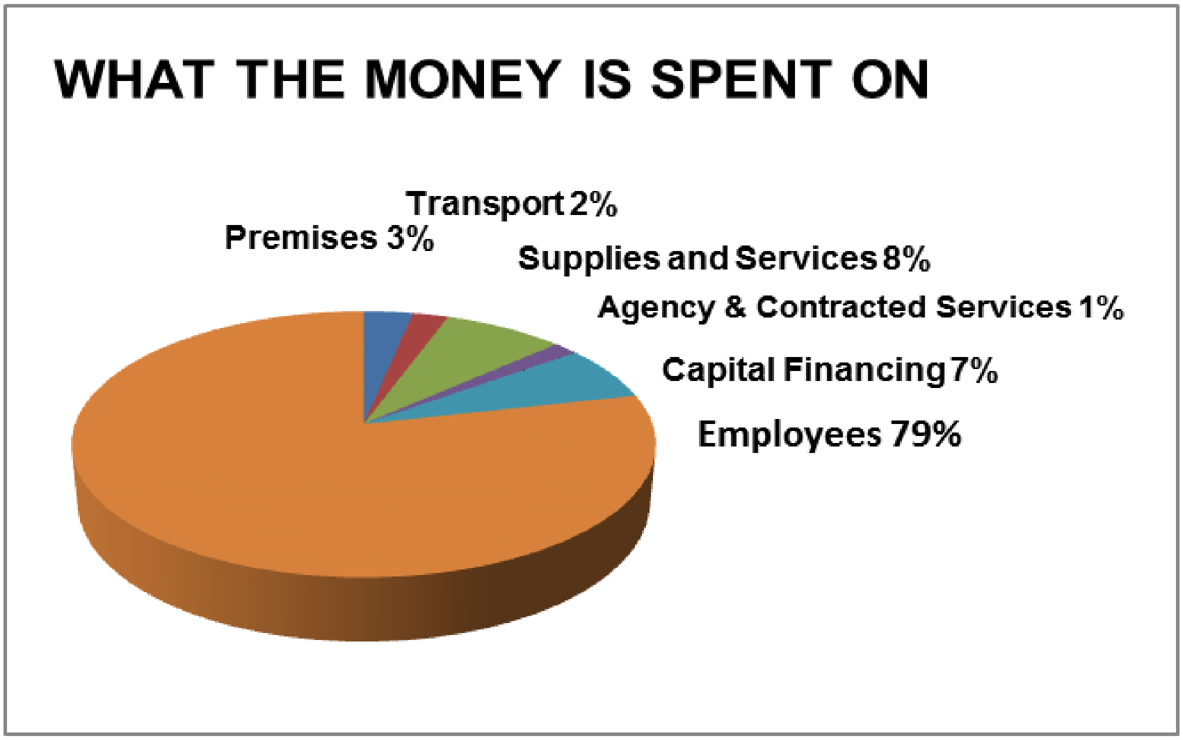
The Medium-Term Financial Strategy is a document that sets the Authority's financial strategy for the next four years. It focuses on the 2019/20 Revenue Budget and Capital Programme, but also sets the scene for future years. It covers national events such as the Comprehensive Spending Review (CSR) and then breaks down how this impacts locally on the Authority.

The MTFS details the reserves policy, planning assumptions behind the budget figures and other considerations that must be taken into account when setting the strategy, such as the tax base, efficiencies and shared services.

WHERE THE MONEY COMES FROM



WHAT THE MONEY IS SPENT ON



Funding the 2019/20 Budget

	£000
2018/19 Budget	**29,676**
Full-Year Effects and Forecast Variations to Budget	(215)
Inflation	854
Budget Pressures	13
Less Funding to/(from) Reserves	(492)
Budget Requirement 2018/19	**29,836**
Financed by:	
Central and Local Government Funding	8,632
Precept	20,973
Collection Fund Surplus/(Deficit)	231
Total Financing	**29,836**

MEDIUM TERM REVENUE PLAN 2019/20 TO 2022/23	2018/19 £000s	Original 2019/20 £000s	Proposed 2019/20 £000s	Proposed 2020/21 £000s	Proposed 2021/22 £000s	Proposed 2022/23 £000s
Base Budget	**29,284**	**29,676**	**29,676**	**30,328**	**31,069**	**31,330**
Full-Year effect of previous budget decisions & FMS 3 bids	-37	0	0	0	0	0
Removal of 2% Fire Fighter Pay increase 2018/19 from Base Budget	0	0	-188	0	0	0
Possible outcome from NJC Pay line Review (Non-Operational)	0	0	150	0	0	0
Addition of cost for FRIC & Salary abatement / Pensions to enable capture corresponding savings and efficiencies	0	0	105	0	0	0
Additional Bank Holidays	-37	25	-15	3	3	3
FF Pensions 2015 changes	-21	-23	-23	-23	-23	0
Holiday pay implications	0	0	40	0	0	0
Budget Realignment	8	135	81	0	0	0
NFCC (CFOA) subscription / LGA Pension Support / NFCC	15	0	10	0	0	0
Apprenticeship Levy	1	2	2	2	2	2
SCAPE (FF Pensions Scheme) Costs from 01/04/2019. Assumed fully funded 2019/20 and part 2020/21	0	450	0	650	0	0
Local Government Superannuation Revaluation Lump Sum	46	48	48	32	30	30
Minimum Revenue Provision reduction from Earmarked Reserves (MRP holiday, £200k per annum for 6 years)	0	0	0	-200	0	0
Total Base Budget Adjustments	**-25**	**637**	**210**	**464**	**12**	**35**
Forecast Variations						
Investment Interest Decrease/(Increase)	-15	-5	0	0	0	0
Revenue Contribution to Capital	-171	-65	277	-138	71	-91
Revenue Implications of Capital Programme	26	12	12	0	0	0
Non-Uniform Incremental Drift	4	2	64	42	19	0
Transformational Savings/Efficiencies	-178	-150	-495	-127	-373	-85
Scrutiny Panel Decisions	-211	50	-282	-29	20	-39
Service Control - Mobilisation System - see below for use of Transformational Reserve	0	750	0	0	0	0
Total Forecast Variations	**-545**	**594**	**-425**	**-252**	**-263**	**-215**
Inflation						
Fire-fighters pay - 1 April to 30 June (2% 2019 & 5% 2020 & 2% each following year)	63	128	62	160	67	69
Fire-fighters pay - 1 July to 31 March (5% 2019 & 2% each following year)	376	192	446	192	197	201
Retained Pay (As per Fire-Fighters)	38	39	94	54	40	41
Control pay (As per Fire-Fighters)	18	18	48	25	19	19
Non Uniformed pay (2% effective from 01/04/2018)	96	97	103	106	108	110
Member Allowances	1	1	2	2	2	2
Gas, Electricity, Water and Derv Inflation	29	32	25	19	27	28
Prices Inflation at, 2% 2019/20 - 2022/23	81	81	74	75	76	78
Total Inflation	**702**	**588**	**854**	**633**	**536**	**548**
Budget Pressures						
FMS3' bids (Current Year MTFP process)	326	-2	61	0	0	0
FMS3' bids (Previous Years MTFP process)	-66	-78	-48	-104	-25	-7

Estimated Net Revenue Expenditure	**29,676**	**31,415**	**30,328**	**31,069**	**31,330**	**31,691**
Contribution to/from Transformational Earmarked Reserves	*-239*	*-1,816*	*-492*	*-779*	*-315*	*163*
Estimated Budget Requirement	**29,437**	**29,599**	**29,836**	**30,291**	**31,015**	**31,854**
Budget Requirement Increase Year on Year	**720.7**	**162.4**	**397.2**	**456.7**	**724.5**	**839.0**
% Budget Increase	**2.5%**	**0.6%**	**1.3%**	**1.5%**	**2.4%**	**2.7%**
Financed by:						
Revenue Support Grant (RSG): expected to cease in 2020/21 and be included within increased business rates funding	2,856	2,474	2,283	1,977	1,712	1,483
Business Rate Baseline	2,136	2,249	2,222	2,345	2,428	2,486
Business Rate Top Up	3,694	3,776	3,779	3,860	4,010	4,232
Adjusted 2017/18 Business Rates Top Up following revised VOA list	23	0	0	0	0	0
Business Rates Grant	195	195	258	258	258	258
Collection Fund Surplus/(Deficit)	291	0	231	100	50	0
Council Tax (the remainder)	19,972	20,906	20,973	21,750	22,558	23,395
Utilisation of Collection Fund Surplus Reserve	270	0	0	0	0	0
Redistribution of Business Rates Retention Levy Account surplus	0	0	90	0	0	0
	29,437	**29,599**	**29,836**	**30,291**	**31,015**	**31,854**
Band D equivalent Tax base	208,933	212,353	213,017	216,611	220,269	223,992
% change on Band D's	2.09%	1.64%	1.95%	1.69%	1.69%	1.69%
Leading to an average council tax (Band D) of	95.59	98.45	98.45	100.41	102.41	104.45
% increase	***2.99%***	***2.99%***	***2.99%***	***1.99%***	***1.99%***	***1.99%***
Use of Transformational Reserves Summary	**Proposed 2018/19 £000s**	**Proposed 2019/20 £000s**	**Proposed 2019/20 £000s**	**Proposed 2020/21 £000s**	**Proposed 2021/22 £000s**	**Proposed 2022/23 £000s**
Transformational Earmark Reserve for Budget Setting	4,408	4,169	4,655	3,465	2,637	2,072
Actual 2017/18 underspend (£486k) and 2018/19 Predicted Revenue Underspend (£555k)	486	0	555	0	0	0
Contribution to/from Transformational Earmarked Reserves	-239	-1,816	-494	-779	-315	163
Use of Transformational Reserve for investment into the Control Mobilisation Project	0	0	-1,000	0	0	0
Annual use of Transformational Reserve for Strategic Projects and Improvements			-250	-250	-250	-250
Reduction of General Reserve from £2.6m to £2.4m, followed by reduction to £2.1m in future years	0	0	0	200	0	300
Net Balance Transformational Earmark Reserves	**4,655**	**2,353**	**3,465**	**2,637**	**2,072**	**2,285**

Transformational Savings and Efficiencies 2019/20 to 2022/23

Savings/Efficiencies	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s
Income from Property Rents & Collaboration		8		
Control Income generation	15			
Management Information System (MIS) - Wholetime Rota/Availability System, Human Resources, Technical Equipment	45	44		
Saving following Procurement of new Fire Fighter PPE Contract (was £50k in 18/19, now additional £50k therefore £100k in total)	100			
Change of 4th Area Commander post to Green Book Head of Service (subject to natural turnover)			15	
Printers/Photocopiers leasing renegotiation				
Draw down apprenticeship levy (therefore reduction in training budget)	50			
Collaboration Savings		20		
2019/20 Zero Base Budget Exercise (forecast reduction)	100			
New Savings/Efficiencies for 2019/20 Budget process				
Intelligence Led Response Project			340	80
To capture Fire & Rescue Indemnity Company - no Insurance Premium Tax	20			
Savings from MDT collaborative procurement and review of licences	40			
Savings due to new ICT contract	5			
Savings from internal Blue Light Installations	20			
Procurement - (various including stationery, cleaning materials & Fire Safety checks)	10			
Energy Management Savings (Insulation & works)	5	5	5	5
To capture salary abatement & pension savings	85			
Principal Officer review/restructure		50	13	
	495	**127**	**373**	**85**

2019/20 SUPPORTED REVENUE BUDGET BIDS (FMS 3s)

Budget Bids Agreed;

Description of Scheme		2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s
Risk Management Software	Software to improve the outcomes for customers.	25	(25)	0	0
Firefighter Recruitment	Increase in costs for Advertising for on-going recruitment of Whole-time and Retained Fire Fighters.	16	0	0	0
Operational Equipment	Replacement of operational Ladders for Fire Appliances	0	32	(32)	0
ICT Infrastructure	Upgrade of ICT Helpdesk to enable more efficient co-ordinated working across the service.	20	(20)	0	0
Total FMS 3 Bids supported as part of 2019/20 MTFP budget setting		**61**	**(13)**	**(32)**	**0**

Summary of Subjective analysis

2018/19 £'000's		2019/20 £'000's
(535)	**Income**	**(587)**
	Employees	
14,112	Uniformed	14,398
1,875	Retained	1,875
970	Control	1,065
5,469	Non-Uniformed	5,688
915	Indirect Employee costs	885
23,341	**Total Employees**	**23,911**
	Premises	
51	Cleaning and Grounds Maintenance	58
305	Heating and Lighting	245
529	Insurance, Rents and Rates	545
255	Repairs and Maintenance	243
1,139	**Total Premises**	**1,091**
	Transport	
158	Maintenance	143
335	Car Allowances	355
221	Fuel and Oil	178
714	**Total Transport**	**676**
	Supplies and Services	
47	Subscriptions	66
3	Bank Charges	3
378	Clothing and Uniforms	320
199	Operational Equipment	163
831	Information Technology	1,759
83	Hydrants and Breathing Apparatus Maintenance	63
72	Catering and Catering Equipment	72
73	Printing and Photocopying	79
20	Stationery	14
26	Subsistence	51
127	Telephones	127
836	Other Supplies and Services	937
2,695	**Total Supplies and Services**	**3,654**
399	**Agency**	**668**
1,974	**Capital Financing**	**2,251**
29,726	**Net Revenue Expenditure**	**31,663**
(50)	Transformational Efficiency Savings	(85)
(239)	Reserves Funding	(1,742)
29,437	**Budget Requirement**	**29,836**

Capital Programme 2019/20 to 2022/23

Scheme	Capital Budgets 2019/20 £000's	Capital Budgets 2020/21 £000's	Capital Budgets 2021/22 £000's	Capital Budgets 2022/23 £000's
Fleet:				
Vehicles/associated equipment	1,290	917	447	280
ICT Projects:				
IT Developments				
Server hardware renewal (deferred from 2015/16)	0	0	0	0
IT & Communications				
Primary Network Switch replacement	0	100	0	0
Network Structured Cabling replacement	0	60	0	0
Local Area Network (LAN) replacement	0	50	0	0
Secondary Network Switch replacement	0	35	0	0
Renewal of Mobilising System Mobile Data Terminals	276	0	0	0
New ICT 2019/20 Budget Round:				
Wi-fi refresh	0	75	0	0
General:				
Capital Works - Service Wide (lighting replacements, CCTV, fire protection, etc) - All locations	68	86	52	27
Drill yard resurfacing (Biggleswade, Luton, Woburn)	25	0	0	20
WC/Shower facility refurbishments (Ampthill, Dunstable, Harrold, Workshops, Training, Luton)	25	0	0	0
Heating - boiler replacements (Ampthill, Bedford, Woburn)	0	23	0	0
Bay Floor replacements (Bedford, Biggleswade, Potton, Shefford, Toddington)	0	0	65	0
Dormitory refurbishment (Bedford, Luton)	0	0	0	30
Station Kitchen Refurbishments (Biggleswade, Leighton Buzzard, Stopsley)	0	0	0	21
Fitness Equipment Expenditure	8	8	15	15
Workshop vehicle lifting equipment	0	0	0	0
Future Capital Programme Schemes (yet to be finalised, reviewed and approved)	0	0	800	900
Community Facility - Bedford Station	44	0	0	0
TOTAL	**1,736**	**1,354**	**1,379**	**1,293**
Capital Financing Summary				
RCCO = Revenue Contribution to Capital	1,396	1,258	1,329	1,238
Capital Receipts & Reserve Utilisation	340	96	50	55
Total	**1,736**	**1,354**	**1,379**	**1,293**

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Financial Strategy

2019/20 – 2022/23

CONTENTS

1. Introduction

This is Bedfordshire Fire and Rescue Authority's (BFRA) Medium-Term Financial Strategy (MTFS). It is a four year strategy which covers the financial years 2019/20 to 2022/23 and seeks to build upon the work undertaken in developing previous MTFS. It contains the Authority's agreed plans for both revenue and capital expenditure and the planned sources of funding to support that expenditure. It also explains the Authority's supporting strategies for matters such as council tax levels, efficiency savings, the use of reserves/reserves strategy and capital funding.

In addition, the plan also seeks to provide the strategic context for these financial plans, linking them to the national and local context and the Authority's corporate objectives and medium-term strategic priorities.

BFRA has been a precepting body since 2004/05 and is required by the Local Government Finance Act 1992, as amended by the Local Government Act 2003, to set a budget requirement and levy a tax on local council taxpayers each year. The Authority is also required to maintain adequate reserves to cope with unforeseen commitments.

In common with many other authorities, each year since becoming a precepting authority, BFRA has experienced a pressurised financial situation which has necessitated robust and effective medium-term financial planning and the taking of some difficult decisions, in order to present acceptable and affordable budgets.

This year has seen the continuation of the harsh economic climate. However, BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves.

The Authority has a planning process which aligns its financial planning with its strategic and integrated risk management planning processes, the key outcomes of which are captured in the Authority's Community Risk Management Plan (CRMP). The financial implications of the CRMP are thus fully integrated into the annual budget plan and MTFS. Both the CRMP and MTFS cover a rolling four year timescale and are revised on an annual basis. This MTFS has therefore been developed to ensure that resources are adequate and appropriately directed to deliver the aims, objectives and key priorities of the Authority.

The Authority's corporate risk management process, which identifies key organisational risks and puts into place controls to manage these risks, also plays a major role in determining the outcomes of the planning process. This includes an annual assessment of the potential financial impact of such risks, which in turn is used in determining the most appropriate level of financial reserves for the Authority.

2. National Context

Service planning, and therefore financial planning, must take place with due regard to the national policy context for the fire and rescue service and economic and public expenditure plans.

Emergency services play an essential part in serving our communities and keeping them safe. Whilst the police, fire and rescue and NHS ambulance services all have distinct frontline roles, it is clear that close collaboration between them can provide real benefits for the public and help each service better meet the demands and challenges they face.

The Prime Minister's announcement on 5 January 2016 that responsibility for fire and rescue policy had transferred from the Department for Communities and Local Government to the Home Office again demonstrates the Government's commitment to closer collaboration between police and fire and rescue services.

In a number of Fire and Rescue Authorities, moves are being taken for the Police and Crime Commissioner to take on the governance responsibility of the Fire and Rescue Service. This has already taken place in Essex and more are likely to follow.

In April 2017 the National Fire Chiefs Council (NFCC) was formed. The NFCC is made up of senior representatives from all fire and rescue services across the UK.
The new Council provides clear, professional advice to government (including devolved administrations) and the wider sector on matters such as professional standards, operational guidance, research and sharing best practice, while supporting the whole of the UK FRS.

As part of the reform agenda, a Fire and Rescue inspectorate (Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services, HMICFRS) has been created. The Authority's review took place in the first tranche of inspections in 2018. The results of this can be found at https://www.justiceinspectorates.gov.uk/hmicfrs/

The Authority is implementing where appropriate, the recommendations from the Thomas Review.

The following sections cover in broad outline the national context within which the budget and other aspects of MTFS have been framed.

2.1. National Statutory and Policy Context:

The Fire and Rescue Services Act 2004 represented the most comprehensive reform of the statutory framework for the service for more than fifty years and brought about far reaching changes to the way in which individual fire and rescue authorities plan and deliver their services. Amongst the most fundamental of these was the replacement of the previous prescriptive standards of fire cover with a framework for local integrated risk management planning, a duty to engage in preventative community safety work and the provision for a National Framework (revised in June 2018) to provide clarity for Fire and Rescue Services on the Government's expectations.

In addition, a range of Statutory Instruments have been introduced over recent years, which between them impose new duties on the Service, including the requirement to respond to emergencies other than fire, such as road traffic collisions, chemical, biological, radiological and nuclear (CBRN) incidents, serious flooding and major search and rescue incidents. The new responsibilities are not limited to response, but also extend to the need for the fire and rescue service to play a key role in civil contingency planning.

Reform

The previous Home Secretary (now Prime Minister) outlined her vision for fire and rescue services in May 2016. This was a "radical ambitious" package of reforms. This approach was then supported by the new Home Secretary and the then Minister for Policing and Fire, Brandon Lewis (now Nick Hurd).

The reform agenda is made up of three distinct pillars. These are:

1. Efficiency and Collaboration

   The aim is to drive deeper collaboration between fire and rescue and other local services – including through the statutory duty in the Policing and Crime Act – and support the NFCC and the sector deliver commercial transformation, including procuring more collaboratively, efficiently and effectively.

2. Accountability and Transparency

   The aim to enable the public to fully hold their service to accounts by replacing opaque governance and inspection arrangements and publishing more comparable performance indicators.

3. Workforce Reform

   The recommendations are the sector and Government to deliver and are based around five broad themes:

   - The working environment including diversity of workforce
   - Documented conditions of service
   - Industrial relations
   - Retained duty system and
   - Management

On a more local level; the Service continues to work with a range of statutory and non statutory partners in pursuit of joint initiatives that will make our communities safer and healthier. With shrinking budgets and a Government desire to 'do more for less' the expectations of all partner organisations on each other will increase. As a Service we must ensure we remain best placed to meet this challenge. The Authority actively seeks joint working arrangements to best meet the need of the community. It is likely that following Parliamentary approval, the Police and Crime Commissioner for Bedfordshire will become a voting member of the FRA. The Authority awaits the guidance on this process from the Home Office.

2.2 National Financial Context:

On 13 December 2018 the Government announced the Provisional Local Government Finance Settlement for 2019/20.

The headlines below provide a brief summary of the key points:

Headlines

- Government announced there is new money included in the provisional settlement.
- No increase to the New Homes Bonus (NHB) threshold further next year, and government has provided up to £20 million to fund this. This makes up a considerable part of funding for some councils, particularly shire district authorities.
- Government has provided extra resources to some councils in 2019/20 to cancel the 'negative RSG' adjustment to tariffs and top-ups. The Government has also made an extra £16 million available through the Rural Services Delivery Grant.
- The £180 million surplus on the levy account is returned to local government.
- Continued flexibility for local authorities in setting council tax levels will give some councils the option of raising extra money to offset some of the financial pressures they face next year.
- Further Business Rates Retention pilots will enable aspects of the 75 per cent Business Rates Retention system to be tested prior to implementation for all in 2020/21. Consultations on further Business Rates Retention and the Fair Funding Review have been published alongside the settlement.
- The four year deal runs out in March 2020

The following Council Tax Referendum Principles were announced:

- a core principle of up to 3 per cent applying to shire county councils, unitary authorities, London borough councils, the City of London, the Isles of Scilly, the GLA general precept and fire and rescue authorities.
- a continuation of the Adult Social Care precept, with an additional 2 per cent flexibility available for social care authorities. This is subject to total increases for the Adult Social Care precept not exceeding 6 per cent between 2017/18 and 2019/20, and increases being no more than 2 per cent in 2019/20.

- shire district councils in two-tier areas will be allowed increases of up to 3 per cent, or up to and including £5, whichever is higher.

- police and crime commissioners (PCCs) will be allowed increases of up to £24 in 2019/20 (including the Greater London Authority charge for the Metropolitan Police, and the PCC component of the Greater Manchester Combined Authority precept).

- Directly elected mayors will decide the required level of precept by agreement with their combined authorities.

- Continue to defer the setting of referendum limits for town and parish councils

3. <u>Local Context</u>

3.1 **The Authority's Area:**

Bedfordshire occupies a geographically central position within the UK. It has exceptional links to London with the presence of key transport infrastructure including the M1 and A1 roads, three major rail routes and London Luton Airport. Bedfordshire has a population of over 640,000[1] people, with a workforce of over 250,000[2]. It has one of the most diverse populations in the country, over a relatively small geographical area.

The county is, in land use terms, largely rural and agricultural, including major areas of outstanding natural beauty. Most people (over 70%) live in its larger towns including the two major towns of Luton and Bedford but also in a number of smaller market towns. These towns lie within often picturesque rural settings which also includes many villages that add to the area's diversity of places to live, work and play.

Over recent years the local economy, like many throughout the UK, has moved from traditional manufacturing and heavy industry to one based more upon the service industry. These industries include logistics and air transport, higher education, research and development, tourism and hospitality, creative and cultural businesses, construction, and business services.

Bedfordshire has two successful universities; the post-graduate Cranfield University, and the under-graduate University of Bedfordshire, together with strongly performing further education colleges based in Bedford, Luton and Dunstable. There are a number of significant and internationally linked research locations at these universities and also at Colworth Science Park, Cranfield Technology Park and the Millbrook Vehicle Proving Ground.

There are on-going major transport infrastructure improvements and developments to the road system within the county and continued growth at London Luton Airport; a key

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[1] *Source: ONS Mid-Year estimates July 2014.*
[2] Business Register & Employment Survey, Office for national Statistics Full & Part Time Employment

deliverer in the business passenger market and handling circa 16 million passengers a year in total.

There are also iconic visitor attractions in the county, such as Woburn Safari Park, Whipsnade Zoo and Center Parc's fifth UK village at Woburn.

From April 2009 local government within the county has been through three unitary authorities - Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. The Bedfordshire Fire and Rescue Authority (BFRA) comprises elected Members from each of these unitary authorities, whose numbers are proportional to the populations they represent: 3 Members from Bedford Borough Council, 5 Members from Central Bedfordshire Council and 4 Members from Luton Borough Council.

3.2. **The Authority's Strategic Priorities Objectives:**

The achievement of the Authority's objectives and targets within a rapidly changing and complex environment requires a robust strategic and business planning process which must in turn guide the development of the medium-term revenue and capital expenditure plans, targeting financial resources to support day-to-day activities as well as planned investment.

Such effective business planning is also essential in order to embed a Service-wide culture of providing the best quality service through the most efficient means and ensure that efficiency measures can be used to free up existing resources, enabling them to be redirected to new and emerging priorities.

BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves. In the recent years the Authority has:

- Changed the shift system at all of our wholetime fire stations.
- Changed the shift system at 1 of our 2 day crewed fire stations.
- Restructured our management teams and reduced the number of officers.

In accordance with its corporate planning policies and procedures, the Service undertakes a strategic assessment twice per year that assists in identifying the strategic issues facing the Service both in the short and longer term and to ensure that the Service is best positioned to continue to achieve its strategic objectives. The production of the Service's Community Risk Management Plan (CRMP) is facilitated by the Strategic Assessment and considers a wide range of factors and issues, many of which are complex and played out over a longer timeframe, whilst others are less complex but more volatile requiring close monitoring.

The outcomes of the strategic assessment also guide the development of more detailed plans across the Service and in particular the programme of strategic improvement projects for the forthcoming year and medium-term beyond and play a vital role in guiding and prioritising proposals for expenditure in the annual budget setting and medium-term financial planning process.

The Service planning processes and current medium-term strategic assessment has led to the development of three key strategic objectives and associated priorities that we will pursue in order to achieve these objectives (Note: these are not ranked in order of importance) and our Vision that is *'To provide an excellent service for the communities of Bedfordshire'.*

Our Strategic Objectives

Strategic Objective 1: To respond effectively, manage risks and reduce the number of emergency incidents that we attend.

We will provide 'Civic Leadership' in delivering our services by:

- Matching operational response resources to risk;
- Responding to medical emergencies in the community, delivering life-saving support working alongside the Ambulance Service; Focussing on policy, procedures and processes that underpin Fire-fighter and community safety;
- A continued focus on operational excellence and safety through the provision of high quality procedures and equipment;
- Demonstrating proactive leadership within the community and amongst our partners in delivering a wide but risk-focused portfolio of services, where our brand and capabilities make us best placed to act (such as young people, sport focused initiatives, the elderly, social cohesion etc); and,
- Enhanced strategic partnerships with other Services and agencies in the public, private and voluntary sectors in pursuit of achieving shared local priorities.

And:

We will enhance our customer focus through:

- Use of customer insight techniques (customer segmentation, customer journey mapping etc);
- Enhanced consultation with and involvement of communities;
- Improved use of risk and socio-demographic data to identify our 'at risk' groups and emerging issues such as an ageing population and the impact of mental health/dementia etc;
- Use of social marketing techniques, including the effective use of social media, to change behaviours in regard to staying safe; and
- Using an 'embedded' approach to diversity in relation to our customers and the community.

Strategic Objective 2: To ensure high standards of corporate governance and continued service improvement.

We will ensure a rigorous, business-like approach through:

- Robust financial scenario planning to meet the continued programme of austerity measures;

- Improved strategic planning and quality control systems including robust business cases for strategic expenditure;
- Improved performance measurement, reporting and management and enhanced audit and developed Quality Assurance processes;
- Maximise opportunities from external challenges and influences to deliver improvements across the Service;
- Continuous review of structures to meet the needs of the community to deliver efficient and effective services;
- Rigorous evaluation of outcomes;
- Process improvements to achieve efficiencies;
- Collaboration and where appropriate shared services to achieve resilience and efficiencies; and
- A focus on sustainability in all our business processes.

And:

Using Transformational Information and Communication Technology (ICT) by:

- Further enhancement and development of ICT systems to support our service delivery functions;
- Improved Management Information System applications;
- Continuing to develop ICT systems to share data and information with partners and make such data and information more accessible whilst ensuring the continued security of our systems; and
- Utilising technology to maximise business outcomes**.**

Strategic Objective 3: To develop our employees and create a safe, fair and caring workplace for our staff.

We will have the right people with the right skills by:

- Having a continued focus on operational excellence through safety and training;
- Reviewing our approach to leadership to determine the critical capabilities required of leaders to deliver the Service's future strategies;
- Having a continuing ethical and moral leadership approach;
- Developing an expanded skills-base and flexible workforce that will provide public value and a wider range of service delivery outcomes;
- Continue delivering a programme of investment in training and equipment across the Service;
- The use of effective change management processes.
- Using an 'embedded' approach to diversity in relation to our staff;
- Maintaining robust individual performance management systems aligned to service strategy;
- Utilising knowledge, skills and competence;
- Succession planning;
- Supporting innovation.

3.3. **Government Funding Settlement:**

The Government's provisional settlement was announced on 13 December 2018. The Authority is yet to receive the final settlement figures at the time of writing this report which is due to be published in time for circulation prior to the Fire and Rescue Authority meeting on 7 February 2019. The final funding announcement was in early February in 2018 for the Authority's 2018/19 settlement. The settlement figures are detailed below in Table 1.

Table 1: Government Grant Revenue Funding

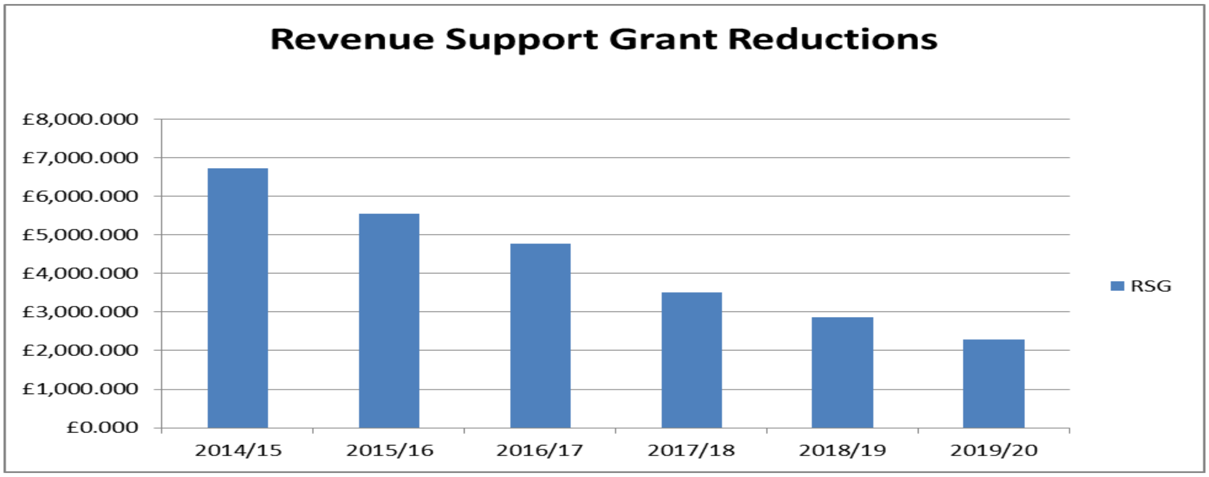
	2018/19 £m	**2019/20 £m**	**% change**
Revenue Support Grant (RSG)	*2.664	2.283	(14.3%)
Business Rates baseline funding	5.716	5.847	2.3%
Settlement Funding Assessment	**8.380**	**8.130**	**(3%)**

* The settlement figures for 2019/20 are the last of the four year funding deal that the Authority accepted. Therefore the years 2020/21 onwards are current forecasts. The 2019/20 RSG shown in Table 1 above is £0.191m lower than previously forecast. Although this shouldn't change as part of the four year funding deal, the Ministry of Housing and Local Government (MHCLG) has contacted the Authority advising that an error occurred in the funding calculations between our Authority and another. They MHCLG has reduced our RSG for 2019/20 but is not seeking any reimbursement for prior years. The figure in Table 1 above for 2018/19 is also showing this amended figure for comparison purposes.

As detailed above, the funding reduction between 2018/19 and 2019/20 is 3% over both grant and business rates income.

The chart below details the Revenue Support Grant income reductions since 2014/15. These reductions have been visible in the Medium Term Revenue Plan and have course led to increased savings and efficiencies.

Chart 1: Revenue Support Grant reductions from 2014/15 to 2019/20



* The table above shows the actual Revenue Support Grant (RSG) received by the Authority between 2014/15 and 2018/19 with the figure for 2019/20 being the revised figure for the 4th year of the Settlement after the reduction noted above.

The Authority's Business Rates Baseline Funding Level (BFL) has been assessed at £5.847m by the DCLG for 2019/20 and a business rate baseline estimated at £2.068m (the Government's estimate of the Authority's 1% share of locally collected business rates). As our business rate baseline is lower than the baseline funding level, we are therefore a 'top up' authority and will receive the payment of £3.779m from central government (to get back to the £5.847m baseline funding level). All fire and rescue services are top up authorities. The RSG and business rates funding of £8.284m shown the 2019/20 MTRP is split between £2.283m Revenue Support Grant funding and £6.001m Business Rates (with the local share of business rates at £2.222m, £0.154m higher than used in the SFA figures).

The split of this between local authorities is shown below in Table 2.

Table 2: Local Business Rates income.

Authority	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Bedford	641	653	666	679
Luton	644	683	697	711
Central Beds	937	1,009	1,065	1,096
Total	2,222	2,345	2,428	2,486

The above figures are fed into the MTRP. As are the Section 31 Business Rates Grants of £258,000 in total from the three Unitary Authorities.

As previously reported, the Authority in future years will be subject to fluctuations of the Business Rates collected in Bedfordshire. If business rates income increases, the Authority will receive a share of this, if it decreases the Authority will be impacted by this. There are mechanisms in place within the funding scheme that offer protection, called safety nets, should an authority be considerably adversely impacted.

The Chancellor has previously announced that by 2020, authorities will be funded by Business Rates and Council Tax, the Revenue Support Grant (RSG) will cease. The final details of this are expected before the provisional 2020/21 settlement in December 2019.

The detailed split of the Authority's total funding and local council tax is shown in Table 3 below:

Table 3: Detailed income split

	2018/19 £m	**2019/20 £m**	**Change £m**
Budget Requirement (£m)	29.437	29.836	0.399
<u>Funded by:</u>			
Precept Requirement (£m)	19.972	20.973	1.001
Central and Local Gov Funding (£m)			
Section 31 Business Rates grant	8.717	8.284	(0.433)
Collection Fund surplus/(deficit)	0.187	0.258	0.071
Use of reserve (Collection Fund)	0.291	0.231	(0.060)
Business Rates Levy redistribution	0.270	0.000	(0.270)
	0.000	0.090	0.090
Funding Total (£m)	29.437	29.836	0.399
TaxBase (Band D equiv. properties)	208,933	213,017	4,084
Band 'D' Council Tax	£95.59	£98.45	£2.86

The above income lines are further explained below:

- The Government Grant funding for 2019/20 is as per the provisional settlement figures provided by the MHCLG, with the exception of the local business rates. For business rates, as noted below, the more up to date local authority information is used.

- The Precept Requirement is the total of council tax income to the Authority.

- The local business rates for 2019/20 are the figures provided by the three local authorities, as reported in their NNDR 1 returns, which are due to be submitted to the MHCLG by 31 January 2019. The years 2020/21 to 2022/23 have been increased by using the MHCLG's figures for the top up grant and the unitary authority figures for the local share. The Section 31 grant included in the table above are for the following reliefs; Multiplier Cap, Small Business Rate Relief and financially minor reliefs.

- The Business Rate top up is the figure calculated and provided by the MHCLG. This is fixed until the next revaluation. A revaluation took place with impacts included within the 2018/19 budget, a further revaluation is expected from the Valuation Office Agency (VOA) in 2019/20.

- Council Tax Taxbase, is the Band D equivalent number of properties. For six years there was a lower figure than in 2012/13 and prior years due to the changes in the benefits system, which has reduced the taxbases. This reduced council tax income was offset by the Council Tax Support funding that was separately identifiable in 2013/14 but from 2014/15 has been included in the general Government funding calculations. The taxbase for 2019/20 is now higher for the first time than the 2012/13 levels.

3.4 **Damping:**

In allocating grant, the Government utilises a device known as 'floor damping' to ensure that no fire and rescue authority receives below a prescribed minimum adjustment to the level of grant in comparison to the previous year (the 'floor'). To achieve this, the grant for some other authorities is reduced ('damping') and the money used to increase the grant to those authorities needing it to ensure that they receive the 'floor'.

This Authority has been adversely affected by the 'floor damping' process, with 'damping' reductions of £227,222 in 2012/13 and £332,745 in 2013/14 incorporated into its grant settlements. For 2014/15 onwards the impact of damping is not as visible as it has previously been and is now included with the RSG figures.

3.5. **Other Revenue Grants:**

In addition to the formula funding, the Government provides specific revenue grants. For the two grants listed below, these are forecast to total £220,000 in 2019/20.

- *Firelink* - This is for the wide area radio system in England, Wales and Scotland for the fire and rescue service.

- *New Dimensions* - This is a grant to cover local costs associated with hosting and maintaining skills associated with national resilience vehicles. This grant was reduced from 2017/18.

As well as the above, a grant is also received on an ad hoc basis for the Firearms team.

3.6. **Fire Capital Grant Allocation:**

The Authority's Capital Programme to date has been mainly funded by Government Grant and loans.

In the 2012/13 financial year, the Authority received £1.058m of Fire Capital Grant. The 2013/14 and 2014/15 financial years were subject to a bidding round. The Authority did not receive any funding for bids but, did receive an allocation from the residual monies post successful bids, which was £0.832m in each year.

For 2015/16, there was again a bidding round for £75m revenue and capital. The prior capital funding of £70m per annum was reduced to £40m and £35m was top sliced from revenue funding to create the £75m funding pot.

The Authority was successful in one individual bid for a Retained Duty System review including new communications hardware £308,000 and two joint bids. The joint bids are with eight other Fire and Rescue Services to set up a Mutual Company to cover a protection programme (instead of traditional insurance) at £220,000 in total and £1.4m with two other Fire and Rescue Services for IT Service Transformational Efficiency Programme (STEP) developments.

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. From 2019/20 there is a base budget revenue contribution of c.£1.3m per annum. This is with the assumption that capital grants are not forthcoming. It has been confirmed that there will not be a capital funding bidding round for 2019/20, which is consistent from the prior 3 years too.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Capital Strategy Team has also reviewed and assessed the bids made, approving the schemes that are shown in the 2019/20 Capital Programme.

Key items of note in the proposed 2019/20 Capital Programme of £1.736m are:

- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT.
- Investment in the modernisation of our buildings.

4. <u>**The Medium-Term Revenue Plan**</u>

4.1. **Overview and Key Features of the Revenue Budget Strategy:**

The Medium-Term Revenue Plan (MTRP) 2019/20 budget report, sets out the Authority's revenue budget strategy for the next four years and the predicted impact on council tax. It captures all of the revenue budget implications of the forecasts and assumptions set out throughout this document, including the impact of the capital budget on revenue.

A key feature of the Authority's overall revenue budget strategy is the decision to set a budget for 2019/20 which involves a 2.99% increase in council tax on 2018/19 levels. This 2.99% council tax increase is combined with strategies for council tax, efficiency savings and the use of reserves, which together are aimed at delivering significant and sustainable savings over the four year period and beyond, whilst supporting continuing improvements in the quality of service in line with the Authority's strategic priorities.

The council tax strategy, based on current assumptions and estimates, involves increases at 2.99% for 2019/20 and 1.99% for the following 3 years until 2022/23. The 2.99% increases are currently built into the MTRP based on need. This is supported by a strategy for efficiency savings and the utilisation of the 'transformational reserve' in 2019/20 onwards. The support provided to the revenue budget by the planned use of the reserves in the years 2019/20 to 2022/23 is aimed at smoothing the impact of formula grant reductions.

The 2020/21 financial year will be a significant one in terms of funding for the Authority. With the funding formula review, Business Rates Retention and the Spending Review all to take place over 2019, the 2020 settlement could have a material impact on the forecast figures within the current 2019/20 to 2022/23 medium term plan. The 2019/20 is the final year of the four year settlement.

4.2 Components of the Medium-Term Revenue Plan:

The following sections give a brief explanation of each of the main components of the MTRP:

4.2.1 *Base Budget*

The net revenue budget for running the Service in 2018/19 was £29.676m. After adjusting for an amount of £0.239m which was a contribution from reserves to balance the budget, this decreased the budget requirement to £29.437m.

For the 2019/20 budget, the net revenue budget is £30.328m, with a budgeted use of £0.492m from the Transformational reserve decreasing the budget requirement to £29.836m.

4.2.2 *Impact of Pensions Funding Changes*

From 2006/07 arrangements were introduced which saw the majority of firefighters pension costs being paid for from the pension account (that is separate from the BFRA's budget), which is funded by a combination of employers' and employees' contributions with Government paying the balance. The level of the employers' contributions is set by the Government Actuary Department and applies uniformly across all Authorities. The BFRA is still responsible for injury retirements and the initial contribution towards ill-health retirements.

The employer pension contributions percentage will increase for non operational employee from April 2017, however, in the initial years this is offset by a reduction to the lump sum contribution. The employer firefighter contributions are forecast to increase from April 2019.

4.2.3 *Forecast Variations*

This component of the budget includes a variety of estimated or predicted impacts. The items for increases on insurance premiums and investment interest decrease/increase are self-explanatory and the figures given represent estimates based on information currently available. The Revenue Implications of the Capital Programme represent the cost of capital borrowing (minimum revenue provision, loan, interest repayments, running costs) on the revenue budget.

The item on non-uniform incremental drift relates to increases in pay for non-uniformed staff as a result of increased ‘time served’ which results in their moving up the ‘spinal column points’ within their salary scales.

Of particular importance are the items on efficiency savings. As noted at the start of this Section, the Authority’s efficiency savings strategy is a core component of the MTRP. The efficiency savings for each of the four years are shown as two types: Transformational Efficiencies/Savings which relate to far-reaching organisational changes, normally associated with significant strategic projects; and Budget Manager Process Efficiency Savings which relate to incremental cost reductions and improvements in ways of working for which all senior managers are set annual targets across all non pay-related budgets. Further details of the Authority’s efficiency savings strategy are given in Section 4.3 below.

Of course it is important to remember that actual spending will be under significant pressure. Already we are already aware of the increase in National insurance contributions for employers from April 2016 and the new apprenticeship levy from April 2017.

4.2.4 *Inflation*

Staff Pay: Direct employee costs amount to circa £24.0m or 81% of the revenue budget and as a result the annual pay awards in the latter years of this current budget setting process have a significant impact on future expenditure levels. Specifically for 2019/20, there is an increase in pay forecast at 2% for non-uniformed officers and an estimated 5% for uniformed officers from July 2019 until July 2020 and 2% from July 2020. For uniformed officers, this pay award may be linked with a review on conditions of service.

This budget will fund wholetime and retained operational staff, emergency fire control operators and full-time and part-time support staff pay awards. All of the Authority’s pay awards are determined by national negotiating bodies and, other than through the

Employers' representatives on the negotiating team, the BFRA has no direct influence on the outcome and, therefore, the use of estimates for budget projections is required. There will be significant pressure around pay awards.
Prices Inflation: This includes all non-pay items, from indirect employee costs such as recruitment, insurance, occupational health and health and safety related provision and operational training, through to premises, transport, supplies and services. Non-pay inflation of 2% for general supplies and services has been incorporated into the MTRP for 2019/20. This is lower than current RPI and CPI, but deemed manageable. There is a separate line for an inflation provision for gas, electricity, water and diesel.

4.2.5 *Budget Pressures*

This line of the MTRP refers to proposed items of new or additional expenditure brought forward by managers during the process of budget setting, which have been approved for taking forward into the budget. These are known as 'FMS 3' projects (after the number of the business case template used for submission) and all have been subject to rigorous scrutiny. Within the process for 2019/20, these pressures have also been kept to a minimum through the extensive efforts of managers to identify efficiency savings in order to meet the costs of many of the service improvements to be implemented over the coming year.

4.2.6 *Estimated Net Revenue Expenditure*

This line of the plan shows the sum total of each of the above expenditure elements and thus represents the total budgeted revenue spending on the Service.

4.2.7 *Contributions to/from General Reserves*

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. Details of the amounts and nature of Reserves which the Authority has decided to hold are given in Section 4.4.

4.2.8 *General and Earmarked Reserves, below*

This line of the MTRP shows how the Authority plans to use the Transformational Reserves, as per the strategy, in years 2019/20 to 2022/23. This strategy is supported by the Authority's efficiency savings plans and the proposed council tax strategy over the four years of the MTRP and is aimed at smoothing the impact of the estimated reductions in formula grant in 2019/20 to 2022/23, thereby allowing adequate time for longer-term efficiency savings measures to deliver sustained reductions to base budget requirements, whilst maintaining levels of service delivery.

4.2.9 *Collection Fund*

For 2012/13 and the years before, a collection fund deficit arose for a local authority (a billing authority) when the actual amount of council tax collected by the Authority is less than the amount calculated based upon the number of properties (taxbase) and level of council tax set. This can arise due to a number of reasons including an over-estimation of the taxbase and non-payment by householders. Conversely, a collection fund surplus can arise when the amount of council tax collected exceeds the calculated amount due to an under-estimation of the council taxbase. From 2013/14, there is also now a surplus or deficit on the business rates collected too.

For 2019/20, the respective estimated Collection Fund position of each of its constituent authorities (Bedford, Central Bedfordshire and Luton) has resulted in a net collection fund surplus of £231,000 for this Authority. This means that the Authority's net funding from council tax for this year only is effectively increased by that amount. This is detailed on an individual authority basis in Table 4 below.

Table 4: 2017/18 Collection Fund estimated outturn

Authority	**Council Tax £'000 (surplus)/deficit**	**Business Rates £'000 (surplus)/deficit**	**Net £'000 (surplus)/deficit**
Bedford	(93)	9	(84)
Luton	(121)	33	(84)
Central Beds	(71)	12	(59)
Total	**(285)**	**54**	**(231)**

For a combined fire authority, any collection fund deficit or surplus will represent the combined 'net' result of its share of each of its constituent authorities' estimated year-end Collection Fund position.

To cater for such variations, Authorities maintain a Collection Fund Reserve to or from which contributions from/to the revenue budget are made in the year following the variation. Should there be an overall deficit in a future year, the Fire and Rescue Authority has allocated a reserve to support this.

4.2.10 *Budget Requirement and Increase*

This element shows the estimated net revenue budget requirement for each of the years of the Plan, together with net and percentage increase on previous years. It is the result of adjusting the total estimated net revenue expenditure figure to take account of the contributions to/from the General and Collection Fund Reserves.

It is helpful to break down the budget requirement by service function (as defined within the Service Reporting Code of Practice) since this illustrates relative change in resourcing of separate areas to reflect the Authority's strategic priorities and plans. This breakdown is provided in Table 5 below which shows the net revenue expenditure by Service function for each year of the medium-term strategy.
Further detail on the nature of these Transformational Efficiencies is given under Section 4.3 Efficiency Savings Strategy, below.

Table 5: Revenue Budget Expenditure 2019/20 – 2022/23 by Service Function					
	Strategic Objective	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Community Safety	1	1,388	1,388	1,388	1,388
Firefighting and Rescue	1 & 2	14,538	15,567	15,915	15,854
Emergency Response Support	1 & 2	2,686	2,683	2,651	2,651
Training and Development	2	1,660	1,578	1,578	1,578
Human Resources	2 & 3	1,485	1,479	1,485	1,479
Corporate Support	2 & 3	6,369	6,049	6,328	6,481
IT and Communications	2 & 3	1,792	1,632	1,588	1,588
Strategic Management	3	905	820	770	757
Transformational Efficiency Savings		(495)	(127)	(373)	(85)
Net Revenue Expenditure		**30,328**	**31,069**	**31,330**	**31,691**
Contribution to/(from) Reserves		(492)	(779)	(315)	163
Budget Requirement		**29,836**	**30,290**	**30,848**	**31,854**

4.2.11 *Financed By*

This element of the Plan shows the detail of the separate sources of revenue funding required to meet the estimated budget requirement for each year of the Plan, ie from where the Authority's revenue income comes.
The detailed split of funding is shown earlier in the MTFS on page 8 of the Budget Book.

4.2.12 *Calculation of Band D Council Tax and Percentage Increase*

The taxbase used in the MTRP projections represents the number of Band D equivalent properties in the three constituent local authorities that BFRA precepts upon (ie Bedford, Central Bedfordshire and Luton). The taxbase for 2019/20 has been set at 213,017 Band D equivalent properties, based on the information that has been supplied by these authorities. The split per authority is shown in Table 6 below. This is an increase of 1.95% compared to the 208,933 taxbase in 2018/19. The increase is due to various factors including the levelling out of benefits, exemptions and discounts and incentivised new housing developments.

The estimated increases of future years council taxbases are included within the MTRP.

Also shown is the percentage increase in council tax projected for each year of the MTRP. As explained previously, these equate to 2.99% for 2019/20 with 1.99% each year until 2022/23.

Table 6: Taxbase – Band D Equivalents

Authority/Year	2019/20	2020/21	2021/22	2022/23
Bedford	60,010	61,204	62,422	63,664
Luton	50,645	51,151	51,663	52,179
Central Beds	102,362	104,256	106,184	108,149
Totals	**213,017**	**216,611**	**220,269**	**223,992**

4.3 Efficiency Savings Strategy

An efficiency saving occurs when the cost of an activity is reduced, but its quality and effectiveness remains the same or improves. BFRA continues to focus on becoming more efficient - finding new ways to deliver highest quality services at lowest possible cost.

The Authority's MTRP for 2019/20 to 2022/23 shows the level of budgeted efficiency/ savings planned for each of the four years, which form an integral part of the overall revenue budget strategy. In addition, the Authority's efficiency savings/initiatives during 2018/19 are on track to deliver an underspend which will be used, subject to the approval of the FRA, to contribute to the Transformation Reserve.

As well as making significant savings in previous years, from 2010/11 to 2019/20 £6.588m has been reduced from budgets through budget scrutiny and savings/efficiencies, the Authority's plans for 2019/20 and beyond include making significant efficiency savings through:

- Further operational and non-operational reviews
- Efficiency improvements from investments in ICT
- Procurement savings from new contracts such as Personal Protective Equipment (PPE)
- Collaboration savings
- Income generation

4.4. **General and Earmarked Reserves:**

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. The Treasurer has the duty to report on the adequacy of reserves (under section 25 of the Local Government Act 2003), particularly when the authority is considering setting its budget requirement.

The required level of reserves for the period 2019/20 is consistent with previous years. The external auditors have also commented favourably on the current financial position of the authority, in terms of reserves and financial strategy.

General Reserves are a working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing and as a contingency to cushion the impact of unexpected events or emergencies. The Authority's General Reserves are detailed in the Reserves Strategy at Appendix 5.

Earmarked Reserves, in accordance with the Local Authority Accounting Panel (LAAP) Bulletin 77, can be set up where there are known or predicted requirements. As is common with most other Fire and Rescue Authorities and public sector bodies, BFRA has set up a number of earmarked reserves which have been separated out from General Reserves. These are also detailed in Appendix 5, the Reserves Strategy.

At the time of writing, the forecast year end underspend for 2018/19 is circa £0.465m, this does not include £0.090m relating to extra income from the Ministry of Housing, Communities & Local Government, following a recalculation of business rates from prior years which was unbudgeted and has already been moved to the Transformational Reserve. The General Reserve of £2.6m, at c.9% of net revenue expenditure, is in line with the current overall average Combined Fire Authority average amount at 9%. This is based on reserves figures at 1st April 2018 available via CIPFA Statistics. As the S151 Officer I am comfortable with the level or reserves and do not deem it too low or high.

In addition, the Authority has separate ear-marked reserve for the Capital Receipts Reserve. Project carry forwards are also classed as ear-marked reserves at the year end stage.

The Transformational Earmarked Reserve that was specifically set up for budget setting purposes is estimated to total £4.655m at 31 March 2019. As detailed in the MTRP, it is forecast that this will be allocated to offset the budget gap in the years 2019/20 to 2022/23.

5. The Medium-Term Capital Programme

5.1 **The Capital Programme**

Maintaining and improving the BFRA's infrastructure requires considerable resources and, for asset management purposes, this is broken down into three categories of investment, for each of which a comprehensive Asset Management Plan is produced; namely:

- Land and Buildings
- Fleet and Operational Equipment
- Information and Communication Technologies (ICT)

For each category of investment a separate programme of projects exists which spans a four year period. Because of the nature of the types of projects included in the programmes it has been the practice for some time to phase plans over a medium-term timeframe in order to show the way some schemes run over several years.

In line with best practice the land and buildings programme is developed so as to meet ongoing maintenance demands as well as to support the development of land and buildings investment and its subsequent management.

The fleet and operational equipment programme reflects the need to maintain a comprehensive fleet of vehicles with acceptable asset lives, equipped to the correct standard to meet current and planned service delivery requirements.

The ICT programme contains projects designed to develop and maintain the communications and technological infrastructure, to support both operational and organisational needs.

Traditionally IT, vehicles and operational equipment have either been leased or funded from revenue and hence did not feature in the Capital Programme, but are the subject of revenue bids for funding. Following the introduction of the Prudential Code, work was undertaken to review the cost effectiveness of leasing compared with long-term borrowing and a number of previously leased items are now being included as part of the four year Capital Programme. Discussions regularly take place with our treasury and leasing advisers, Capita Treasury Solutions, to ascertain for our specific Authority at that point in time, what the optimal funding options are.

All proposed schemes are assessed against set criteria to establish the extent to which they support the strategic objectives and Authority's priorities.

The Authority has implemented an asset management process that ensures all its assets are procured, maintained and disposed of in an efficient and effective way to provide value for money to the council tax payer.

The buildings programme for 2019/20 onwards has been developed on the basis that at present there are no further plans to change the type or location of fire stations and therefore the bulk of investment in premises is directed towards enhancement and the provision of new facilities for training and enhanced national resilience. However, it is an area that may change due to joint working/collaboration.

Historically, vehicles and equipment for frontline response and community fire safety have followed certain levels of specification and requirements. Following a comprehensive review of the emergency response fleet, a number of innovative changes are being made to the current fleet. These changes will deliver a fleet of vehicles aligned to the emergency response required to be mobilised to the identified risk profile of Bedfordshire.

The Capital Programme for 2019/20 is fully funded by revenue contributions, with a contribution from the Capital reserves of £340k.

The MHCLG introduced a new bidding round for the 2013/14 and 2014/15 budget periods. This was agreed repeated for 2015/16 but not for 2017/18 onwards. This is detailed earlier in this MTFS.

It is unknown how fire and rescue authorities will be funded for capital expenditure in the next Spending Review period. It is hoped that the bidding process will cease and that a system like the previous one, where an allocated amount for the service will be distributed on a fixed and distributable amount per head of population. The Head of Finance/Treasurer was part of the Capital Working Group working with the MHCLG on reviewing the future funding methods and to evidence to the Treasury what the requirements for the fire and rescue service as a whole is. It is hoped that this group will commence meeting again to discuss the future funding of capital requirements.

6. Other Considerations

6.1. **Key Budget Assumptions and Uncertainties:**

2019/20 Budget Process- Assumptions/Uncertainties

Current Assumptions:

- Fire Fighters Pension Scheme Revaluation from 2016, which comes into effect from April 2019, has an estimated average increase of 13% (circa £1.2m). This will be supported by grant via the Home Office in 2019/20. From 2020/21 this will be included within the funding from the Comprehensive Spending Review. There is a forecast budget pressure of £650k in 2020/21 until further information is known.
- Green Book pay award 2% April 2019 onwards (overall average is more due to NJC increases to certain grades)
- Grey Book pay award 5% July 2019 and 2% thereafter (2018 pay award was budgeted at 4%, pay award agreed at 2%. The u/s will be held as a reserve in case backdating of pay award agreed)
- That the additional 1% to council tax will not continue after the two years announced (2018/19 and 2019/20).
- Taxbase in line with previous indications (amended where info supplied)
- Business rates in line with previous indications (amended where info supplied)
- No Capital Funding (bidding round not announced)
- Fire Grant/Emergency Services Mobile Communications Programme (ESMCP) funded (see below) – ***Potential large funding risk here***
- Revenue Support Grant (RSG) grant reductions in line with four year funding deal and continuing at this rate for RSG in 2020/21 to 2022/23 (although RSG ceasing from 2020/21and included within business rates, this element is still split out for transparency)
- Estimated Collection Fund surplus of £229k in 19/20(final confirmations due)
- New Dimensions Grant will continue
- Marauding Terrorist Firearms Team (MTFA) funding continuing
- Apprentice budget of £60k per annum remains to fund new posts (training fees to be drawn down from levy paid)
- Agreement by FRA of Minimum Revenue Provision (MRP) early repayment, with the benefit of reducing earmarked reserves and also revenue pressures in future years.

Uncertainties:

- Impact from Business Rates Retention (no Revenue Support Grant) from 2020/21
- Impact from Spending Review for 2020/21 onwards
- Impact from formula funding review 2020/21 onwards
- Recruitment profile/establishment/retirements – associated recruitment/training costs (20 FF in 2019/20, 15 per annum thereafter)
- New savings/efficiencies in the medium term to address the budget shortfall, subject to work and approval by FRA
- Collaboration (PCC, Ambulance, Police etc) – and associated costs/savings
- Medium term property strategy (One Public Estate bid, sharing etc)
- Contingent Liabilities/Assets included in the Statement of Accounts
- EU directives/legislative changes/Brexit impacts
- Implications arising from Fire Brigades Union (FBU) discriminatory claims relating to transitional pension protection
- Strike expenditure potential
- Outcomes of new digital strategy
- General Data Protection Regulations (GDPR), Senior Information Risk Owner (SIRO) work area
- Pay Scale review – Green book (Hay review pay line) – being finalised, budgeted £150k in MTRP should be sufficient
- Interest and inflation rate fluctuations (post Brexit too)
- Outcomes of Retained Duty System project (budget increase/decrease)
- Outcome of Grey book pay review – broader role

6.2 Equality Impact:

The challenging economic environment in which the Service is operating means that it is sometimes necessary to make difficult and unpopular decisions. A number of the major changes included within the Authority's strategic priorities for the medium-term and thus supported by financial provision within this MTFS, particularly those associated with transformational efficiency savings, will be of this type. The Authority recognises that equality legislation does not prevent it from making these decisions but gives an opportunity to demonstrate its commitment to equality and diversity and to ensure such decisions are based on robust evidence and taken in accordance with the Public Sector Equality Duty.

The Authority, therefore, ensures that robust equality analysis is carried out, paying due regard to the impact on our community and staff, where policies, procedures and practices are changing. Decisions, where appropriate, will also be informed by the wider context to ensure particular groups are not unduly affected by the cumulative effects of different decisions. All decisions will be documented through equality impact assessment ensuring fairness, transparency and accountability. This information will be published in line with the requirements of the Public Sector Equality Duty.

6.3. Data Quality:

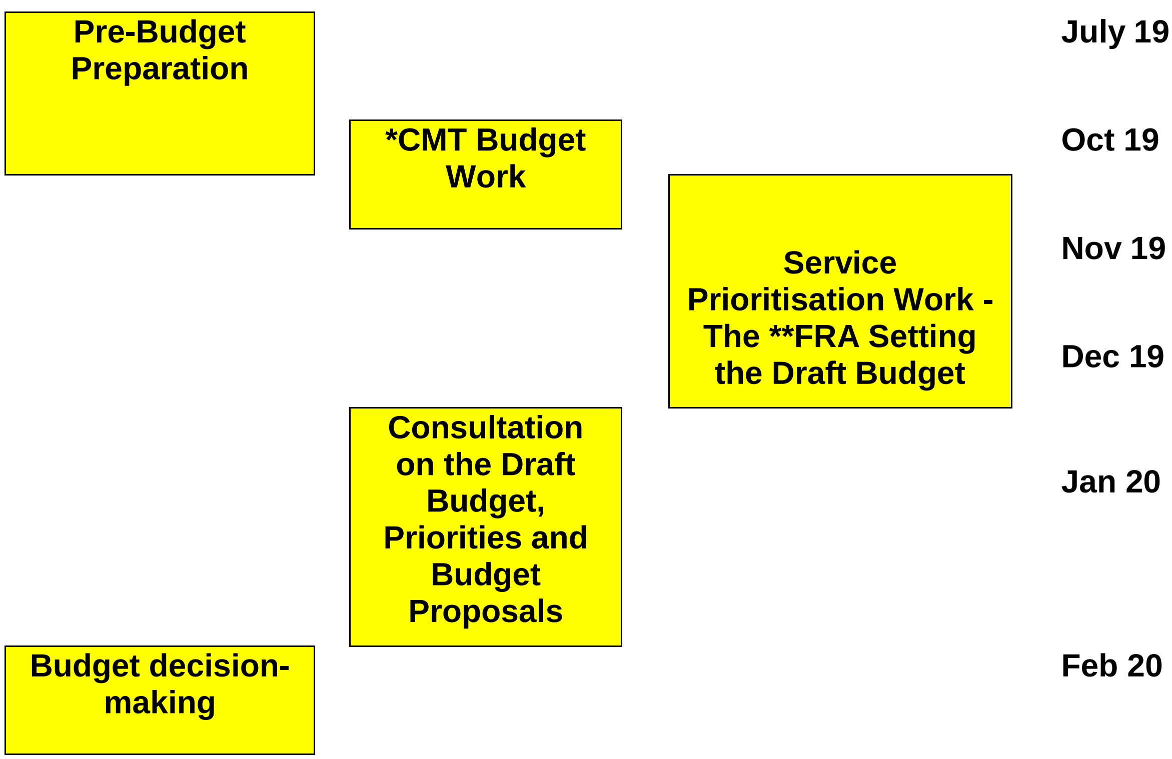
The Authority is committed to achieving and maintaining fit for purpose, quality data enabling sound decision making and informed planning. This is vitally important with key documents, such as this MTFS and the Authority seeks to continually improve the quality characteristics of such data with particular emphasis on accuracy, validity, reliability, timeliness, relevance and completeness.

Systems for assurance and validation of our data are in place, for example Performance Indicators are supported by data proformas which include descriptors, data sources, and change control. A data issues log is maintained that considers severity, impact and mitigation. The Authority's Business Improvement Programme incorporates process re-engineering to assure our data at the point of entry following the 'record once and use many times' principle, delivering new ways of working and business systems where appropriate.

6.4. **Budget Setting Process for Future Years:**

The summary diagram below shows the key stages that will be followed by the Authority in setting future year's budgets. In order to ensure proper process and timescales, it incorporates budget planning from July, setting a draft budget in December for consultation, followed by a final budget set in February.

Diagram 1: The budget setting timetable



*CMT= Corporate Management Team
**FRA= Fire and Rescue Authority

Reserves Strategy – Budget 2019/20 to 2022/23

1 Introduction and Background

1.1 Reserves are an essential part of good financial management. They help the Authority to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Authority to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.

1.2 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The relevant paragraphs are detailed in Annex 1 attached.

1.3 In setting the budget, the Authority decides what it will spend and how much income it needs from limited fees/charges and the council tax to supplement government funding. The Authority may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.

Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.

1.4 Authorities are free to determine the reserves they hold. Members are responsible for ensuring that the Authority's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.

1.5 Fire and Rescue Authorities face significant challenges. The unprecedented reduction in government funding since 2010/11, rising costs and growing demand for many services are all testing the Authority's financial management and resilience. The position is set to become tougher with the Spending Review, Funding Formula changes and Business Rates Retention all scheduled for 2020/21.

1.6 Current and future financial challenges pose significant, and increasing, risks for the Authority. The Authority may consider using reserves to balance competing pressures, for example:

- Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource – and/or invest in making changes that reduce the cost of providing services in the longer term.

- Increasing reserves to strengthen resilience against future, uncertain cost pressures. A feature of the previous budget strategy and MTFS, was that reserves were built up to be used to support the budget and fund investment in delivering savings through transformation and improving services. The Transformational Budget Reserve is now being utilised to offset the budget gap as strategically planned and invest in service transformation.

2. The approach to setting the Reserves Strategy

2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. This strategy includes:

- Information showing the current level of reserves
- Consideration of the forward strategy for reserves needed to support the Authority's MTFS
- A summary of the financial risks facing the Authority in conjunction with
- An explanation of the purpose and level of any earmarked reserves
- Details of the plans for reserves within the published budget

2.2 Reserves will be monitored throughout the year and the level of reserves reported as part of the year end accounting processes.

3 Why the Authority holds reserves

3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:

- *General* – the main balance that the Authority wishes to set aside. This is the £2.6m and is compared annually to other Combined Fire Authorities.
- Available *earmarked reserves* – funds we hold set aside to meet known or predicted future spending or ring-fenced by previous Authority decisions (such as the Collaboration Reserve)
- *Other reserves* the Authority holds but which are not available to fund their general spending; some reserves with statutory restrictions on how they can be spent, such as capital receipts or specific revenue grants
- Total reserves – the sum of earmarked, other and General

3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example property or vehicle damage, or reserves to cover shortfalls in investment income, pay award projections and so on.

3.3 Reserves are distinct from provisions. Provisions are funds set aside for probable future liabilities where the timing and amounts are uncertain

Delivering a balanced budget

3.4 There are a number of reasons why a Fire and Rescue Authority or Local Authority might hold reserves, these include to:-

(a) Mitigate potential future risks such as increased demand and costs;
(b) Help absorb the costs of future liabilities;
(c) Temporarily plug a funding gap should resources be reduced suddenly;
(d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
(e) Spread the cost of large scale projects which span a number of years.

Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term. Due to the fact that funding for future Capital Projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as the Capital programme progresses.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

3.5 The Local Government Finance Act 1992 requires the Authority to calculate its expected outgoings and income for the year – including any additions to or use of reserves. Where expected outgoings exceed expected income, the difference is the Authority's tax requirement for that year.

3.6 If unplanned costs are incurred during the year that are not funded externally – for example, by a grant from government or an insurance policy – or the Authority experiences a shortfall in expected income/funding, there will be few options if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore the Authority may want to consider using reserves to balance spending and income.

3.7 The 2019/20 to 2022/23 MTFS assumes that there will be utilisation of the Transformation Reserve for budgeting and transformation/innovation purposes. It forecasts that this reserve will be predominantly used by 2022/23. However, with the proposed strategy the reduce both General and Earmarked Reserves once the Authority knows the outcome of the funding for 2020/21 onwards, this will increase the longevity of the Transformational Reserve for another couple of years. The MTRP details the utilisation of General Reserve (line 78) and also Earmarked Reserves (line 77, for the Minimum Revenue Provision (MRP) holiday. £1.2m used over 6 years enabling revenue budget support of £200k per annum over this period).

4 Reserves and the management of risks – Annual Review

4.1 With regard to the Authority's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: insurance/protection, ill health and early retirement, HR matters, Health and Safety matters, grant loss, the collection fund (in the past) and budget pressures. These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process. The review for the 2018/19 budget process recommended that the Collection Fund reserve of £270k was used as part of the budget process. This reserve had not been required over recent years and each year sees a Collection Fund surplus for council tax from the Unitary Authorities negating the requirement for this reserve. This position may change in the future and it may be deemed appropriate to reinstate this reserve.

4.2 The Authority also manages unforeseen financial shocks by maintaining a General Fund/Working Balance. The Authority's agreed policy is to maintain working balance at £2.6m. Some Authorities set a minimum desired percentage and although the Authority has not done this, the policy would maintain general balances at approximately 9% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process. Note the planned change though in 2020/21 detailed in para 3.7.

Increasing Financial Risks

4.3 The risk environment for local government has significantly increased. This strategy identifies the following issues that have increased risk:

- Continued reductions in Government funding as indicated in the four year settlement offer (2019/20 is the fourth and final year)
- Changes in the grant funding methodology from 2020/21 onwards – Formula Funding Review and Spending Review
- Significant movement and growth in resident population numbers brings pressures to a range of services and requires more investment in infrastructure – could have impacts on hydrant and operational provision

- Localisation of business rates presents a collection rate risk, an economic downturn risk and a risk in respect of backdated appeals – From 2020/21, Business Rates Retention Scheme and no RSG
- Welfare reforms including the benefits cap and the impact of Housing Benefit as part of the introduction of Universal Credit which could impact on rent collection for local authorities.

On-going risks in the current strategy

4.4 In addition to the new risks there are still the risks that are usually managed within the MTFS and the Corporate Risk Register.

5 Budgeted Reserves – Risk Assessment

5.1 The forecast Earmarked Reserves usage assumed as part of the budget strategy are included in the Medium Term Revenue Plan.

5.2 The forecast value of General Fund Reserves as at 31 March 2019 is £2.6m as detailed in Table 1 below.

5.3 The earmarked reserves are detailed in Table 2 below.

Table 1: Risk Assessed General Reserves

Description	**Likelihood**	**Impact**	**£'000**	**Risk Register Ref CRR**
Large scale failure of Personal Protective Equipment or other safety critical equipment	Possible	Significant	300	10
Major incident within the County/Region	Likely	Significant	650	1, 17, 34
Failure of operational vehicle prior to planned replacement in Capital Programme/unforeseen inability to provide service requirements	Possible	Significant	300	05
Failure of a major supplier	Likely	Significant	300	08
Failure/corruption/security breach of ICT System	Possible	Significant	200	23,38,39
Non-specific General Reserves to meet any other unforeseen service requirements			850	
Total General Reserves			**2,600**	

5.4 The reserves below have been set aside for foreseen circumstances that may necessitate usage. They are annually reviewed and if not deemed necessary, released to support the revenue budget. Some have been set up as a result of base revenue budget scrutiny, where budgets in the past were held for just in case events necessitated their use. Where this was so, these have been removed from base revenue budget and an earmarked reserve created. The large items, such as ESMCP, Hydrants and the Replacement mobilising system, are where the spend is unknown so these amounts have indicatively been set aside to avoid budget pressure in the medium term and to assist with the Medium Term budget setting. The items listed below are not contractually or legally committed, at this point in time. All are clearly linked to supporting the Authority's service delivery plans.

Table 2: Earmarked Reserves

Description	**£'000**	**Risk Register Ref CRR**
Emergency Services Mobile Communications Programme (ESMCP) reserve – Emergency Services Network (ESN)	200	24, 35
Replacement Mobilising Project	300	24
Contingency for doubtful debts	10	11
Pay increases for operational and/or support staff in excess of assumptions and / or costs of external appointments in excess of budget provision	150	27
Hydrant installation (taken out of revenue budget due to uncertainty)	225	
Goods and services, contractual inflation in excess of assumptions (1%)	80	27, 30
Potential liability as a result of legal/disciplinary action in relation to Personnel and/or Health and Safety issues	300	6, 25, 32, 33, 35
Adverse weather conditions resulting in higher than average numbers of emergency incidents (excludes Bellwin incidents)	250	22
Sudden absenteeism of a large number of personnel across the whole of the Service due to pandemic or similar	150	4
Ill-health retirements in excess of budget provision/injury pension	150	27
Unplanned urgent property works (eg roof repairs)	100	27
Contingency for insufficient Insurance cover (additional contribution)	100	27
Interruption to Business Continuity (including Industrial Action)	250	4
Unplanned urgent maintenance/replacement of particular item of equipment (eg engine or gearbox wearing out/failing earlier than anticipated)	50	5, 10
Invest to Save/Innovation Fund (these have been taken out of annual revenue budgets)	60	27
Total Requirement	**2,375**	

5.5 Other Reserves for noting:

- Collaboration Reserve £1.906m (includes 2017/18 year end additional contribution of £498k from Home Office Pensions refund)
- Capital Receipts Reserve £697k

There is also a Capital Reserve that holds the approved funding where schemes run over the financial year end, this includes vehicles, property works and ICT projects.

The following reserves held at year end 2017/18 were used as part of the 2018/19 budget process:

- Vehicle sales £134k (£48k used for 2017/18 capital programme)
- Collection Fund £270k

Annex 1 – Extract from National Framework reference reserves

Reserves

1.1
Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.2
Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. 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.

1.3
Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. 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 cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

1.4
Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy 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; and
- details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public.

Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

1.5
The information on each reserve should make clear how much of the funding falls into the following three categories:
a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
b. Funding for specific projects and programmes beyond the current planning period.
c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Capital Strategy

Contents

1. Introduction

1.1 This Capital Strategy outlines how Bedfordshire Fire and Rescue Authority intend to optimise the use of available capital resources to assist in achieving its objectives. The strategy therefore sets out the corporate framework for planning and financing capital in pursuit of the Authority's objectives.

1.2 Capital expenditure is a considerable cost to the Authority and it is necessary to ensure that work, projects and equipment of a capital nature are properly identified, evaluated and prioritised whilst ensuring associated revenue implications are fully understood and affordable.

1.3 Historically, the Authority has used a number of sources of capital financing to fund capital projects, including borrowing, specific grants, capital receipts, revenue contributions and leasing.

1.4 The Authority is committed to ensuring that Value for Money (VFM) is embedded in the decision making process, and the Capital Strategy takes account of the concept of VFM through the capital decision making framework that is in place.

2. The Role of the Capital Strategy

2.1 The Capital Strategy has a significant role to play in assisting the Authority to achieve its objectives. The Authority has a vision of 'to provide an excellent Fire and Rescue Service' and within this vision has two strategic aims:

- To maximise the safety of our communities by whatever means possible.
- To deliver a modern, well managed and effective Fire and Rescue Service of which we can all be proud.

2.2 It is essential that the Authority has a capital portfolio that fully supports the vision and priorities that have been set. It is also essential that the provision of appropriate capital assets considers all aspects of VFM, ensuring benefit for the Authority and the local taxpayer.

2.3 The purpose of this strategy is therefore to provide a framework that transparently demonstrates how the investment of capital resources contributes to the achievement of the vision and key priorities set out in the Corporate Plan and Community Risk Management Plan (CRMP).

2.4 **The Strategy:**

- Shows how the investment of capital resources contributes to the achievement of key priorities set out in the Strategic Plan.
- Provides a framework for the consideration of capital options that are competing for scarce capital resources.
- Provides a framework for the management and monitoring of the capital programme.
- Sets out the processes for generating capital investment proposals and the appraisal of options.
- Demonstrates how the revenue implications of capital investment are taken into account.
- Raises the profile of capital and asset management with Members, staff, partners and the public, to ensure the economic, efficient and effective use of the Authority's assets.

2.5 By implementing the Capital Strategy, the Authority has a framework in place to consider and implement recommendations from the Strategic Asset Management Plan (AMP) and the individual asset management plans for Land and Buildings, Vehicles and Operational Equipment and ICT. This approach will also ensure that capital investment is sustainable, and VFM is routinely considered across all aspects of capital investment.

3. <u>Managing the Capital Strategy</u>

3.1 A Capital Strategy Team (CST) will oversee all developments relating to the use and management of capital resources in respect of the capital programme, ensuring that asset planning, acquisition, financing and use is consistent with the Strategic Plan and CRMP.

3.2 The CST will ensure that the capital programme is formulated so as to support the delivery of the Authority's priorities. The broad role of the CST will be to oversee:

- Preparation of the capital programme.
- Assessment of the capital programme bids.
- Assessment of capital value for money considerations.
- Advise the Corporate Services Policy and Challenge Group of ongoing and imminent capital schemes.
- The commissioning of post implementation reviews.
- Assessment of revenue implications of the capital programme and individual schemes.
- Informing the content of the Medium-Term Financial Plan in relation to capital expenditure and associated revenue implications.

3.3 The CST will also oversee compilation and review of the Asset Management Strategy and ensure that information flows between the Capital Strategy, AMPs, ICT Strategy, HR Strategy, Service Delivery Strategy and the Medium-Term Financial Strategy.

3.4 The Membership of the Service's Capital Strategy Team is as follows:

- Chief Fire Officer
- Deputy Chief Fire Officer
- Head of Finance/Treasurer
- Specialist staff seconded to the CST as required

3.5 The CST is supported by a Capital Working Group, as and when required,to assist in developing capital investment submissions for consideration by CST, and to prepare the capital programme based on CST recommendations. The membership of the Group is as follows:

- Treasurer (Section 151 Officer)
- Chief Accountant (Deputy Section 151 Officer)
- Property Manager
- Strategic Support Manager
- Information Systems Manager

4. **<u>The Capital Strategy and the Strategic Planning Process</u>**

4.1 The Capital Strategy will reflect the key strategic plans of the Authority. It is essential that all key strategic documents produced by the Authority inform the Capital Strategy, and it is equally important that strategic documents give consideration to the capital framework that is in place when considering proposals that impact on assets and capital expenditure.

4.2 The strategic planning process links the key plans and strategies of the organisation including the CRMP and the MTFS.

5. **<u>The Role of Partnerships</u>**

5.1 The Authority recognises that strategic priorities can only be achieved by working in partnership with other agencies.

5.2 The advantages of partnership working are clear. With Government funding streams becoming increasingly target based and focused on partnership working, the benefits of partnership working could include access to additional sources of funding for the Authority.

6. Key Strategic Priorities and the Capital Strategy

6.1 As explained within the MTFS, the Authority's strategic priorities are driven by the Authority's vision of 'to provide an excellent Fire and Rescue Service' together with its aims and objectives. These are realised through a number of strategic priorities identified through a process of Strategic Assessment, which in turns guides the production of the annual CRMP and the specific priorities, projects and programmes within it. The implications of these for capital expenditure are reflected within the Capital Strategy and Programme.

6.2 The process of risk assessment inherent within the CRMP, ensures that the Authority fully understands the nature and extent of the risks to the community and the actions that need to be prioritised to address these risks. The Plan sets out how to reduce these risks, as well as how to deliver services effectively, taking account of external influences such as the National Framework, national assessment processes, improvement plans and the financial resources available to the Authority.

6.3 The Capital Strategy is designed to assist in achieving these objectives and priorities. By ensuring that the Authority's capital assets are appropriate to the demands that the Corporate Plan places upon them, financial planning can ensure resources are sustainable in the years ahead.

6.4 The practical implications of how the Capital Strategy supports the Authority's planning by providing information relating to the links between the strategic priorities of the Authority, are set out in the following section.

6.5 Consultation is a key aspect of setting strategic priorities, and the Authority undertakes detailed consultation with the public in relation to the CRMP.

7. Links between Strategic Priorities and Capital Investment

7.1 The Authority recognises that there is a requirement to invest in capital assets to realise its strategic priorities. The Capital Strategy has four key strands to its approach to capital investment and asset maintenance:

7.1.1 *Buildings:*

Repairs and Maintenance investment in 'fit for purpose' fire stations and buildings is essential in providing a community safety service that meets the demands of a modern fire and rescue service. The Authority has undertaken a complete review of its existing premises and, by investing in existing property maintenance, the Authority can continue to provide building assets to meet its strategic aims.

7.1.2 *Capital Investment:*

The Authority has historically provided a significant element of capital funding for the replacement or ongoing enhancement of building stock. However, the Fire and Rescue Service improvement agenda requires the Authority to assess existing building stock and take consideration of the role of community fire stations and how this impacts on the existing estate. A recent example of this approach is the newest Fire Station at Dunstable, which was designed to meet the needs of staff and the public. Investment in the station was related to all of the strategic priorities and the CRMP, and has resulted in a modern fit for purpose Community Fire Station that provides an asset for the benefit of the local communities. The Authority recognises that there is a requirement to invest in the building stock and has undertaken a review of building assets with a view to producing options for improvement and replacement in line with the CRMP. Additionally, future capital investment decisions will need to be mindful of the Public Sector Equality Duty.

By investing in existing building stock and identifying requirements for new buildings, the Authority can demonstrate a commitment to meeting its strategic priorities through capital investment. It is recognised that the community engagement agenda and associated improvement to building stock will require capital investment. This investment requirement has been acknowledged by the Authority – see section 9.

7.1.3 *Vehicles and Equipment*:

The Authority plans for vehicle and equipment replacement over generally a fifteen year period. The Authority is committed to ensuring that its front line appliances, which provide vital means of responding to incidents, are fit for purpose. To this end, a twelve/fifteen year lifespan policy for rescue pumps and special appliances has been adopted.

The replacement programme is fully costed and is included within the capital programme and Medium-Term Financial Strategy. The Authority's Capital Strategy acknowledges the necessity of ensuring that adequate provision is made for new and replacement equipment as appropriate. The ongoing replacement programme demonstrates value for money by replacing appliances and equipment within the most appropriate timescales. Vehicles are rotated between stations to ensure that there is a more equal use of them. For example, retained stations pumps where use may be low, may be swapped with Luton where use is the highest. Increasingly, the CRMP has required the Authority to examine alternative types of vehicles and, to this end the Authority is examining alternative vehicles that may offer increased efficiency and improved value for money. The Authority also has regard to the National Procurement Strategy when considering capital acquisitions.

7.1.4 *National Modernisation Projects:*

The Authority is committed to the Government's strategy of preparedness in order to deal with the impact of any exceptional incidents that could occur within the country. The Capital Strategy takes into account the need to ensure that the Authority's building infrastructure is capable of providing the necessary support for this type of work. The Authority has been committed to supporting national projects aimed at ensuring there is a resilient infrastructure in place to deal with large scale and widespread incidents.

The FiReControl project that was due to provide a regional control centre in Cambridge ceased. The Authority is now replacing its own mobilisation system in conjunction with Essex FRS. The Authority was successful in 2011/12 in securing a DCLG grant of £1m to fund this work in collaboration with Essex FRS.

Firelink will provide a wide area radio network offering resilience and inter-operability between fire and rescue services. New Dimensions grant cover local costs associated with hosting and maintaining skills associated with national resilience vehicles. The Authority expects to continue to receive both grants.

8. Capital Resourcing

8.1 There are numerous methods of financing the capital programme. Historically, the Authority has utilised borrowing, leasing, capital grants, capital receipts and revenue contributions to fund the capital programme.

8.2 The Authority has identified the need to review its estate and ensure that buildings are fit for purpose and meet the requirements of the public and staff.

8.3 The Authority undertakes an assessment of the most cost-effective means of funding the capital programme. Future programmes that include increased expenditure in relation to building works will be assessed according to capital investment criteria including:

- Expected duration of service for new assets.
- Potential for fundamental changes to service provision over a twenty-five year period.
- Likelihood of alternative methods of finance becoming available over the short to medium-term.
- The revenue implications of capital expenditure.
- Demonstrating VFM.

8.4 The Local Government Act 2003 introduced a new Prudential regime for capital expenditure. Local Authorities are free to borrow if they can afford the debt without extra government support. Authorities must, however, demonstrate to Members that capital spending plans are affordable, sustainable and prudent.

8.5 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires the Authority to report a number of key prudential indicators. Authorities are free to undertake unsupported prudential borrowing, subject to meeting certain criteria.

9. Resource Allocation

9.1 The existing capital programme is mainly concentrated in the areas of premises and vehicle acquisition. Resource allocation has, in the past, matched the requirements of the capital programme, subject to this being affordable.

9.2 Any capital expenditure bid requires an investment appraisal process to be followed that assesses the suitability of the proposed capital works against key criteria. These bids will be considered by the Capital Strategy Team as part of the medium-term and annual budget setting process.

9.3 Resources will be allocated to specific projects depending on the outcome of the assessment of capital bids (see 8.4).

10. Capital Programme – Implementation and Monitoring

10.1 Capital resources are dependent on capital receipts, capital grants, revenue contributions and the Authority's potential to prudently afford additional borrowing. As the Authority examines its building portfolio and identifies areas for capital investment, there is likely to be a requirement for capital investment that will require funding from these and other available funding streams.

10.2 The capital programme is approved by the Authority on an annual basis and provides details of the expected programme over a three year period.

10.3 The capital programme is monitored by the Service's Capital Strategy Team, with a view to monitoring expenditure and timescales of individual projects against plan.

11. Capital Strategy Review

11.1 The Capital Strategy will be reviewed annually to ascertain its effectiveness and enable updates as necessary.

Bedfordshire Fire and Rescue Service

Fire and Rescue Service

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2019/20

1. <u>Introduction</u>

1.1 **Background**

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

CIPFA defines treasury management as:

'The management of the local authority's borrowing, 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.'

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a long-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 **Statutory Requirements**

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 Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 **CIPFA Requirements**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2017) was adopted by this Authority on 1 April 2004.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
3. Receipt by the Fire and Rescue Authority (FRA) of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the FRA has delegated this to the Corporate Services Policy and Challenge Group.

1.4 **Treasury Management Strategy for 2019/20**

The strategy for 2019/20 covers two main areas:

Capital issues

- The capital expenditure plans and the associated prudential indicators
- The minimum revenue provision (MRP) policy.

Treasury Management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities on the Authority
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.5 **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members, delivered by our Treasury Advisors Link Asset Services, on 4 July 2017 as part of the Members Training Day and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.6 **Treasury Management Consultants**

The Authority uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. **The Capital Prudential Indicators for 2019/20 – 2021/22**

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 **Capital expenditure**

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Members have approved (7th February 2019) the capital expenditure forecasts below:

Capital Expenditure £000's	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate

Total	1,190	1,200	1,736	1,354	1,379

Other long-term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £000's	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	0	134	140	96	50
Capital grants	3	0	0	0	0
Capital reserves	1,187	0	200	0	0
Revenue	0	1,066	1,396	1,258	1,329
Net financing need for the year	0	0	0	0	0

2.2 The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduced the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £6k of such schemes with the CFR.

The Authority has taken the option of increasing our MRP contributions from 2020/21 by an extra £200k per annum, this is classed as VRP (Voluntary Revenue Provision) and will have the impact of paying off our MRP charge early although the Authority has the option to unwind this in future years should budget pressures worsen. This strategy will be reconfirmed as part of the 2020/21 budget setting process.

£m	2017/18 Actual £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's

Total CFR	**8,890**	**8,462**	**8,038**	**7,419**	**6,805**
Movement in CFR	**-496**	**-428**	**-424**	**-618**	**-614**
Movement in CFR represented by;					
Net financing need for the year (above)	**0**	**0**	**0**	**0**	**0**
Less MRP/VRP and other financing movements	-428	-424	**-618**	**-496**	**-614**
Movement in CFR	**-428**	**-424**	**-618**	**-496**	**-614**

4. Borrowing

The capital expenditure plans set out in Section 3 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Authority's treasury portfolio position at 31 March 2018 with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR), highlighting any over or under borrowing.

	2017/18 Actual £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
External Debt					
Debt at 1 April	9,987	9,987	9,987	9,987	9,987
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	70	6	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	10,057	9,993	9,987	9,987	9,987
The Capital Financing Requirement	8,890	8,462	8,038	7,419	6,805
Under/(over) borrowing	(1,167)	(1,531)	(1,949)	(2,568)	(3,182)

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	**2018/19 Estimate £'000**	**2019/20 Estimate £ 000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	6	0	0	0
Overdraft	0	0	0	0
Total	9,993	9,987	9,987	9,987

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

2. The FRA is asked to approve the following authorised limit:

Authorised Limit	**2018/19 Estimate £000's**	**2019/20 Estimate £000's**	**2020/21 Estimate £000's**	**2021/22 Estimate £000's**
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	6	0	0	0
Overdraft	0	0	0	0
Worst Case Scenario Payroll	1,900	1,900	2,000	2,000
Total	**11,893**	**11,887**	**11,987**	**11,987**

3. Prospects for Interest Rates

The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.80%	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.00%	1.10%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit fog clears.

The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

5. Borrowing Strategy

5.1 Borrowing Rates

The Authority is currently maintaining an over-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been exceeded by loan debt and leasing liabilities. The strategy for the CFR and the under/over borrowed position going forward will be discussed at the next meeting with our Treasury advisors.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Authority officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *If it were felt that there was a significant risk of a sharp FALL in long and short term rates,* eg due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

5.2 Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

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 maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing 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;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

5.3. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in paragraph 7 above;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the FRA at the earliest meeting following its action.

6. Annual Investment Strategy

6.1 Investment Policy

The Authority's investment policy has regard to the CLG's Guidance on Local Government Investments ('the Guidance') and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the CIPFA TM Code'). The Authority's investment priorities will be security first, portfolio liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor couterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices – Schedules.

Money Market Funds for short-term investments will be considered.

6.2 Creditworthiness Policy

This Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS (Credit Default Swap) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used for Investments

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored quarterly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Nat West Bank (part of the RBS group) does not currently meet our "fixed term investment" criteria as it has a rating of F2 (Fitch ratings), however the Authority will continue to use it for cash flow management purposes for "day to day" banking needs but will not place any fixed term investments until it meets the criteria set out in the Authority's Treasury Management Policies and Practises.

.3 **Country Limits**

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) or UK banks who meet the Link Asset Services credit criteria. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.

6.4 **Investment Strategy**

***In-house funds**:*

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The Authority will fix some of its investments in the longer term to ensure sufficient return on investments but will keep some of its investments short term in order to take advantage of any potential interest rates rises within the year.

Members of the FRA, during the member budget workshops for 2018/19, enquired about the potential of lending to local authorities. This is a possibility should an amount, interest rate and loan period be agreed. If this was to be something to implement that aligned with our cash flow, guidance and relevant paperwork would be sought and discussed with Link Asset Services.

Investment returns expectations: Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2018/19	0.75%
2019/20	1.00%
2020/21	1.25%
2021/22	1.75%
2022/23	2.00%
2023/24	2.25%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subsides, and how quickly the Brexit negotiations move forward positively.

6.5 **End of Year Investment Report**

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

6.6 **Policy on the Use of External Service Providers**

The Authority uses Link Asset as its external treasury management advisers.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6.7 **Scheme of Delegation**

Please see Appendix 6.

6.8 Role of the Section 151 Officer

Please see Appendix 7.

Appendices

1. Prudential and treasury indicators and MRP Statement
2. Interest Rate Forecasts
3. Economic Background
4. Treasury management Practice
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The Treasury Management Role of the Section 151 Officer

APPENDIX 1

MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20

The Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10 and will assess their MRP for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2019/20 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2011 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method*).* For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

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.

Affordability prudential indicators **APPENDIX 2**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's finances. The Authority is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
% Ratios	**2.63%**	**2.46%**	**2.55%**	**2.49%**	**2.43%**

The estimates of financing costs include current commitments and the proposals in this budget report.

Treasury indicators for debt

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates:

- Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The FRA is asked to approve the following treasury limits:

Maturity structure of fixed rate borrowing during 2019/20		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
5 years to 10 years	0%	25%

10 years and above	0%	100%

INTEREST RATE FORECASTS

1. Individual Forecasts

Link Asset Services

Interest rate forecast –February 2019

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5yr PWLB rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%
50yr PWLB rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%

Capital Economics

Interest rate forecast – January 2019

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Bank Rate	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%
5yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%
10yr PWLB rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%
25yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%

APPENDIX 3

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is now probably unlikely to make a start on raising rates in 2019.

KEY RISKS - central bank monetary policy measures
Looking back on more than ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), also reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a significant risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018 and into early 2019. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** It is particularly notable that, at its 30 January 2019 meeting, the Fed dropped its previous words around expecting further increases in interest rates; it merely said it would be "patient".

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. 2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at

+0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit fog clears.

The MPC has stated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, the MPC could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the February Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead given a scenario of minimal increases in Bank Rate.

The **labour market** figures in November were particularly strong with an emphatic increase in total employment of 141,000 over the previous three months, unemployment at 4.0%, a 43 year low on the Independent Labour Organisation measure, and job vacancies hitting an all-time high, indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation continued at its high point of 3.3%, (3 month average regular pay, excluding bonuses). This means that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. Prime Minister May is currently, (mid-February), seeking some form of modification or clarification from the EU of the Irish border backstop issue However, our central position is that the Government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and an unemployment rate of 4.0%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in December. However, CPI inflation overall fell to 1.9% in December and looks to be on a falling trend to continue below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, which was the fifth increase in 2018 and the ninth in this cycle. However, they dropped any specific reference to expecting further increases at their

January 30 meeting. The last increase in December compounded investor fears that the Fed could overdo the speed and level of increases in rates in 2019 and so cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow. Since the more reassuring words of the Fed in January, equity values have recovered somewhat.

The tariff war between the US and China generated a lot of heat during 2018; it could significantly damage world growth if an agreement is not reached during the current three month truce declared by President Trump to hold off from further tariff increases.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. Current forward indicators for economic growth and inflation have now been on a downward trend for a significant period which will make if difficult for the ECB to make any start on increasing rates until 2020 at the earliest. Indeed, the issue now is rather whether the ECB will have to resort to new measures to boost liquidity in the economy in order to support growth. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. In its January meeting, it made a point of underlining that it will be fully reinvesting all maturing debt for an extended period of time past the date at which it starts raising the key ECB interest rates.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit –** if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU rejected the original proposed Italian budget and demanded cuts in government spending. The Italian government nominally complied with this rebuttal – but only by delaying into a later year the planned increases in expenditure. This particular can has therefore only been kicked down the road. The rating agencies have downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling

in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. Elections to the EU parliament are due in May/June 2019.
- The increases in interest rates in the US during 2018, combined with a potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some **emerging market countries** which have borrowed heavily in dollar denominated debt, could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- Dec 2018 vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19 UK parliamentary recess
- 15.1.19 Brexit deal defeated in the Commons vote by a large margin
- 28.1.19 Further votes in the Commons
- 14.2.19 Further votes in the Commons
- 21.3.19 EU summit at which a Brexit option could be considered
- By 29.3.19 another vote (?) in UK parliament
- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transition period ending around **December 2020.**
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transition period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

APPENDIX 4

SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

These are sterling investments that do not exceed 365 days and are with:

- an organisation that has a high credit rating;
- other local authority or,
- Central Government.

Strategy for specified Investments:

The Authority expects to have a net surplus of funds throughout 2019/20 and will invest those funds through the money market with those organisations included on its approved lending list (attached as Annex A).

The Authority's approved lending list includes the following organisations which are thus deemed to have a high credit rating:

- UK and Foreign Banks with a short-term rating of F1 or F1+ and a long-term rating of A- or higher.
- UK Building Societies with a short-term rating of F1 or F1+ and a long-term rating of A- or higher.

Ratings are those given by Fitch, the credit rating agency. In compiling the lending list, other factors such as legal rating and individual rating, which Fitch also provide, have been taken into consideration. The lending list is regularly reviewed to ensure that the organisations included maintain their credit ratings at the required level.

Investments will be made for terms of up to 365 days. The Authority will consider its cash flow requirements, prevailing market conditions and advice from its Treasury Advisers when determining exact terms for each investment, in order to ensure that it is both favourable and prudent. At the time of writing, interest rates are at a low point.

Non-Specified Investments:

These are any other investments that do not meet the criteria above for Specified Investments.

The Authority has no investments other than the short-term investment of surplus cash through the money market. Under previous regulations the investment of surplus cash was restricted to periods not exceeding 365 days. Under the new regulations that restriction is removed, however investments that do exceed 365 days are classified as non-specified investments because of the greater degree of risk they carry.

The Authority is investigating the use of Property Funds to supplement their investment portfolio and these would be in excess of 365 days. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using.

SPECIFIED INVESTMENTS: (All such investments will be sterling denominated, with **maturities up to maximum of 1 year,** meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Green	In-house

APPENDIX 5

Approved countries for investments

Based on lowest available rating as at 21.01.19

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max % Limit	Max Maturity Period
UK banks	Orange	In-house	25%	**1 year**
UK banks and Building Societies	Red	In-house	25%	**6 months**
UK banks and Building Societies	Green	In-house	25%	**100 days**
UK banks and Building Societies	No Colour	In-house	Not to be used	
UK part nationalised banks	Blue	In-house	90%	**1 year**
DMADF	AAA	In-house	Unlimited	**6 months**
Local Authorities	N/A	In-house	25%	**5 years**
Money Market Funds LVNAV	AAA	In-house and Fund Managers		**1 year**
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house and Fund Managers		**1 year**
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house and Fund Managers		**1 year**
Non-UK Banks	Orange	In-house and Fund Managers	50%	**1 year**

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

i. **FRA**

- Receiving and approving reports on treasury management policies, practices and activities (via the Corporate Services Policy and Challenge Group);
- approval of annual strategy, following CSP&CG review;
- budget consideration and approval;

ii. **Corporate Services Policy and Challenge Group**

- recommending FRA approval (post any amendments) of the organisation's treasury management policy statement and treasury management practices;
- budget consideration and recommendation for FRA approval;
- review and recommend for FRA approval the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- reviewing a selection of external Treasury service providers and agreeing terms of appointment.;
- the review and challenge function of Treasury Management as delegated by the FRA.

iii. **Treasurer**

- reviewing the treasury management strategy, policy and procedures and making recommendations to the responsible body.

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (Responsible) Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management)): -

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees – our Authority doesn't have these.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.