Bedfordshire
Fire and Rescue Service

2018/19 BUDGET BOOK

AND

MEDIUM-TERM FINANCIAL STRATEGY

2018/19 to 2021/22

CONTENTS

	Page
Introduction and Background	1 - 5
Where the Funding Comes From and What It Is Spent On	6 - 7
2018/19 Budget and Medium-Term Revenue Plan	8 – 9
Summary of savings and efficiencies	10
Summary of successful revenue bids	11
Subjective Analysis of the 2018/19 Revenue Budget	12
The Capital Programme	13 - 14

	Individual Document Page Numbers
The Medium-Term Financial Strategy (printed on yellow paper)	
• Medium-Term Revenue Plan	15
• General and Ear-Marked Reserves	21
• Medium-Term Capital Programme	22
The Capital Strategy (printed on green paper)	
Links between Strategic Priorities and Capital Investment	6
Treasury Management Strategy Statement (printed on pink paper)	
• Prudential Indicators	18
• Interest Rate Forecasts	19

INTRODUCTION AND BACKGROUND

Welcome to the Budget Book for 2018/19 that includes key strategic financial information and documents such as the Medium-Term Financial Strategy (MTFS).

The Fire and Rescue Authority set the 2018/19 budget on 8 February 2018. 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 2018/19 budget setting undertaken during 2017/18. 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 2018/19 was confirmed on 8 February 2018. There is a 11% reduction from 2017/18 to 2018/19 of the settlement funding assessment. The attached MTFS uses prudent assumptions and estimates for the years 2019/20 to 2021/22.

Table 1: Formula Funding Settlement

	2017/18 £m	**2018/19 £m**	**% change**
Revenue Support Grant (RSG)	3.509	2.856	**(18.6)**
Business Rates baseline funding	5.550	5.720	**3.1**
Settlement Funding Assessment	**9.059**	**8.576**	**(5.3)**

Budget and Precept for 2017/18 and the Medium-Term Revenue Plan

In setting the budget for 2018/19, the Authority took into account the implications for the following year's financial strategy, namely 2019/20 to 2021/22. 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 2018/19 to 2021/22 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 2019/20 to 2021/22 financial years 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 2018/19 was set at £29.437m.

It is worth noting the relatively high Collection Fund surplus of £0.291m (£0.378m in 2017/18 budget setting) from the three unitary authorities that is identified in the table below.

Table 2: Key Budget Information

	2017/18 £m	**2018/19 £m**	**Change £m**
Budget Requirement (£m)	28.716	29.437	0.721
Funded by:			
Precept Requirement (£m)	18.994	19.972	0.978
Central and Local Gov Funding (£m)	9.195	8.717	(0.501)
Section 31 Business Rates grant	0.149	0.187	0.038
Collection Fund surplus/(deficit)	0.378	0.291	(0.087)
Utilisation of Collection Fund Surplus Reserve	0.000	0.270	0.270
Funding Total (£m)	28.716	29.437	0.721
Tax Base (Band D equiv. properties)	204,653	208,933	4,280
Band 'D' Council Tax	£92.81	£95.59	£2.78

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 2017/18 level, there are updates to all of the valuation bands. The Council Tax of £95.59 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	63.73
B	7/9	74.35
C	8/9	84.97
D	1	95.59
E	11/9	116.83
F	13/9	138.07
G	15/9	159.32
H	2	191.18

Table 4 below details the 2018/19 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	5,594,022	105,180	614,887
Luton Borough	4,823,577	201,914	660,369
Central Bedfordshire	9,554,316	(16,270)	861,576
Total	**19,971,915**	**290,824**	**2,136,832**

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.

Use of Balances

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 General Fund reserves, taking all known risks into account along with the gross expenditure requirement, should be in the order of £2.6m for 2018/19. This equates to 9% of the Authority's budget requirement, which is comparable to the average for all Combined Fire Authorities at circa 9% too. This is after a comprehensive review and setting up of specific ear-marked reserves of £2.375m covering revenue and capital (not including the Transformational reserve noted below and the capital receipts reserve £0.507m and Collaboration Reserve £1.906m). The 2017/18 underspend of £0.486m, in accordance with FRA approval, was allocated to the Transformational reserve. This reserve was £4.894m at the 2017/18 year end, including the underspend allocation and is currently considered adequate enough based on current projections to balance the 2021/22 budget gap. This is detailed at the foot of the MTRP in Appendix 1.

The reserves strategy is included in the attached MTFS. In summary, the strategy to date 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. As detailed in the MTRP, it is anticipated that this will be used over the medium term to close the budget gaps in the financial years 2018/19 to 2021/22. This strategy will ensure that the significant savings and efficiencies are introduced in planned and effective manner over the years. Currently £1.1m as identified in the MTFS will need to be permanently removed from base budget in order to have an annual balanced budget. This figure will be revised over the medium term when budgets are recalculated.

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 2017/18 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 attached at Appendix 3 as the 2018/19 Capital Programme.

Key items of note in the 2018/19 Capital Programme of £1.253m are:

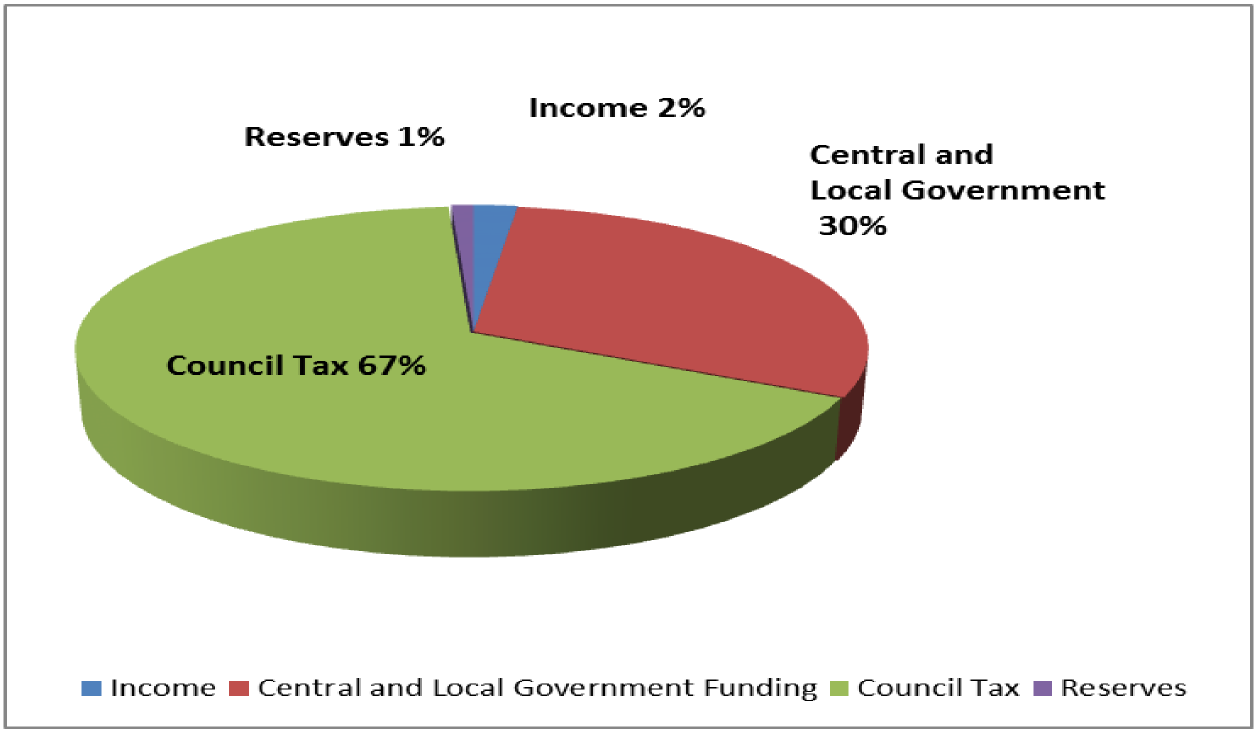
- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT.
- Investment in the modernisation of our buildings.
- Investing in vital operational equipment.

Medium-Term Financial Strategy

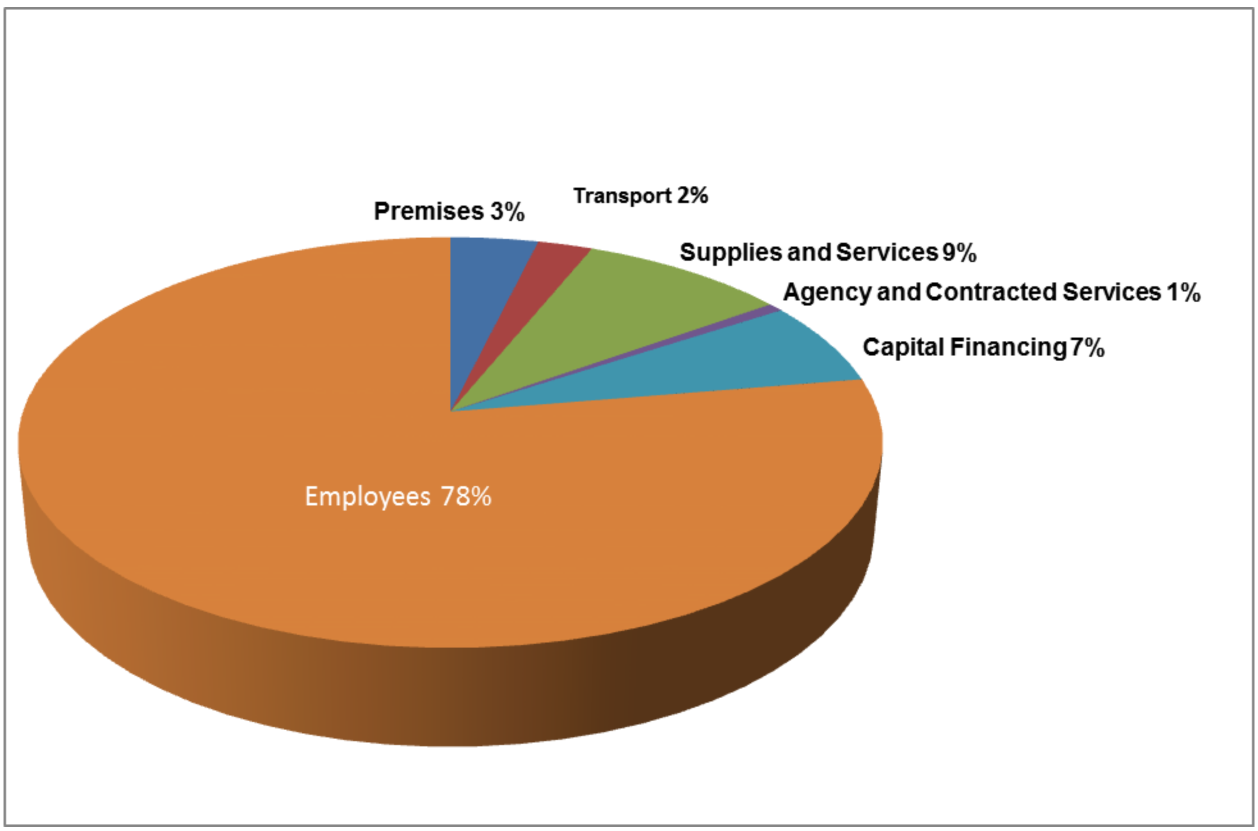
The Medium-Term Financial Strategy is a document that sets the Authority's financial strategy for the next four years. It focuses on the 2018/19 Revenue Budget and Capital Programme, but also sets the scene for future years. It covers national events such as the Comprehensive Spending Review (CSR) and 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 2018/19 Budget

	£000
2017/18 Budget	**29,284**
Full-Year Effects and Forecast Variations to Budget	(570)
Inflation	702
Budget Pressures	260
Less Funding to/(from) Reserves	(239)
Budget Requirement 2018/19	**29,437**
Financed by:	
Central and Local Government Funding	8,904
Precept	19,972
Collection Fund Surplus/(Deficit)	291
Reserves Utilisation	270
Total Financing	**29,437**

MEDIUM TERM REVENUE PLAN 2018/19 TO 2021/22

	2017/18 £000s	Original 2018/19 £000s	Proposed 2018/19 £000s	Proposed 2019/20 £000s	Proposed 2020/21 £000s	Proposed 2021/22 £000s
Base Budget	**29,125**	**29,284**	**29,284**	**29,676**	**31,415**	**31,083**
Full-Year effect of previous budget decisions & FMS 3 bids	-34	-9	-37	0	0	0
Additional Bank Holidays	4	-37	-37	25	4	8
Firelink grant reduction / (Increase)	0	0	0	0	0	0
FF Pensions 2015 changes	-16	-21	-21	-23	-23	-23
FF Overtime uplift	18	0	0	0	0	0
Increase in Non-Domestic Rates on Properties	115	0	0	0	0	0
Budget Realignment	22	0	8	135	-3	0
CFOA subscription / LGA Pension Support / NFCC	5	5	15	0	0	0
Apprenticeship Levy	67	1	1	2	2	2
SCAPE (FF Pensions Scheme) Costs from 01/04/2019 (assumes a 4% increase)	0	0	0	450	0	0
LGPS Increase (from 14% to 17.3%)	153	0	0	0	0	0
Local Government Superannuation Revaluation Lump Sum	-88	46	46	48	32	0
Total Base Budget Adjustments	**246**	**-15**	**-25**	**637**	**12**	**-13**
Forecast Variations						
Investment Interest Decrease/(Increase)	24	0	-15	-5	0	0
Revenue Contribution to Capital	0	366	-171	-65	118	67
Revenue Implications of Capital Programme	0	26	26	12	0	0
Non-Uniform Incremental Drift	14	4	4	2	0	0
Transformational Savings/Efficiencies	-529	-241	-178	-150	-244	-375
Scrutiny Panel Decisions	-108	0	-211	50	50	0
Service Control - Mobilisation System	0	0	0	750	-750	0
Total Forecast Variations	**-599**	**155**	**-545**	**594**	**-826**	**-308**
Inflation						
Fire-fighters pay (1st April to 30th June) 2% (4% April '19 to June '19)	31	31	63	128	65	66
Fire-fighters pay (1st July to 31st March) 2% (4% July '18 to March '19)	110	188	376	192	195	200
Retained Pay (As per Fire-Fighters)	18	33	38	39	40	41
Control pay (As per Fire-Fighters)	9	16	18	18	19	20
Non Uniformed pay (2% effective from 01/04/2018)	45	47	96	97	98	99
Member Allowances	1	1	1	1	1	1
Gas, Electricity, Water and Derv Inflation	27	28	29	32	33	34
Prices Inflation at, 2% 2018/19 - 2021/22	91	81	81	81	81	81
Total Inflation	**332**	**425**	**702**	**588**	**532**	**542**
Budget Pressures						
FMS3' bids (Current Year MTFP process)	243	-133	326	-2	-50	0

FMS3' bids (Previous Years MTFP process)	-63	178	-66	-78	0	
Estimated Net Revenue Expenditure	**29,284**	**29,894**	**29,676**	**31,415**	**31,083**	**31,304**
Contribution to/from Transformational Earmarked Reserves	-568	-1,442	*-239*	*-1,816*	*-881*	*-369*
Estimated Budget Requirement	**28,716**	**28,452**	**29,437**	**29,599**	**30,203**	**30,935**
Budget Requirement Increase Year on Year	**-269**	**-264**	**721**	**162**	**604**	**732**
% Budget Increase	**-0.9%**	**-0.9%**	**2.5%**	**0.6%**	**2.0%**	**2.4%**
Financed by:						
Revenue Support Grant (RSG):	3,509	2,856	2,856	2,474	2,142	1,855
Business Rate Baseline	2,048	2,109	2,136	2,249	2,335	2,407
Business Rate Top Up	3,563	3,678	3,694	3,776	3,860	4,013
Adjusted 2017/18 Business Rates Top Up following revised VOA list	0	0	23	0	0	0
Business Rates & Transparency Grant	157	157	195	195	195	195
Transition Grant (RSG)	67	0	0	0	0	0
Collection Fund Surplus/(Deficit)	378	0	291	0	0	0
Council Tax (the remainder)	18,994	19,652	19,972	20,906	21,671	22,465
Utilisation of Collection Fund Surplus Reserve	0	0	270	0	0	0
	28,716	28,452	29,437	29,599	30,203	30,935
Band D equivalent Tax base	**204,653**	**207,604**	**208,933**	**212,353**	**215,830**	**219,366**
% change on Band D's	2.3%	1.4%	2.1%	1.6%	1.6%	1.6%
Leading to an average council tax (Band D) of	92.81	94.66	95.59	98.45	100.41	102.41
% increase	**1.99%**	**1.99%**	**2.99%**	**2.99%**	**1.99%**	**1.99%**

Use of Transformational Reserves Summary	**Proposed 2017/18 £000s**	**Proposed 2018/19 £000s**	**Proposed 2018/19 £000s**	**Proposed 2019/20 £000s**	**Proposed 2020/21 £000s**	**Proposed 2021/22 £000s**
Transformational Earmark Reserve for Budget Setting	4,976	4,408	4,408	4,169	2,353	1,472
Contribution to/from Transformational Earmarked Reserves	-568	-1,442	-239	-1,816	-881	-369
Net Balance Transformational Earmark Reserves	**4,408**	**2,966**	**4,169**	**2,353**	**1,472**	**1,103**

Transformational Savings and Efficiencies 2018/19 to 2021/22

Savings/Efficiencies	£'000s 2018/19	£'000s 2019/20	£'000s 2020/21	£'000s 2021/22
Reduction of One Area Commander post and a Service Operational Commander (SOC) allowance (main financial impact was in 2017/18).	35			
Income from Property Rents & Collaboration	15		5	
Control Income generation	15			
Management Information System (MIS) - Wholetime Rota/Availability System, Human Resources, Technical Equipment			89	
New Savings as part of the 2018/19 budget setting process				
Saving following Procurement of new Fire Fighter PPE Contract	50			
Air Bags (operational use for lifting)	35			
Re-tender of service wide waste contract	20			
Refreshments reduction at Committees and meetings	1			
Change of 4th Area Commander post to Green Book Head of Service (subject to natural turnover)		10		
Printers/Photocopiers leasing renegotiation	7			
Draw down apprenticeship levy (therefore reducton in training budget)		50		
Collaboration Savings		20		
2019/20 Zero Base Budget Exercise (forecast reduction)		70		
Planned Review of Service Delivery			150	375
	178	**150**	**244**	**375**

2018/19 SUPPORTED REVENUE BUDGET BIDS (FMS 3s)

Budget Bids Agreed;

Description of Scheme		2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Cadet Scheme Funding	To fund the 4 current Fire Cadet units that operate from Leighton Buzzard, Luton, Sandy and Kempston Fire Stations.	43	(43)	0	0
National Resilience	To fund the post of National Resilience Training Instructor.	30	0	0	0
Firefighter Training	Funding for foundation training for new Firefighter recruits.	112	(32)	0	0
Firefighter Recruitment	Additional post to support effective recruitment of new Firefighter recruits.	55	0	0	0
ICT Staffing	Staff growth for ICT teams to enable successful implementation of projects and to increase the funding for ICT Shared Service team.	86	0	0	0
ICT Infrastructure	Upgrade to CSPN for Wide Area Network (WAN).	0	50	(50)	0
Total FMS 3 Bids supported as part of 2018/19 MTFP budget setting		**326**	**(25)**	**(50)**	**0**

Summary of Subjective analysis

2017/18 £'000's		2018/19 £'000's
547	**Income***	**535**
	Employees	
14,227	Uniformed	14,112
1,937	Retained	1,875
988	Control	970
5,021	Non-Uniformed	5,469
683	Indirect Employee costs	915
22,856	**Total Employees**	**23,341**
	Premises	
68	Cleaning and Grounds Maintenance	51
282	Heating and Lighting	305
485	Insurance, Rents and Rates	529
256	Repairs and Maintenance	255
1,091	**Total Premises**	**1,139**
	Transport	
158	Maintenance	158
309	Car Allowances	335
239	Fuel and Oil	221
0	Leasing Costs	0
707	**Total Transport**	**714**
	Supplies and Services	
47	Subscriptions	47
3	Bank Charges	3
319	Clothing and Uniforms	378
277	Operational Equipment	199
744	Information Technology	831
83	Hydrants and Breathing Apparatus Maintenance	83
92	Catering and Catering Equipment	72
73	Printing and Photocopying	73
20	Stationery	20
27	Subsistence	26
127	Telephones	127
948	Other Supplies and Services	838
2,759	**Total Supplies and Services**	**2,697**
392	Agency	399
2,150	Capital Financing	1,974
29,407	**Net Revenue Expenditure**	**29,728**
-121	Transformational Efficiency Savings	-50
-568	Reserves Funding	-239
0	Contribution to/from Reserves	0
28,716	**Budget Requirement**	**29,437**

2018/19 to 2021/22 Capital Programme

	Capital Budgets 2018/19	Capital Budgets 2019/20	Capital Budgets 2020/21	Capital Budgets 2021/22
Scheme	**£000's**	**£000's**	**£000's**	**£000's**
Fleet:				
Vehicles/associated equipment	404	861	470	0
ICT Projects:				
IT Developments				
Server hardware renewal (deferred from 2015/16)	320	0	0	0
IT & Communications				
Renewal of Risk Information Mobile Data Terminals (GPS, premises information)	211	0	0	0
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	0	35	0
Renewal of Mobilising System Mobile Data Terminals (who, where, resources available)	0	276	0	0
Xen Desktop (VDI phase 2) (to review, may be reallocated to revenue)	104	0	0	0
Sharepoint upgrade (to review, may be reallocated to revenue)	77	0	0	0
Asset Management System	0	0	300	0

	Capital Budgets 2018/19	Capital Budgets 2019/20	Capital Budgets 2020/21	Capital Budgets 2021/22
General:				
Smoke House Renovation and upgrade	0	20	20	0
Capital Works - Service Wide (roofs, drill grounds, etc)	80	80	80	80
Fitness Equipment Expenditure	15	8	8	0
Workshop vehicle lifting equipment	42	0	0	0
Future Capital Programme Schemes (yet to be finalised, reviewed and approved)	0	0	300	1,200
TOTAL	**1,253**	**1,455**	**1,213**	**1,280**

Capital Financing Summary				
RCCO = Revenue Contribution to Capital	1,119	1,055	1,173	1,240
Capital Receipts & Reserve Utilisation	134	400	40	40
Total	**1,253**	**1,455**	**1,213**	**1,280**

Bedfordshire Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Financial Strategy

2018/19 – 2021/22

CONTENTS

		Page
1.	Introduction	2
2.	National Context	3
2.1	National Statutory and Policy Context	3
2.2	National Financial Context	6
3.	Local Context	7
3.1	The Authority's Area	7
3.2	The Authority's Strategic Priorities Objectives	8
3.3	Government Funding Settlement	10
3.5	Other Revenue Grants	13
3.6	Fire Capital Grant Allocation	14
4.	Medium-Term Revenue Plan	15
4.1	Overview and Key Features of Revenue Budget Strategy	15
4.2	Components of the Medium-Term Revenue Plan	15
4.3	Efficiency Savings Strategy	20
4.4	General and Earmarked Reserves	21
5.	Medium-Term Capital Programme	22
6.	Other Considerations	23
6.1	Key budget assumptions	23
6.2	Equality Impact	24
6.3	Data Quality	25
6.4	Budget Setting Process for Future Years	25

Annex 1 Medium-Term Revenue Plan
(not attached to this version, see Appendix 1 of the 2018/19 budget report)

Annex 2 Medium-Term Capital Programme
(not attached to this version, see Appendix 3 of the 2018/19 budget report)

Annex 3 – Reserves Strategy 26

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 2018/19 to 2021/22 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 we are due to hear the outcome of the six business cases that are having an independent assessment.

There has also been a newly created National Fire Chiefs Council (NFCC). The NFCC and the role of Chair commenced in April 2017. The NFCC is made up of senior representatives from all fire and rescue services across the UK.
The new Council will provide 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 has been created, with the Authority's review due in the first tranche of inspections in summer 2018.

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 July 2012) to provide clarity for Fire and Rescue Services on the Government's expectations. There is currently a consultation being held on the revised National Framework, with a closing date of 14th February 2018.

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.

The Government's policy direction and approach towards localism, transparency, accountability and the Big Society agendas have already led to some far-reaching changes for the fire and rescue service nationally. These changes have included:

- Cessation of the Comprehensive Area Assessment regime.
- Abolition of the Audit Commission.
- Closure of Regional Government Offices.
- Abolition of Fire and Rescue Regional Management Boards.
- Cessation of the national Regional Fire Control Centres project.
- Abolition of the fire and rescue national procurement agency, Firebuy.
- Direction, as part of the Comprehensive Spending Review for 2011/12 onwards, that Fire and Rescue Authorities should focus their measures to achieve the savings required over this period upon:

    - Flexible staffing arrangements;
    - Improved sickness management;
    - Pay restraint and recruitment freezes;
    - Shared services/back office functions;
    - Improved procurement;
    - Sharing Chief Officers and other senior staff;
    - Voluntary amalgamations between fire and rescue authorities.

- The passing of the Localism Act 2011 which included a power of general competence for fire authorities, power for fire authorities to charge for attendance at false alarms caused by defective automatic fire alarm systems and a range of other provisions concerning transparency, accountability and community empowerment which also impacted on fire authorities.

Sir Ken Knight conducted a review of the Fire and Rescue Service that was published in May 2013. In summary the report details a number of key recommendations around efficiency, deployment, collaboration, shared governance models and thinking about the future. Areas for further consideration include reconfiguration of Services to better match the response to the risk and demand, development and sharing of innovative crewing and staffing models, increasing the use of on-call firefighters, greater collaboration between blue light services and challenging the inconsistent expenditure patterns between services.

Reform

The previous Home Secretary (now Prime Minister) outlined her visions 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.

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 CFOA/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. Of particular interest is the appointment of Police and Crime Commissioners and the impact that this will have on our joint working with the Police and others within the criminal justice system. 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:

The provisional local government finance settlement was announced by the Secretary of State Communities and Local Government, Sajid Javid MP, in an oral statement to the House of Commons on Tuesday 19th December 2017.

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

Headlines

- Increased council tax referendum principle from 2% to 3% for 2018-19 and **2019-20** for all Fire Authorities, Shire Counties, Single Tier Unitaries, Metropolitan Districts and London Boroughs. The maximum £5 increase was maintained for district councils
- Announcement of the Government's 'aim' **to localise 75% of business rates** from 2020-21 and implementation of the **new needs assessment (the FRA receives 1%)**
- **Consultation** in the Spring on 'fair and affordable options' **to tackle negative RSG** in 2019-20 (applies to come counties with fire responsibility but no stand-alone fire authorities)
- In addition to those already announced; **ten new 100% business rates retention pilots** have been accepted for 2018-19
- **No Transition Grant in 2018-19**
- **A national increase in the 2018-19 core spending power of 1.5%** compared to 2017-18. NFCC members (including counties and unitaries with fire) see an increase in Spending Power of 2.5%, with stand-alone fire authorities seeing an average increase of 3.2%
- **RSG no longer a comparable measure of funding:** those authorities taking part in 100% Business Rates Retention pilots will not receive RSG as the funding will be reflected in an increased baseline funding level
- Increase in the **Rural Service Delivery Grant for 2018-19 to £65M** in line with 2017-18 and 2019-20. However, piloting authorities forgo this grant
- **£946M** paid in **New Homes Bonus**. Further **reduction in the number of payment years** from 5 years in 2017-18 to 4 years in 2018-19. NHB will continue to be paid on housing growth above 0.4% (0.4% in 2017-18). (Applicable to counties and unitaries with fire responsibility)
- Continuation of capital receipts flexibilities for a further 3 years

Council Tax Referendum Principles

- **3% council tax referendum trigger for fire authorities, counties, unitaries, London Boroughs and GLA (up from 2%)**
- **Continuation of the Adult Social Care (ASC) precept** at 2% with the flexibility to increase the precept by 1% to 3% in 2018-19 provided that increases do not exceed 6% between 2017-18 and 2019-20

- For shire districts 3% council tax referendum trigger or £5, whichever is higher (up from 2%)
- Police precepts can be increased by up to £12. This equates to between 5.34% and 12.20% for English PCCs. This compares to allowing a £5 increase for those in the lowest quartile of PCCs and a 2% threshold otherwise in 2017-18.

3. Local Context

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 deliverer in the business passenger market and handling circa 10 million passengers a year in total.

Town centre redevelopment is underway in many of the county's towns, and in particular in Luton and Bedford.

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.

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

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 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 14 December 2017. 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 8 February 2018. The final funding announcement was in early February in 2017 for the Authority's 2017/18 settlement. This provisional settlement figures are detailed below in Table 1.

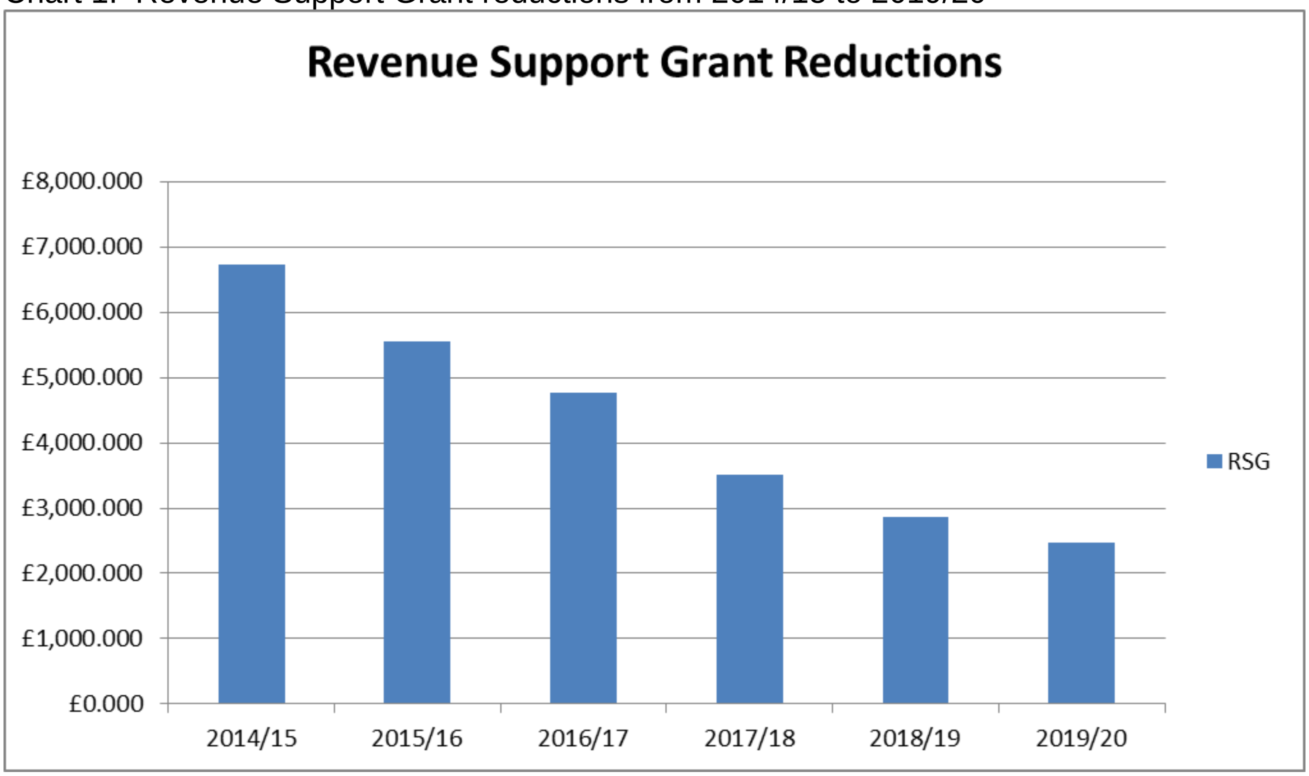
Table 1: Government Grant Revenue Funding

	2017/18 £m	2018/19 £m	% change
Revenue Support Grant (RSG)	3.509	2.856	(18.6%)
Business Rates baseline funding	5.549	5.716	3.0%
Settlement Funding Assessment	**9.058**	**8.572**	**(5.37%)**

As detailed above, the funding reduction between 2017/18 and 2018/19 is 5.37% 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 Authority's Business Rates baseline funding level has been assessed at £5.716m by the DCLG for 2018/19 and a business rate baseline estimated at £2.022m (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 £3.694m from central government (to get back to the £5.716m baseline funding level). All fire and rescue services are top up authorities. The total funding of £8.572m shown above for 2018/19 will be split between £2.856m Revenue Support Grant funding and £5.716m Business Rates. The £2.022m was the estimate by the DCLG, this has now been confirmed by the local authorities at £2.136m, therefore £114k more than the Government had assumed.   The split of this between local authorities is shown below in Table 2.

Table 2: Local Business Rates income.

Authority	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Bedford	615	641	654	667
Luton	660	674	687	701
Central Beds	861	934	994	1,039
Total	2,136	2,249	2,335	2,407

The above figures are fed into the MTRP. As are the Section 31 Business Rates Grants of £166,000 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. Authorities are yet to be advised how this will work and when it will be eventually implemented. We are yet to see if Fire and Rescue Authorities will have a change in funding to grant and council tax only, which would be in line with Police Authority funding.

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

Table 3: Detailed income split

	2017/18 £m	**2018/19 £m**	**Change £m**
Budget Requirement (£m)	28.716	29.416	0.700
<u>Funded by:</u>			
Precept Requirement (£m)	18.994	19.972	0.978
Central and Local Gov Funding (£m)	9.120	8.709	(0.411)
Section 31 Business Rates grant	0.224	0.174	(0.050)
Collection Fund surplus/(deficit)	0.378	0.291	(0.087)
Use of reserve (Collection Fund)	0	0.270	0.270

Funding Total (£m)	28.716	29.416	0.700
Tax Base (Band D equiv. properties) Band 'D' Council Tax	204,653 £92.81	208,933 £95.59	4,280 £2.78

The above income lines are further explained below:

- The Government Grant funding for 2018/19 is as per the provisional settlement figures provided by the DCLG, 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 2018/19 are the figures provided by the three local authorities, as reported in their NNDR 1 returns which were due to be submitted to the DCLG by 31 January 2017. The years 2018/19 to 2021/22 have been increased by using the DCLG'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 DCLG. This is fixed until the next revaluation. A revaluation has just taken place with new impacts for the 2018/19 budget, due from the Valuation Office Agency (VOA) recalculations.

- Council Tax Taxbase, is the Band D equivalent number of properties. For the fifth year there is 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.

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 £200,000 in 2018/19.

- *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. As recently reported to the FRA, this grant has reduced from 2017/18.

The total and split of the 2018/19 funding is yet to be received from the DCLG.

As well as the above, a grans is also received on an ad hoc 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 2018/19 there will be a base budget revenue contribution of £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 2018/19, which is consistent from 2016/17 and 2017/18 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 attached at Appendix 3 as the 2018/19 Capital Programme.

Key items of note in the proposed 2018/19 Capital Programme of £1.253m 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), attached at Appendix 1 of the 2018/19 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 2018/19 which involves a 2.99% increase in council tax on 2017/18 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 2018/19 and 2019/20, with 1.99% for 2020/21 and 2021/22. 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 2018/19 onwards. The support provided to the revenue budget by the planned use of the reserves in the years 2018/19 to 2021/22 is aimed at smoothing the impact of formula grant reductions.

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 2017/18 was £29.284m. After adjusting for an amount of £568,000, which was a contribution from reserves to balance the budget, this decreased the budget requirement to £28.716m.

For the 2018/19 budget, the net revenue budget is £29.676m, with a budgeted use of £277,000 from the Transformational reserve decreasing the budget requirement to £29.416m.

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 £23.4m or 80% 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 2018/19, there is an increase in pay forecast at 2% for non-uniformed officers and an estimated

4% for uniformed officers from July 2018 until July 2019 and 2% from July 2019. 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 2018/19. 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 2018/19, 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 2018/19 to 2021/22. 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 2018/19 to 2021/22, 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 (tax base) and level of council tax set. This can arise due to a number of reasons including an over-estimation of the tax base 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 tax base. From 2013/14, there is also now a surplus or deficit on the business rates collected too.

For 2018/19, 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 £291,000 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	(122)	17	(105)
Luton	(214)	12	(202)
Central Beds	(3)	19	16
Total	**(339)**	**48**	**(291)**

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 2018/19 – 2021/22 by Service Function					
	Strategic Objective	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Community Safety	1	1,400	1,380	1,380	1,380
Firefighting and Rescue	1 & 2	14,640	15,423	15,797	15,877
Emergency Response Support	1 & 2	2,686	3,359	2,609	2,609
Training and Development	2	1,569	1,537	1,537	1,537
Human Resources	2 & 3	1,169	1,169	1,169	1,169
Corporate Support	2 & 3	5,842	5,990	6,178	6,450
IT and Communications	2 & 3	1,692	1,754	1,704	1,704
Strategic Management	3	857	953	953	953
Transformational Efficiency Savings		(178)	(150)	(244)	(375)
Net Revenue Expenditure		**29,676**	**31,415**	**31,083**	**31,304**
Contribution to/(from) Reserves		(260)	(1,837)	(902)	(390)
Budget Requirement		**29,416**	**29,578**	**30,182**	**30,914**

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 in Table 3.

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

The tax base 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 tax base for 2018/19 has been set at 208,933 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 2.09% compared to the 204,653 taxbase in 2017/18. 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 2018/19 and 2019/20, with 1.99% then to 2021/22.

Table 6: Taxbase – Band D Equivalents

Authority/Year	2018/19	2019/20	2020/21	2021/22
Bedford	58,521	59,691	60,885	62,103
Luton	50,461	50,861	51,261	51,661
Central Beds	99,951	101,801	103,684	105,602
Totals	**208,933**	**212,353**	**215,830**	**219,366**

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 2018/19 to 2021/22 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 2017/18 are on track to deliver an underspend which will be used, subject to the approval of the FRA, to contribute to the Transformation Reserve.

Significant areas where the Authority is already achieving such efficiency savings as a result of initiatives previously implemented include:

- Staffing costs:
  - following restructures and reviews of working systems across several departments,
  - through better matching levels of cover provided to station needs.
- Costs of overtime and temporary appointments, through reduced sickness levels and improved absence management.
- Managing sustained reductions in the number of ill-health retirements.
- Costs of goods and services through collaborating with other authorities and re-negotiating contracts with suppliers.
- The running costs of our vehicle fleet through redesign of operational and support vehicles.
- Costs of premises hire for large events, through making use of our community fire station facilities.

As well as making further savings in many of the above areas, the Authority's plans for 2018/19 and beyond include making significant efficiency savings through:

- Further operational cover reviews
- Removal of the Management Information System (MIS)
- Procurement savings from new contracts for PPE, Waste and printers/copiers
- 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 2018/19 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 Appendix 1, the Reserves Strategy.

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 1, the Reserves Strategy.

At the time of writing, the forecast year end underspend for 2017/18 is circa £0.470m. The General Reserve of £2.6m, at 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 2017 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 reserves for the Collection Fund and a separate 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 £4.408m at 31 March 2018. As detailed in the MTRP, it is forecast that this will be allocated to offset the budget gap in the years 2018/19 to 2021/22.

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 2018/19 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 2018/19 is fully funded by revenue contributions, with a contribution from the vehicles reserve of £134k.

The DCLG 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 CSR 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 DCLG 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:**

2018/19 Budget Process- Assumptions/Uncertainties

Current Assumptions:

- Green Book pay award 2% April 2018 onwards
- Grey Book up to 4% July 2018 onwards
- 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)
- That the CPSN contract is awarded to the current provider, if not, there is likely to be an additional £100k of expenditure.
- Fire Grant/Emergency Services Mobile Communications Programme (ESMCP) funded (see below) – ***Potential large funding risk here***
- Fire Fighters Pension Scheme Revaluation from 2016, that comes into effect from April 2019, has an estimated increase of 4% (current assumptions within the sector range between 2% and 4%)

- Revenue Support Grant (RSG) grant reductions in line with four year funding deal and continuing at this rate for RSG in 2020/21 and 2021/22
- Estimated Collection Fund surplus of £348k in 18/19, none thereafter (final confirmation in January 2018)
- New Dimensions Grant will continue
- No new funding for national resilience vehicles (planned purchases 2020/21)
- Marauding Terrorist Firearms Team (MTFA) funding continuing
- No additional posts following Business Improvement Team review
- No material impact from Job Evaluations following ICT Restructure

Uncertainties:

- Recruitment profile/establishment/retirements – associated recruitment/training costs
- 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
- Fully funded by local business rates (no Revenue Support Grant) by 2020, or direct grant with no business rates (like the Police)
- Implications arising from Fire Brigades Union (FBU) discriminatory claims relating to transitional pension protection
- Strike expenditure potential
- Outcomes of review of Cloud options
- General Data Protection Requirements (GDPR)
- Pay Scale review – Green book (Hay review pay line)
- Interest and inflation rate fluctuations

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:**

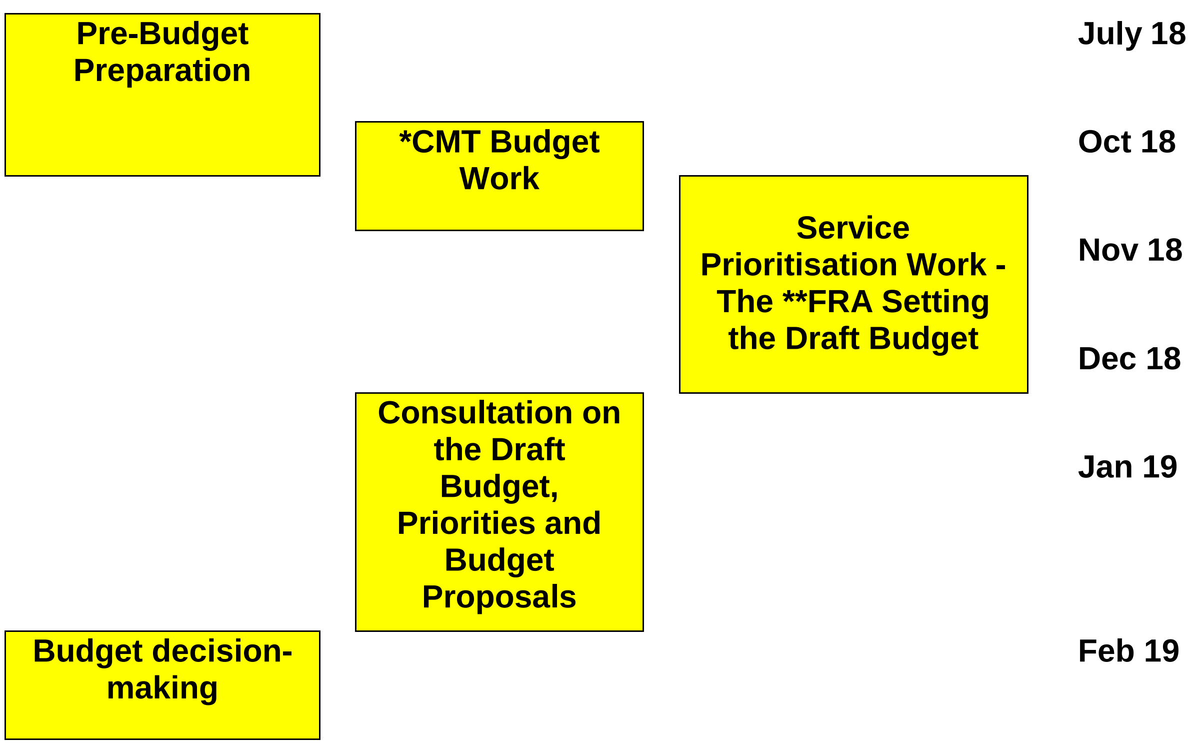
The Authority is committed to achieving and maintaining fit for purpose, quality data enabling sound decision making and informed planning. This is vitally important with key documents, such as this MTFS and the Authority seeks to continually improve the quality characteristics of such data with particular 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 2018/19 & MTFS 2018/19 to 2021/22

1 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 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.

1.3 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 continuous grant reductions.

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 – 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.

2. The approach to setting the Reserves Strategy

2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. Therefore the MTFS 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 The Authority, in common with other organisations, needs financial reserves to help manage unforeseen circumstances and to smooth the impact of known spending requirements over time. The Authority will use reserves for such purposes to enable it to manage variations between its planned and actual budgets that result from unpredictable spending and funding. Reserves will also be used by the Authority to plan its finances strategically to support activities over the medium and long term

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 2018/19 to 2021/22 MTFS assumes that there will be utilisation of the Transformation Reserve and that on current projections, this will be fully used in 2022/23.

4 Reserves and the management of risks

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, ill health and early retirement, 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 latest review recommends that the Collection Fund reserve of £270k is used as part to the 2018/19 budget process. This has 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.

Increasing Financial Risks

4.4 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
- Further changes in the grant funding methodology ahead of the 2020 planned reset (or thereafter)
- 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
- 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 and potentially increase the level of homeless people seeking accommodation

On-going risks in the current strategy

4.5 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

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 2017 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 (1%) 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 year end additional contribution of £498k from Home Office Pensions refund)
- Capital Receipts Reserve £507k

The following reserves held at year end 2016/17 have been used as part of this budget process:

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

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Capital Strategy

Contents

		Page
1	**Introduction**	3
2	**The Role of the Capital Strategy**	3
3	**Managing the Capital Strategy**	4
4	**The Capital Strategy and the Strategic Planning Process**	5
5	**The Role of Partnerships**	5
6	**Key Strategic Priorities and the Capital Strategy**	6
7	**Links between Strategic Priorities and Capital Investment**	6
	Buildings	6
	Capital Investment	6
	Vehicles and Equipment	7
	National Modernisation Projects	7
8	**Capital Resourcing**	8
9	**Resource Allocation**	8
10	**Capital Programme – Implementation and Monitoring**	9
11	**Capital Strategy Review**	9

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. **Managing the Capital Strategy**

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:

- Head of Finance and Treasurer
- Chief Accountant
- Property Manager
- Strategic Support Manager
- Information Systems Manager

4. The Capital Strategy and the Strategic Planning Process

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. The Role of Partnerships

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

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2018/19

1. Introduction

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.'

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 2018/19**

The strategy for 2018/19 covers two main areas:

Capital issues

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

Treasury Management issues

- treasury limits in force which will limit the treasury risk and activities of the Authority
- 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.
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 2018/19 – 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 are asked to approve the capital expenditure forecasts:

Capital Expenditure £000's	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total	1,790	1,278	1,253	1,455	1,213

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	0	48	134	100	40
Capital grants	29	0	0	0	0
Capital reserves	1,761	0	0	300	0
Revenue	0	1,230	1,119	1,055	1,173
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 £70k of such schemes with the CFR.

The Authority is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total CFR	**9,386**	**8,892**	**8,401**	**7,974**	**7,552**
Movement in CFR	**-514**	**-494**	**-491**	**-427**	**-421**

Movement in CFR represented by;					
Net financing need for the year (above)	**0**	**0**	**0**	**0**	**0**
Less MRP/VRP and other financing movements	-514	-494	-491	-427	-421
Movement in CFR	**-514**	**-494**	**-491**	**-427**	**-421**

3. 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 2017 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.

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
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)	132	70	6	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	10,119	10,057	9,993	9,987	9,987
The Capital Financing Requirement	9,386	8,892	8,401	7,974	7,552
Under/(over) borrowing	(733)	(1,165)	(1,592)	(2,013)	(2,435)

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 £M	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	70	6	0	0
Overdraft	0	0	0	0
Total	10,057	9,993	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 £M	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	70	6	0	0
Overdraft	0	0	0	0
Worst Case Scenario Payroll	1,900	1,900	1,900	1,900
Total	11,957	11,893	11,887	11,887

4. <u>Prospects for Interest Rates</u>

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.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- The Bank of England takes action too quickly 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.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- 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.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in

the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.

- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation 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 returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- 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 Quantitative Easing, 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.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher

borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

5. <u>Borrowing Strategy</u>

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 2018/19 treasury operations. The Head of Finance and 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.

6.3 **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.

Investment returns expectations: Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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:

2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise 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

MINIMUM REVENUE PROVISION POLICY STATEMENT 2018/19

The Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10 and will assess their MRP for 2018/19 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 2018/19 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

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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratios	2.57%	2.66%	2.65%	2.61%	2.54%

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 2018/19		
	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%

<u>INTEREST RATE FORECASTS</u>

1. <u>Individual Forecasts</u>

Link Asset Services

Interest rate forecast – February 2018

	Mar 18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%
5yr PWLB rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%
10yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%
25yr PWLB rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%

Capital Economics

Interest rate forecast – January 2018

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%
10yr PWLB rate	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%
25yr PWLB rate	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%
50yr PWLB rate	2.50%	2.70%	2.90%	2.90%	2.90%	3.05%	3.05%	3.15%

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high
h). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly 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 that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going 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 major 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 then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. 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, alternatively, 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.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the Eurozone (EZ), (the UK’s biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

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.

JAPAN. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling 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.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- 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 will leave the single market and tariff free trade at different times during the two year transitional 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 - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

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 2018/19 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's cash flow profile makes it unlikely that investments in excess of 365 days would be considered and consequently no non-specified investments are anticipated.

<u>SPECIFIED INVESTMENTS:</u>

(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

APPROVED COUNTRIES FOR INVESTMENTS
(*Based on lowest available rating)*

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A

AA+
- Finland
- Hong Kong

AA
- United Arab Emirates
- France
- 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 & Building Societies	Red	In-house	25%	**6 months**
UK Banks & Building Societies	Green	In-house	25%	**100 days**
UK Banks & 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	MMF rating	In-house & Fund Managers		**1 year**
Enhanced Money Market Funds with a credit score of 1.25 or 1.5	MMF / bond fund rating	In-house & Fund Managers		**1 year**
Non-UK Banks	Orange	In-house & 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.

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. **Head of Finance and Treasurer**

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

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;