Bedfordshire
Fire and Rescue Service

2020/21 BUDGET BOOK

AND

MEDIUM-TERM FINANCIAL STRATEGY

2020/21 to 2023/24

CONTENTS

INTRODUCTION AND BACKGROUND

Welcome to the Budget Book for 2020/21 that includes key strategic financial information and documents such as the Medium-Term Financial Strategy (MTFS).

The Fire and Rescue Authority set the 2020/21 budget on 11 February 2020. 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 2020/21 budget setting undertaken during 2019/20. 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 2020/21 was confirmed on 6 February 2020. There is a 1.6% increase from 2020/21 to 2021/22 of the settlement funding assessment. The attached MTFS uses prudent assumptions and estimates for the years 2021/22 to 2023/24.

Table 1: Formula Funding Settlement

	2019/20 £m	**2020/21 £m**	**% change**
Revenue Support Grant (RSG) *	2.283	2.320	1.6
Business Rates baseline funding	5.847	5.942	1.6
Settlement Funding Assessment	**8.130**	**8.262**	**1.6**

Budget and Precept for 2020/21 and the Medium-Term Revenue Plan

In setting the budget for 2020/21, the Authority took into account the implications for the following year's financial strategy, namely 2021/22 to 2023/24. 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 2020/21 to 2023/24 and the key features of the projections, including assumptions of the level of formula funding and council tax funding.

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

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

Based on the assumptions and proposals noted, Table 2 below details the key budget information. The budget requirement for 2020/21 was set at £31.063m.

It is worth noting the Collection Fund surplus of £0.366m (£0.229m in 2019/20 budget setting) from the three unitary authorities that is identified in the table below.

Table 2: Key Budget Information

	2019/20 £m	**2020/21 £m**	**Change £m**
Budget Requirement (£m)	29.832	30.991	1.159
Funded by:			
Precept Requirement (£m)	20.971	21.880	0.909
Central and Local Government Funding (£m)	8.284	8.459	0.175
Section 31 Business Rates grant	0.258	0.236	(0.022)
Collection Fund surplus/(deficit)	0.229	0.366	0.137
Business Rates Levy redistribution	0.090	0.050	(.040)
Funding Total (£m)	29.832	30.991	1.159
Tax Base (Band D equiv. properties)	213,017	217,906	4,889
Band 'D' Council Tax	£98.45	£100.41	£1.96

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 2% (1.99%) increase from the previous financial year's level, there are updates to all of the valuation bands. The Council Tax of £100.41 equates to, for a Band D equivalent property, 28 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	66.94
B	7/9	78.10
C	8/9	89.25
D	1	100.41
E	11/9	122.72
F	13/9	145.04
G	15/9	167.35
H	2	200.82

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

Unitary Councils (1)	**£ (2) Council Tax**	**£ (3) (Deficit)/surplus**	**£ (4) Business Rates**
Bedford Borough	6,119,287	(9,623)	656,900
Luton Borough	5,204,120	141,187	672,520
Central Bedfordshire	10,556,505	236,056	972,200
Total	**21,879,912**	**367,620**	**2,301,620**

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.

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

Medium-Term Capital Programme

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

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

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

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

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. There is now was a base budget revenue contribution of £1.3m per annum from 2016/17 to 2019/20. In 2020/21 a contribution from revenue of £0.32m with a further £1.185m coming from existing capital receipts and reserves. This is with the assumption that capital grants are not forthcoming. If the capital funding from 2020/21 changes, the base budget revenue contributions could reduce.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Capital Strategy Team also reviewed and assessed the bids made, approving the schemes that are contained on page 12 the 2020/21 Capital Programme.

Key items of note in the 2020/21 Capital Programme of £1.505m are:

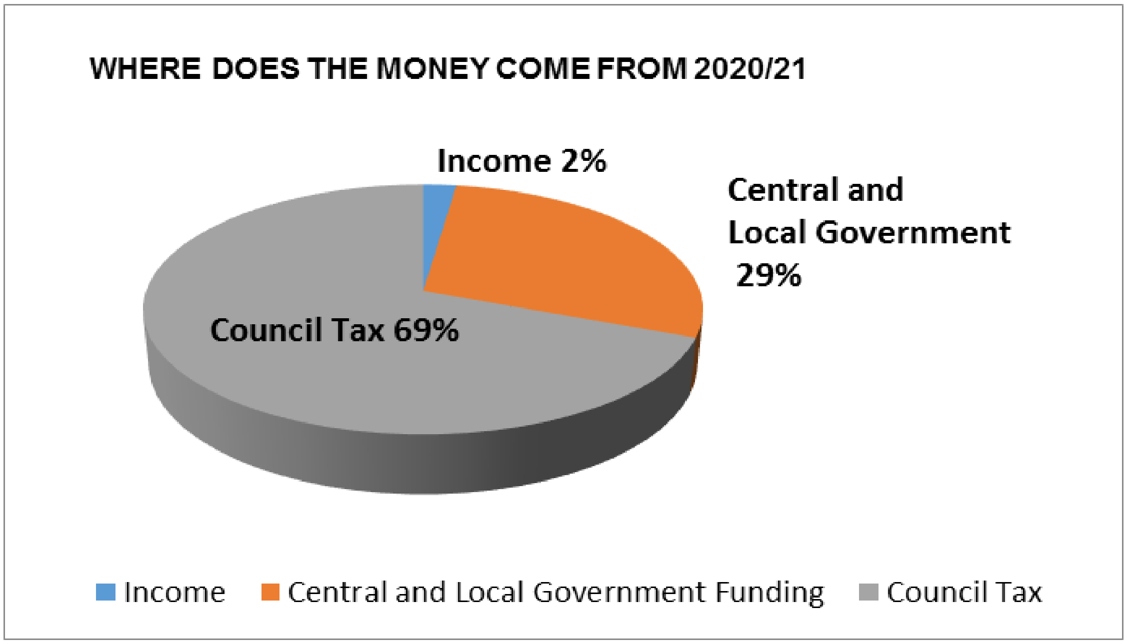
- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT infrastructure and hardware.
- Investment in the modernisation of our buildings and community provision.

Medium-Term Financial Strategy

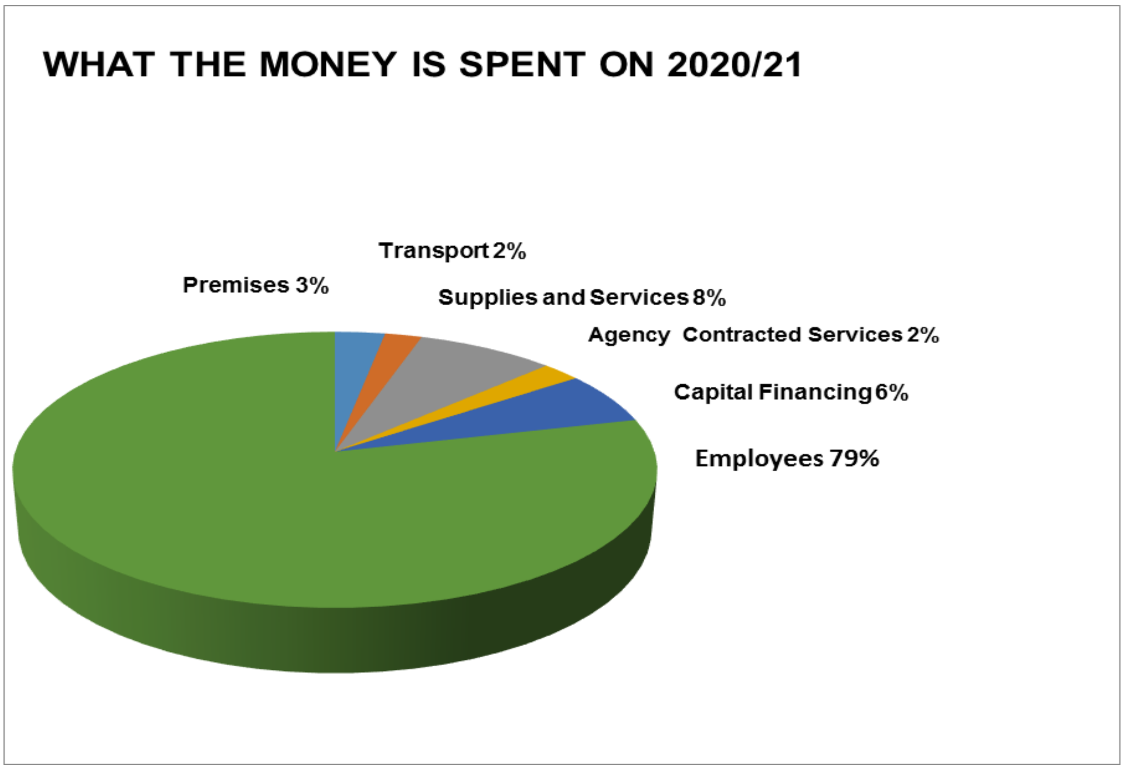
The Medium-Term Financial Strategy is a document that sets the Authority's financial strategy for the next four years. It focuses on the 2020/21 Revenue Budget and Capital Programme, but also sets the scene for future years. It covers national events such as the Comprehensive Spending Review (CSR) and 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 2020/21 Budget

	£000
2019/20 Budget	**30,328**
Full-Year Effects and Forecast Variations to Budget	276
Inflation	1,059
Budget Pressures	373
Less Funding to/(from) Reserves	(973)
Budget Requirement 2020/21	**31,063**
Financed by:	
Central and Local Government Funding	8,815
Precept	21,880
Collection Fund Surplus/(Deficit)	368
Total Financing	**31,063**

MEDIUM TERM REVENUE PLAN 2020/21 TO 2023/24		**Original**	**Proposed**	**Proposed**	**Proposed**	**Proposed**
	2019/20	**2020/21**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Base Budget	**29,676**	**30,328**	**30,328**	**32,035**	**32,897**	**33,098**
Removal of 2% Fire Fighter Pay increase 2018/19 from Base Budget	-188	0	0	0	0	0
Possible outcome from NJC Pay line Review (Non-Operational)	150	0	0	0	0	0
Firefighter Salaries differences between pensions and scales due to retirements and recruitment	0	0	470	-225	0	0
Addition of cost for FRIC & Salary abatement / Pensions to enable capture corresponding savings and efficiencies	105	0	0	0	0	0
Additional Bank Holidays	-15	3	3	3	3	3
FF Pensions 2015 changes	-23	-23	-23	-23	0	0
Holiday pay implications	40	0	0	0	0	0
Reduction in Minimum Revenue Provision (MRP) relating to borrowing costs on previous years vehicle purchases	0	0	0	-140	-11	-11
Budget Realignment	81	0	-2	0	0	0
NFCC (CFOA) subscription / LGA Pension Support / NFCC	10	0	0	0	0	0
Apprenticeship Levy	2	2	2	2	2	2
SCAPE (FF Pensions Scheme) Costs from 01/04/2019. Assumed fully funded 2020/21 and part 2021/22	0	650	0	750	0	0
Local Government Superannuation Revaluation Lump Sum	48	32	64	10	9	60
Increase in Local Government Superannuation Employer Contributions (17.3% to 20.5%)	0	0	137	0	0	0
Minimum Revenue Provision reduction from Earmarked Reserves (MRP holiday, £200k per annum for 6 years)	0	-200	0	0	0	0
Total Base Budget Adjustments	**210**	**464**	**651**	**377**	**3**	**54**
Forecast Variations						
Investment Interest Decrease/(Increase)	0	0	-25	-10	0	0
Revenue Contribution to Capital	277	-138	-1,076	1,084	4	662
Creation of New Corporate Reserve for future Pensions contributions	0	0	1,000	-1,000	0	0
Revenue Implications of Capital Programme	12	0	0	0	0	0
Non-Uniform Incremental Drift	64	42	79	0	0	0
Transformational Savings/Efficiencies	-495	-127	-303	-237	-195	-190
Scrutiny Panel Decisions	-282	-29	-50	65	-81	31
Service Control - Mobilisation System - see below for use of Transformational Reserve	0	0	0	0	0	0
Total Forecast Variations	**-425**	**-252**	**-375**	**-98**	**-272**	**503**
Inflation						
Fire-fighters pay - 1 April to 30 June (2% 2020 2% each following year)	62	160	160	183	77	79
Fire-fighters pay - 1 July to 31 March (2% 2020 & 2% each following year)	446	192	524	220	224	229
Retained Pay (As per Fire-Fighters)	94	54	97	55	41	42
Control pay (As per Fire-Fighters)	48	25	69	26	20	20
Non Uniformed pay (2% effective from 01/04/2020)	103	106	112	115	117	119
Member Allowances	2	2	2	2	2	2
Gas, Electricity, Water and Derv Inflation	25	19	19	27	28	30
Prices Inflation at, 2% 2020/21 - 2023/24	74	75	75	76	78	81
Total Inflation	**854**	**633**	**1,058**	**704**	**587**	**602**
Budget Pressures						

FMS3' bids (Current Year MTFP process)	61	0	477	199	23	56
FMS3' bids (Previous Years MTFP process)	-48	-104	-104	-320	-140	-50
Estimated Net Revenue Expenditure	**30,328**	**31,069**	**32,035**	**32,897**	**33,098**	**34,263**
Contribution to/from Transformational Earmarked Reserves	*-492*	*-779*	*-973*	*-1,101*	*-340*	*-508*
Estimated Budget Requirement	**29,836**	**30,291**	**31,063**	**31,796**	**32,758**	**33,755**
Budget Requirement Increase Year on Year	**399.2**	**452.7**	**1,226.7**	**1,506.0**	**1,695.7**	**1,958.9**
% Budget Increase	**1.4%**	**1.5%**	**4.1%**	**5.0%**	**5.5%**	**6.2%**
Financed by:						
Revenue Support Grant (RSG): expected to cease in 2020/21 and be included within increased business rates funding	2,283	1,977	2,320	2,320	2,320	2,320
Business Rate Baseline	2,222	2,345	2,302	2,414	2,519	2,629
Business Rate Top Up	3,779	3,860	3,839	3,901	3,963	4,027
Adjusted 2019/20 Business Rates Top Up following revised VOA list	0	0	50	0	0	0
Business Rates Grant	258	258	303	236	236	236
Collection Fund Surplus/(Deficit)	231	100	368	200	150	100
Council Tax (the remainder)	20,973	21,750	21,880	22,726	23,570	24,444
Utilisation of Collection Fund Surplus Reserve	0	0	0	0	0	0
Redistribution of Business Rates Retention Levy Account surplus	90	0	0	0	0	0
	29,836	**30,291**	**31,063**	**31,796**	**32,758**	**33,755**
Band D equivalent Tax base	213,017	216,611	217,906	221,910	225,664	229,484
% change on Band D's	1.95%	1.69%	2.30%	1.84%	1.69%	1.69%
Leading to an average council tax (Band D) of	98.45	100.41	100.41	102.41	104.45	106.52
% increase	***2.99%***	***1.99%***	***1.99%***	***1.99%***	***1.99%***	***1.99%***
Use of Transformational Reserves Summary	**Proposed**	**Proposed**	**Proposed**	**Proposed**	**Proposed**	**Proposed**
	2019/20	**2020/21**	**2020/21**	**2021/22**	**2022/23**	**2022/23**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Transformational Earmark Reserve for Budget Setting	4,655	3,469	3,507	2,485	1,134	844
Actual 2018/19 Revenue Underspend (£595k)	595	0	0	0	0	0
Contribution to/from Transformational Earmarked Reserves	-492	-779	-973	-1,101	-340	-508
Use of Transformational Reserve for investment into the Control Mobilisation Project	-1,000	0	0	0	0	0
Annual use of Transformational Reserve for Strategic Projects and Improvements	-250	-250	-250	-250	-250	-250
Reduction of General Reserve from £2.6m to £2.4m, followed by reduction to £2.1m in future years (into the Transformational Reserve)	0	200	200	0	300	0
Net Balance Transformational Earmark Reserves	**3,507**	**2,641**	**2,485**	**1,134**	**844**	**87**

Transformational Savings and Efficiencies 2020/21 to 2023/24

Savings/Efficiencies	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s
Income from Property Rents & Collaboration	8			
Management Information System (MIS) - Wholetime Rota/Availability System, Human Resources, Technical Equipment (Includes £45k unachievable saving in 2019/20)	89			
Collaboration Savings	20			
Change of 4th Area Commander post to Green Book Head of Service (subject to natural turnover)		15		
New Savings/Efficiencies for 2019/20 Budget process				
Energy Management Savings (Insulation & works)	5	5	5	
Principal Officer review/restructure	50	13		
Response Review Project (Updated figures from the 2019/20 budget setting process)		184	184	190
New Savings/Efficiencies for 2020/21 Budget process				
Draw down apprenticeship levy BTEC & Masters (therefore reduction in training budget)	10			
Following efficiency review savings associated with provision of catering at incidents (not replacing van & catering trailer)	65			
Increase in interest received due to proactive investment management	25	10		
Online Communication Monitoring tool	10			
Replacement of Risk database	6			
Saving as a result of Purchase v Lease of Democratic Support Printer	0	12		
Saving from Broadband contract	30			
Saving from mobile phone contract	10			
Saving relating to provision of Intranet		8		
Savings from migration of Protection system onto Office 365 Customer Relationship Management (CRM)			6	
	328	**247**	**195**	**190**

2020/21 SUPPORTED REVENUE BUDGET BIDS (FMS 3s)

Budget Bids Agreed;

Description	2020/21 Increase	2021/22 Increase	2022/23 Increase	2023/24 Increase
Stopsley Station - Replace / Install PPE lockers	5,000	-5,000	0	0
Apprentice Technicians x2	39,000	1,000	1,000	1,000
Mental Health Training	8,000	0	-8,000	0
Specialist Counselling	6,000	0	0	0
Permanent Recruitment Engagement Officer	39,200	800	0	0
Recruitment campaign running costs	15,000	55,000	-55,000	55,000
Smoke Alarms and Equipment	0	34,000	0	0
Fire Engineer	2,000	0	0	0
Project Management Software (for 50 staff)	12,000	0	0	0
E-Learning (Digital Literacy)	50,000	-50,000	0	0
Microsoft Dynamics 365 (CRM)	24,000	2,000	2,000	0
ICT Security Improvements	40,000	0	0	0
Artificial Intelligence (AI) and Machine Learning (ML) for new insights	0	30,000	20,000	-50,000
Digital Services for public self-service	27,000	-27,000	0	0
Website Upgrade / Enhancements	0	30,000	-30,000	0
Exchange (Email) Migration to O 365	40,000	-40,000	0	0
Video Streaming	25,000	-25,000	0	0
Audio Visual (AV) refresh at stations	35,000	-35,000	0	0
Applications for MDTs (MDT Phase 3 - Innovation)	50,000	-50,000	0	0
On-call firefighter - "Fob" in enhancements	50,000	-50,000	0	0
Migration from Unified Comms on premise to Microsoft Teams Cloud	0	40,000	-40,000	0
Appliance CCTV Upgrade (Wireless) - iCloud ongoing costs of Capital bid	10,000	0	0	0

Summary of Subjective analysis

2019/20 £'000's		2020/21 £'000's
(587)	**Income**	**(769)**
	Employees	
14,398	Uniformed	15,291
1,875	Retained	2,008
1,065	Control	1,135
5,688	Non-Uniformed	6,315
885	Indirect Employee costs	853
23,911	**Total Employees**	**25,602**
	Premises	
58	Cleaning and Grounds Maintenance	57
245	Heating and Lighting	245
545	Insurance, Rents and Rates	543
243	Repairs and Maintenance	248
1,091	**Total Premises**	**1,092**
	Transport	
143	Maintenance	142
355	Car Allowances	355
178	Fuel and Oil	176
676	**Total Transport**	**673**
	Supplies and Services	
66	Subscriptions	66
3	Bank Charges	3
320	Clothing and Uniforms	320
163	Operational Equipment	201
1,759	Information Technology	1,122
63	Hydrants and Breathing Apparatus Maintenance	63
72	Catering and Catering Equipment	69
79	Printing and Photocopying	79
14	Stationery	14
51	Subsistence	26
127	Telephones	127
937	Other Supplies and Services	1,014
3,654	**Total Supplies and Services**	**3,104**
668	Agency	705
2,251	Capital Financing	2,175
31,663	**Net Revenue Expenditure**	**32,614**
(85)	Transformational Efficiency Savings	(328)
(1,742)	Reserves Funding	(1,223)
29,836	**Budget Requirement**	**31,063**

Capital Programme 2020/21 to 2023/234

Bedfordshire Fire and Rescue Authority Capital Programme	Capital Budgets 2020/21 £000's	Capital Budgets 2021/22 £000's	Capital Budgets 2022/23 £000's	Capital Budgets 2023/24 £000's
Scheme				
<u>Fleet:</u>				
Vehicles/associated equipment (See bid sheet for detail)	505	1,072	230	1,247
<u>ICT Projects:</u>				
IT Developments				
ICT New Various (See bid sheet for detail)	597	350	50	737
IT & Communications				
Primary Network Switch replacement	100	0	0	0
Local Area Network (LAN) Active Components Replacement	120	0	0	0
General:				
Capital Works - Service Wide (lighting replacements, CCTV, fire protection, etc) - All locations	86	52	27	30
Drill yard resurfacing (Biggleswade, Luton, Woburn)	0	0	20	0
WC/Shower facility refurbishments (Ampthill, Harrold, Workshops, Training, Luton)	0	0	25	25
Heating - boiler replacements (Ampthill, Bedford, Woburn)	23	0	0	26
Bay Floor replacements (Bedford, Biggleswade, Potton, Shefford, Toddington)	0	65	0	38
Dormitory refurbishment (Bedford, Luton)	0	0	30	10
Station Kitchen Refurbishments (Biggleswade, Leighton Buzzard, Stopsley)	0	0	21	0
Fitness Equipment Expenditure	15	5	5	15
Kempston Station - Mess Deck Refurbishment	12	0	0	0
Dunstable Fire Station - External Rope Rescue Training Rig (WAH wkng at height)	15	0	0	0
Dunstable Fire Station - Internal Rope Rescue Training Platform (WAH wkng at height)	10	0	0	0
Improved provision of female showers/toilets at Stopsley Station	22	0	0	0
Replacement Printer - Democratic Support	0	0	0	0
Future Capital Programme Schemes (yet to be finalised, reviewed and approved)	0	0	1,000	0
TOTAL	**1,505**	**1,544**	**1,408**	**2,128**
Capital Financing Summary				
RCCO = Revenue Contribution to Capital	320	1,404	1,408	2,070
Capital Receipts & Reserve Utilisation	1,185	140	0	58
Total	**1,505**	**1,544**	**1,408**	**2,128**

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Financial Strategy

2020/21 – 2023/24

<u>CONTENTS</u>

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 2020/21 to 2023/24 and seeks to build upon the work undertaken in developing previous MTFS. It contains the Authority's agreed plans for both revenue and capital expenditure and the planned sources of funding to support that expenditure. It also explains the Authority's supporting strategies for matters such as council tax levels, efficiency savings, the use of reserves/reserves strategy and capital funding.

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

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

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

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

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

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

2. National Context

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

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

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

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

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

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

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

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

2.1. **National Statutory and Policy Context:**

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

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

Reform

When Home Secretary, Theresa May outlined her vision for fire and rescue services in May 2016. This was a "radical ambitious" package of reforms. This approach was then supported by the new Home Secretary and the then Minister for Policing and Fire, Brandon Lewis (2017 to 2019 Nick Hurd, now Kit Malthouse).

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

1. Efficiency and Collaboration

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

2. Accountability and Transparency

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

3. Workforce Reform

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

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

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

2.2 National Financial Context:

On 20 December 2019 the Government announced the Provisional Local Government Finance Settlement for 2020/21.

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

Headlines

- No changes to methodology and allocations proposed in the settlement's technical consultation.
- Basic precept threshold at 2%.
- Continuation of 100% pilots in Devolution Deal Areas; no further pilots planned for 2020-21.
- As set out earlier in 2019, £1bn of new social care funding will be added to the £410m Social Care Support Grant. Allocations remain unchanged to those published in the Technical Consultation.
- New homes bonus continuing for 2020-21; future years unknown.
- The Adult Social Care precept threshold will remain at 2%.

The following Council Tax Referendum Principles were announced:

- 2% for fire and rescue authorities, counties, London boroughs, unitaries and metropolitan districts.
- Continuation of the 2% ASC precept.
- Shire district councils will be allowed increases of up to 2%, or up to and including £5, whichever is higher.
- Police and Crime Commissioners referendum thresholds were announced in late January 2020 and are up to £10.

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.

[1] *Source: ONS Mid-Year estimates July 2014.*

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 16 million passengers a year in total.

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

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

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

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

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

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[2] Business Register & Employment Survey, Office for national Statistics Full & Part Time Employment

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

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

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

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

The Service planning processes and current medium-term strategic assessment has led to the development of six aims (see below). Our Mission is t*o provide outstanding Fire and Rescue Services that help make Bedfordshire safer.*

For us, delivering on our mission means focusing on the following six aims:

1 **Preventing** fires and other emergencies happening
2 **Protecting** people and property when fires happen
3 **Responding** to fires and other emergencies promptly and effectively
4 **Empowering** our people as we work together to make Bedfordshire safer
5 **Utilising** our assets and resources efficiently and effectively
6 **Maximising** use of data and digital solutions to drive improvements

Please refer to the CRMP for further detail.

3.3. Government Funding Settlement:

The Government's provisional settlement was announced on 20 December 2019. The Authority is yet to receive the final settlement figures at the time of writing this report. The final funding announcement will be in February 2020 for the Authority's 2020/21 settlement. The provisional settlement figures are detailed below in Table 1.

Table 1: Government Grant Revenue Funding

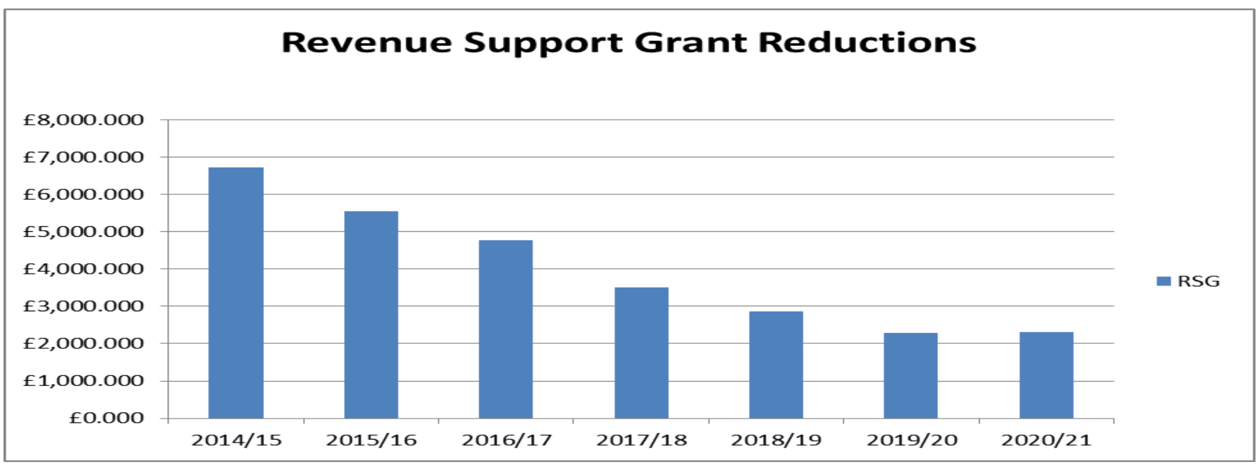
	2019/20 £m	2020/21 £m	% change
Revenue Support Grant (RSG)	2.283	2.320	1.6
Business Rates baseline funding	5.847	5.942	1.6
Settlement Funding Assessment	**8.130**	**8.262**	**1.6**

* The settlement figures for 2019/20 were the last of the four year funding deal that the Authority accepted. Therefore the years 2021/22 onwards are current forecasts. The 2019/20 RSG shown in Table 1 above is £0.191m lower than previously forecast. Although this shouldn't change as part of the four year funding deal, the Ministry of Housing and Local Government (MHCLG) had contacted the Authority advising that an error occurred in the funding calculations between our Authority and another. They MHCLG has reduced our RSG for 2019/20 but is not seeking any reimbursement for prior years.

As detailed above, the funding increase between 2019/20 and 2020/21 is 1.6% 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 from 2014/15 to 2020/21



* The table above shows the actual Revenue Support Grant (RSG) received by the Authority between 2014/15 and 2018/19 with the figure for 2019/20 being the revised figure for the 4th year of the Settlement after the reduction noted above. 2020/21 has seen a minor increase.

The Authority's Business Rates Baseline Funding Level (BFL) has been assessed at £5.942m by the MHCLG for 2020/21 and a business rate baseline estimated at £2.102m (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 £3.840m from central government (to get back to the £5.942m baseline funding level). All fire and rescue services are top up authorities. The RSG and business rates funding of £8.459m shown in Appendix 1 for 2020/21 is split between £2.320m Revenue Support Grant funding and £6.139m Business Rates (with the local share of business rates at £2.299m, £0.197m higher than used in the SFA figures).

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

Table 2: Local Business Rates income.

Authority	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Bedford	0.657	0.667	0.680	0.694
Luton	0.372	0.686	0.699	0.713
Central Beds	0.970	1.062	1.140	1.222
Total	2.299	2.415	2.519	2.629

The above figures are fed into the MTRP. As are the Section 31 Business Rates Grants of £236,000 in total from the three Unitary Authorities for 2020/21.

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

Table 3: Detailed income split

	2019/20 £m	**2020/21 £m**	**Change £m**
Budget Requirement (£m)	29.832	30.991	1.159
Funded by:			
Precept Requirement (£m)	20.971	21.880	0.909
Central and Local Gov Funding (£m)			
Section 31 Business Rates grant	8.284	8.459	0.175
Use of reserve (Collection Fund)	0.258	0.236	(0.022)
Business Rates Levy redistribution	0.229	0.366	0.137
	0.090	0.050	(.040)
Funding Total (£m)			
	29.832		
		30.991	1.159
TaxBase (Band D equiv. properties)	213,017	217,906	4,889
Band 'D' Council Tax			
	£98.45	£100.41	£1.96

The above income lines are further explained below:

- The Government Grant funding for 2020/21 is as per the provisional settlement figures provided by the MHCLG, with the exception of the local business rates. For business rates, as noted below, the more up to date local authority information is used.

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

- The local business rates for 2020/21 are the figures provided by the three local authorities, as reported in their NNDR 1 returns, which are due to be submitted to the MHCLG by 31 January 2020. The years 2021/22 to 2023/24 have been increased by using the MHCLG's figures for the top up grant and the unitary authority figures for the local share. The Section 31 grant included in the table above are for the following reliefs; Multiplier Cap, Small Business Rate Relief and financially minor reliefs.

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

3.4 **Damping:**

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

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

3.5. **Other Revenue Grants:**

In addition to the formula funding, the Government provides specific revenue grants. For the three grants listed below, these are forecast to be circa £235,000 in 2020/21.

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

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

- *Transparency Grant* – This is a grant to cover the costs of providing information on the Authority's website.

The total and split of the 2020/21 funding is yet to be received from the MHCLG.

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

3.6. **Fire Capital Grant Allocation:**

As anticipated, there is no Government funding or bidding round for capital in the 2020/21 budget. This was the position for the 2016/17 to 2019/20 financial years too. The Authority, in 2012/13 and before, used to receive an annual capital grant of £1m.

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 budgeted base budget revenue contribution of circa £1.3m per annum (with fluctuations) from 2021/22 onwards towards capital expenditure. This is with the assumption that capital grants are not forthcoming in future years. If capital funding becomes available, there will be a direct reduction in revenue contributions.

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 2020/21 Capital Programme.

Key items of note in the proposed 2020/21 Capital Programme of £1.505m are:

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

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 2020/21 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 2020/21 which involves a 1.99% increase in council tax on 2019/20 levels. This 1.99% 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 1.99% for 2020/21 and for the following 3 years until 2023/24. The 1.99% 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 2020/21 onwards. The support provided to the revenue budget by the planned use of the reserves in the years 2020/21 to 2023/24 is aimed at smoothing the impact of formula grant reductions.

The 2021/22 financial year will be a significant one in terms of funding for the Authority. With the funding formula review, Business Rates Retention and the Spending Review all to take place over 2020, the 2021 settlement could have a material impact on the forecast figures within the current 2021/22 to 2023/27 medium term plan. The 2019/20 was the final year of the four year settlement, a further 1 year settlement was agreed for 2020/21.

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 2019/20 was £30.328m. After adjusting for an amount of £492k, which was a contribution from reserves to balance the budget, this decreased the budget requirement to £29.836m.

For the 2020/21 budget, the net revenue budget is £32.035m, with a budgeted use of £1.045m from the Transformational reserve decreasing the budget requirement to £30.991m.

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 have increase for non-operational employees from April 2020. The employer firefighter contributions have also seen recent significant increases, with some grant funding support that may or may not continue.

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. Other recent increases/pressures include the 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 £25.5m or 82% 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 2020/21, there is an increase in pay forecast at 2% for non-uniformed officers and an estimated 5% for uniformed officers from July 2020. For uniformed officers, this pay award may be linked with a review on conditions of service.

This budget will fund wholetime and retained operational staff, emergency fire control operators and full-time and part-time support staff pay awards. All of the Authority's pay awards are determined by national negotiating bodies and, other than through the Employers' representatives on the negotiating team, the BFRA has no direct influence on the outcome and, therefore, the use of estimates for budget projections is required. It should be noted however that a local pay award is being discussed. 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 2020/21. 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.

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 2020/21 to 2023/24. 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 uncertainty in formula grant in 2022/22 to 2023/24, thereby allowing adequate time for longer-term efficiency savings measures to deliver sustained reductions to base budget requirements, whilst maintaining levels of service delivery.

4.2.9 *Collection Fund*

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

For 2020/21, 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 £366k 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: 2020/21 Collection Fund estimated outturn

Authority	**Council Tax £ (surplus)/deficit**	**Business Rates £ (surplus)/deficit**	**Net £ (surplus)/deficit**
Bedford	(27,828)	37,450	9,622
Luton	(86,700)	(52,500)	(139,200)
Central Beds	(248,000)	12,000	(236,000)
Total	**(362,528)**	**(3,050)**	**(365,578)**

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 2020/21 – 2023/24 by Service Function

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Community Safety	1,484	1,518	1,518	1,518
Firefighting & Rescue	15,547	16,988	17,271	17,625
Emergency Response Support	2,777	2,746	2,766	2,787
Training & Development	1,618	1,608	1,608	1,608
Human Resources	1,721	1,818	1,706	1,792
Corporate Support	6,146	6,695	6,706	7,462
IT & Communication	1,973	1,683	1,627	1,571
Strategic Management	1,098	1,088	1,088	1,088
Transformational Efficiency Savings	-328	-247	-195	-190
New Pensions Reserve	0	0	0	0
Net Revenue Expenditure	**32,036**	**33,896**	**34,096**	**35,262**
Contribution to/(from) Transformation Reserve	-973	-1,101	-340	-508
Budget Requirement	**31,063**	**32,796**	**33,757**	**34,754**

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 taxbase used in the MTRP projections represents the number of Band D equivalent properties in the three constituent local authorities that BFRA precepts upon (ie Bedford, Central Bedfordshire and Luton). The taxbase for 2020/21 has been set at 217,906 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 2.30% compared to the 213,017 taxbase in 2019/20.
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 1.99% for 2020/21 and each year until 2023/24.

Table 6: Taxbase – Band D Equivalents

Authority	**2020/21**
Bedford	60,943.00
Luton	51,828.70
Central Bedfordshire	105,134.00
Total	**217,905.70**

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 2020/21 to 2023/24 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 2019/20 are mainly on track to deliver an underspend which will be used, subject to the approval of the FRA, to contribute to the Pay Award Reserve.

As well as making significant savings in previous years, from 2010/11 to 2019/20 £6.493m has been reduced from budgets through budget scrutiny and savings/efficiencies, the Authority's plans for 2020/21 and beyond include making additional significant efficiency savings through:

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

4.4. **General and Earmarked Reserves:**

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

The required level of reserves for the period 2020/21 is outlined within the Reserves Strategy and financial strategy.

General Reserves are a working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing and as a contingency to cushion the impact of unexpected events or emergencies. The Authority's General Reserves are detailed in the Reserves Strategy at Appendix 5 to the 2020/21 Budget Report.

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

At the time of writing, the forecast year end underspend for 2019/20 is circa £0.116m. The General Reserve of £2.4m, at c.8% of net revenue expenditure, is in line with the current overall average Combined Fire Authority average. As the S151 Officer I am comfortable with the level or reserves and do not deem it too low or high.

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

The Transformational Earmarked Reserve that was specifically set up for budget setting purposes is estimated to total £3.507m at 31 March 2020. As detailed in the MTRP, it is forecast that this will be allocated to offset the budget gap in the years 2020/21 to 2023/24 and to invest in transformation initiatives.

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 2020/21 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 2020/21 is fully funded by revenue contributions of £320k, with a contribution from the Capital reserves of £1.185m.

It is unknown how fire and rescue authorities will be funded for capital expenditure in the next Spending Review period

6. <u>Other Considerations</u>

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

2020/21 Budget Process- Assumptions/Uncertainties

Current Assumptions:

- One year settlement for 2020/21 (as per provisional settlement received late December 2019) – three/four year settlement to follow from 2021/22
- All grants received in 2019/20 will continue in 2020/21 due to one year settlement. This includes:
    1. Home Office grant - Fire Fighters Pension Scheme Revaluation from 2016, which came into effect from April 2019, has an estimated average increase of 13% (circa £1.5m). This was supported by grant via the Home Office in 2019/20 at £1.7m. For 2020/21 it is assumed this grant will continue. This will be included within the funding from the Comprehensive Spending Review for 2021/22 onwards. There is a forecast budget pressure of £750k (50% pressure) in 2021/22 until further information is known.
    2. Other grants – New Dimensions, Transparency, Fire link, MTA
- Green Book pay award 2% April 2020 onwards
- Grey Book pay award 5% July 2020 and 2% thereafter (2019 pay award was budgeted at 5%, pay award agreed at 2%. The u/s will be held as a reserve in case backdating of pay award agreed)
- That the additional 1% to council tax will not continue after the two years announced (2018/19 and 2019/20). Therefore as per provisional settlement, planned referendum limit is 2%.
- Taxbase in line with previous indications (amended where info supplied)
- Business rates in line with previous indications (amended where info supplied)
- No Capital Funding (bidding round not announced)
- Fire Grant/Emergency Services Mobile Communications Programme (ESMCP) funded – *Potential large funding risk here*
- Revenue Support Grant (RSG) grant increase for 2020/21 as per provisional settlement, then assumed reductions in years 2021/22 (although RSG potentially ceasing from 2021/22 and included within business rates, this element is still split out for transparency)
- Estimated Collection Fund surplus of £366k in 20/21 (confirmations due), £50k in 2021/22
- Apprentice budget of £60k per annum remains to fund new posts (training fees to be drawn down from levy paid)
- Explore for 2021/22 (delayed from 2020/21) when medium term funding position known - Minimum Revenue Provision (MRP) early repayment, with the benefit of reducing earmarked reserves and also revenue pressures in future years.

Uncertainties:

- FF pensions – longevity of 2015 unfunded scheme and outcome of pensionable pay review
- Impact from Business Rates Retention (no Revenue Support Grant) potentially from 2021/22
- Impact from Spending Review for 2021/22 onwards
- Impact from formula funding review 2021/22 onwards
- Recruitment profile/establishment/retirements – associated recruitment/training costs (15 FF in 2020/21, 15 per annum thereafter)
- New savings/efficiencies in the medium term to address the budget shortfall, subject to work and approval by FRA
- Collaboration (PCC, Ambulance (servicing, co-responding, falls, bariatric), Police etc) – and associated costs/savings/investments
- Medium term property strategy (One Public Estate bid, sharing etc)
- Contingent Liabilities/Assets included in the Statement of Accounts
- EU directives/legislative changes/Brexit impacts
- Implications arising from Fire Brigades Union (FBU) discriminatory claims relating to transitional pension protection (McCloud/Sergeant cases)
- Strike expenditure potential
- Interest and inflation rate fluctuations (post Brexit too)
- Outcomes of Retained Duty System project (budget increase/decrease)
- Outcome of Grey book pay review – broadening the role, pay award
- Outcome of Response Review Project
- Council tax revaluation due as still based on 1991 valuations. There is a disconnect between council tax, location, property value and average earnings (Band D is Westminster is £753.85, in contrast in Oldham it is £1,899.61). Links here with the Formula funding too.
- Operational vehicle provision review (could be cost implications, for example provided cars purchase)
- Due to significant turnover in the medium term, additional costs re succession planning
- Impacts from the General Election on 12th December 2019 and Brexit
- Linked to the above, Boris Johnson's pledge to reduce business rates may have a detrimental impact on funding (for BFRS and local unitary authorities)

Suggested New Ear Marked Reserves:

- Outcomes from Contamination work (showers, storage, PPE etc)
- Remedy re FF Pensions transition discrimination and Pensions Grant uncertainty

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:**

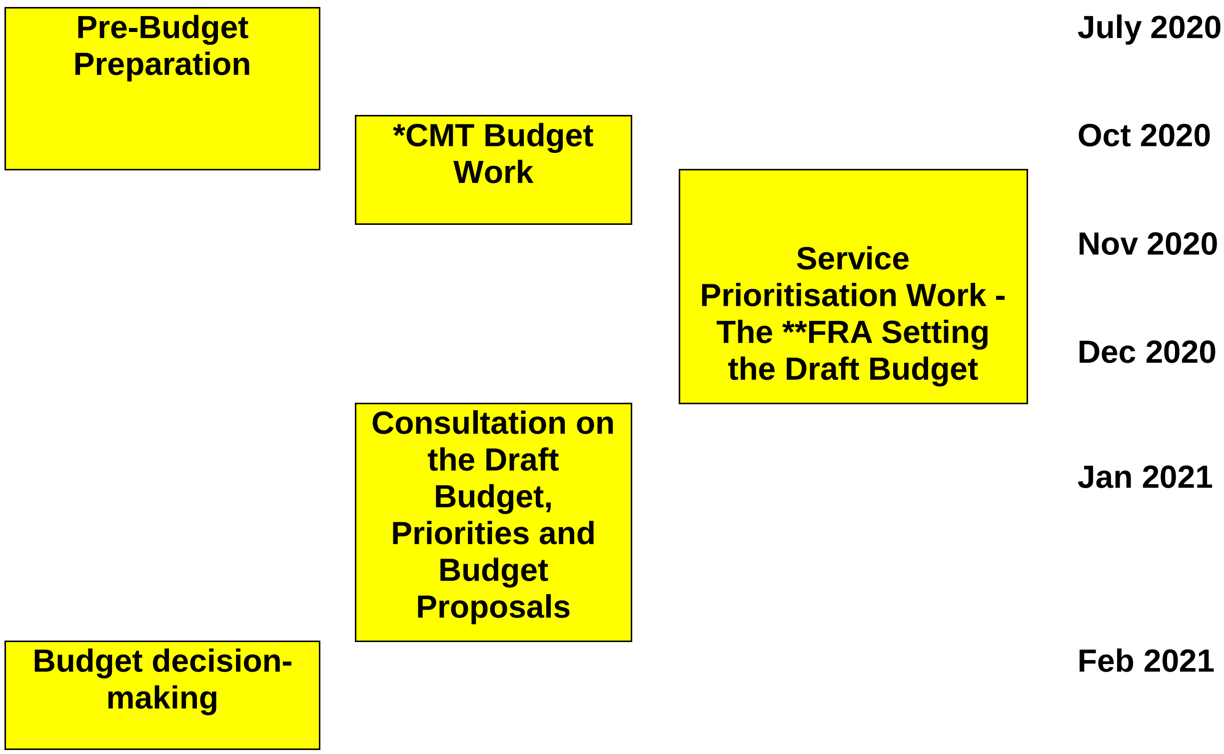
The Authority is committed to achieving and maintaining fit for purpose, quality data enabling sound decision making and informed planning. This is vitally important with key documents, such as this MTFS and the Authority seeks to continually improve the quality characteristics of such data with particular 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 2020/21 to 2023/24

1 Introduction and Background

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

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

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

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

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

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

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

1.5 Fire and Rescue Authorities face significant challenges. The unprecedented reduction in government funding since 2010/11, rising costs and growing demand for many services are all testing the Authority's financial management and resilience. The position is potentially to become tougher with the delayed Spending Review, Funding Formula changes and Business Rates Retention all scheduled for 2021/22.

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

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

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

2. The approach to setting the Reserves Strategy

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

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

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

3 Why the Authority holds reserves

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

- *General* – the main balance that the Authority wishes to set aside. This is the £2.4m and is compared annually to other Combined Fire Authorities. For 2020/21, this has reduced from the previous £2.6m.
- Available *earmarked reserves* – funds we hold set aside to meet known or predicted future spending or ring-fenced by previous Authority decisions (such as the Collaboration Reserve)
- *Other reserves* the Authority holds but which are not available to fund their general spending; some reserves with statutory restrictions on how they can be spent, such as capital receipts or specific revenue grants
- Total reserves – the sum of earmarked, other and General

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

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

Delivering a balanced budget

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

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

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

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

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

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

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

3.7 The 2020/21 to 2023/24 MTFS assumes that there will be utilisation of the Transformation Reserve for budgeting and transformation/innovation purposes. It forecasts that this reserve will be used by 2023/24. However, with the proposed strategy to reduce both General and Earmarked Reserves once the Authority knows the outcome of the funding for 2021/22 onwards, this could increase the longevity of the Transformational Reserve for another couple of years. The MTRP details the utilisation of General Reserve (line 81).

4 Reserves and the management of risks – Annual Review

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

4.2 The Authority also manages unforeseen financial shocks by maintaining a General Fund/Working Balance. The Authority's agreed policy is to maintain working balance at £2.4m. Some Authorities set a minimum desired percentage and although the Authority has not done this, the policy would maintain general balances at approximately 8% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process. Note the planned change though in 2022/23 detailed in para 3.7.

Increasing Financial Risks

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

- Continued reductions in Government funding as indicated in the four year settlement offer (2019/20 is the fourth and final year of this arrangement, with 2020/21 being an unexpected roll on year)
- Changes in the grant funding methodology from 2021/22 onwards – Formula Funding Review and Spending Review
- Significant movement and growth in resident population numbers brings pressures to a range of services and requires more investment in infrastructure – could have impacts on hydrant and operational provision
- Localisation of business rates presents a collection rate risk, an economic downturn risk and a risk in respect of backdated appeals – From 2021/22, Business Rates Retention Scheme and no RSG

- A key new uncertainty is the outcome of the Remedy for the age discrimination case (McCloud) and the impact that this may have financially on Fire and Rescue Services. A new £1m earmarked is proposed to be set up to cover this and the unknown cost of employer contributions, Administrator payments and also the unknown continuation of the new Pensions Grant that is £1.5m to the Authority annually.
- Brexit could also have a financial impact.

On-going risks in the current strategy

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

5 Budgeted Reserves – Risk Assessment

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

5.2 The forecast value of General Fund Reserves as at 1st April 2020 is £2.4m as detailed in Table 1 below. The table will be updated over the year, to align the reserves to the Authority's revised risk register. As this is in a point of transition, for this year's presentation, the link to the risk register has been removed.

5.3 The earmarked reserves are detailed in Table 2 below.

Table 1: Risk Assessed General Reserves

Description	**Likelihood**	**Impact**	**£'000**
Large scale failure of Personal Protective Equipment or other safety critical equipment	Possible	Significant	300
Major incident within the County/Region	Likely	Significant	650
Failure of operational vehicle prior to planned replacement in Capital Programme/unforeseen inability to provide service requirements	Possible	Significant	300
Failure of a major supplier	Likely	Significant	300
Failure/corruption/security breach of ICT System	Possible	Significant	200
Non-specific General Reserves to meet any other unforeseen service requirements			650
Total General Reserves			**2,400**

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**
Emergency Services Mobile Communications Programme (ESMCP) reserve – Emergency Services Network (ESN)	200
Replacement Mobilising Project	100
Contingency for doubtful debts	10
Pay increases for operational and/or support staff in excess of assumptions and / or costs of external appointments in excess of budget provision	100
Hydrant installation (taken out of revenue budget due to uncertainty)	225
Goods and services, contractual inflation in excess of assumptions (1%)	80
Potential liability as a result of legal/disciplinary action in relation to Personnel and/or Health and Safety issues (includes expected contaminant works at initially £100k)	300
Adverse weather conditions resulting in higher than average numbers of emergency incidents (excludes Bellwin incidents)	150
Sudden absenteeism of a large number of personnel across the whole of the Service due to pandemic or similar	125
Ill-health retirements in excess of budget provision/injury pension	125
Unplanned urgent property works (eg roof repairs)	100
Contingency for insufficient Insurance cover (additional contribution)	25
Interruption to Business Continuity (including Industrial Action)	200
Unplanned urgent maintenance/replacement of particular item of equipment (eg engine or gearbox wearing out/failing earlier than anticipated)	50
Invest to Save/Innovation Fund (these have been taken out of annual revenue budgets)	60
ICT Innovation/Application Development	75
Total Requirement	**1,925**

5.5 Other Reserves for noting:

- Collaboration Reserve £2.378m (includes 2017/18 year end additional contribution of £498k from Home Office Pensions refund)
- Capital Receipts Reserve £664k
- The new Pensions Earmarked Reserve £1m
- Pay Award Reserve £116k if approve to allocate here from the 2019/20 underspend.

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

Extract from National Framework reference reserves

Reserves

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

1.2
Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.

1.3
Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

1.4
Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:
- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget; and
- details of the activities or items to be funded from each earmarked reserve, and

how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

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

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Capital Strategy

Contents

1. Introduction

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

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

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

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

2. The Role of the Capital Strategy

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

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

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

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

2.4 **The Strategy:**

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

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

3. 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:

- Treasurer (Section 151 Officer)
- Chief Accountant (Deputy Section 151 Officer)
- 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. **<u>Key Strategic Priorities and the Capital Strategy</u>**

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. **<u>Links between Strategic Priorities and Capital Investment</u>**

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

7.1.1 *Buildings:*

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

7.1.2 *Capital Investment:*

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

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

7.1.3 *Vehicles and Equipment*:

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

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

7.1.4 *National Modernisation Projects:*

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

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

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

8. **Capital Resourcing**

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

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

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

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

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

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

9. **Resource Allocation**

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

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

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

10. Capital Programme – Implementation and Monitoring

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

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

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

11. Capital Strategy Review

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

Bedfordshire Fire and Rescue Service

Fire and Rescue Service

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

1. <u>Introduction</u>

1.1 Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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.'*

This authority has not engaged in any commercial investments and has no non-treasury investments.

1.2 Reporting Requirements

1.2.1. Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity will contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.2. Treasury Management reporting

The authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) –

   The first, and most important report is forward looking and covers:

   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organized), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinized before being recommended to the Authority. This role is undertaken by the Fire and Rescue Authority (FRA).

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

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

Treasury Management issues

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

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

1.4 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 can be provided to Members by our Treasury Advisor's, Link Asset Services, in 2020 at the FRA's request.

1.5 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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. <u>The Capital Prudential Indicators for 2020/21 – 2022/23</u>

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

2.1 Capital expenditure

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

Members have approved the capital expenditure forecasts below as part of the annual budget setting process:

Capital Expenditure £000's	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total	1,292	668	2,648	1,544	1,408

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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	11	0	140	140	0
Capital grants	134	0	0	0	0
Capital reserves	1,147	200	1,185	0	0
Revenue	0	468	1,323	1,404	1,408
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 is asked to approve the CFR projections below as part of this Strategy:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total CFR	**8,890**	**8,462**	**8,038**	**7,619**	**7,342**
Movement in CFR	**(429)**	**(424)**	**(419)**	**(277)**	**(266)**

Movement in CFR represented by;					
Net financing need for the year (above)	**0**	**0**	**0**	**0**	**0**
Less MRP/VRP and other financing movements	(429)	(424)	(419)	(277)	(266)
Movement in CFR	**(429)**	**(424)**	**(419)**	**(277)**	**(266)**

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 2019 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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 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)	6	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	9,993	9,987	9,987	9,987	9,987
The Capital Financing Requirement	8,890	8,462	8,038	7,619	7,342
Under/(over) borrowing	(1,097)	(1,525)	(1,949)	(2,368)	(2,645)

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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	0	0	0	0
Overdraft	0	0	0	0
Total	9,987	9,987	9,987	9,987

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

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

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

Authorised Limit £M	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	0	0	0	0
Overdraft	0	0	0	0
Worst Case Scenario Payroll	1,900	2,000	2,000	2,000
Total	11,887	11,987	11,987	11,987

3.3 **<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 Council to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate.

However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. 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, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

3.4. **Borrowing Strategy**

3.5 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 2020/21 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

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

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

3.5 **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.

3.6. 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.

4. Annual Investment Strategy

4.1 Investment Policy

The Authority's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ('the Guidance')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the CIPFA TM Code')
- CIPFA Treasury Management Guidance Notes 2018

The Authority's investment priorities will be security first, portfolio liquidity second, then return.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor couterparties are the Short Term and Long Term ratings.

2. **Other information:** 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.

3. **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.

4. This authority has defined the list of types of investments instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of ‘specified’ and ‘non-specified’ investments.

    - **Specified investments** are those with the high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is class as non-specified, it remains non-specified all the way though to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

Non-specified investments limit. 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 has no investments over 365 days.

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

4.2 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:

- “watches” and “outlooks” from credit rating agencies;
- CDS (Credit Default Swap) spreads that may 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:

- Purple 2 years
- 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.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits, are required, by UK law, to separate core retails banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other member of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country Limits

Due care will be taken to consider the exposure of the Authority’s total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio

b) **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- No more than £5m will be placed with any non-UK country at one time
- Limits in place above do not apply to a group of companies where the limit is £7m per group
- Sector limits will be monitored regularly for appropriateness

4.4 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. Members of the FRA, during the member budget workshops for 2018/19, enquired about the

potential of lending to local authorities. This is a possibility should an amount, interest rate and loan period be agreed. If this was to be something to implement that aligned with our cash flow, guidance and relevant paperwork would be sought and discussed with Link Asset Services.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obainable, for longer periods.

Investment returns expectations:
On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

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

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increased in Bank Rate is likely to change to the upside.

4.5 **Investment performance/risk benchmarking**

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID rate.

4.6 **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.

4.7 **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.

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

4.8 **Scheme of Delegation**

Please see Appendix 6.

4.9 **Role of the Section 151 Officer**

Please see Appendix 7.

Appendices

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

APPENDIX 1

MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21

The Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10 and will assess their MRP for 2020/21 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 2020/21 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.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
% Ratios	**2.36%**	**2.34%**	**2.33%**	**2.25%**	**2.17%**

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 2020/21		
	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%

APPENDIX 2

INTEREST RATE FORECASTS

1. Individual Forecasts

Link Asset Services

Interest rate forecast – January 2020

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Bank Rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%
5yr PWLB rate	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%
10yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%
25yr PWLB rate	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%
50yr PWLB rate	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%

]

Capital Economics

Interest rate forecast – January 2020

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Bank Rate	0.75%	0.75%	0.75%	0.75%	**No information is provided past Dec 2020 at time of writing.**		
5yr PWLB rate	2.40%	2.50%	2.50%	2.60%			
10yr PWLB rate	2.60%	2.70%	2.80%	2.80%			
25yr PWLB rate	3.10%	3.20%	3.20%	3.30%			
50yr PWLB rate	3.00%	3.10%	3.20%	3.20%			

APPENDIX 3

5.3 ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the

fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

APPENDIX 4

TREASURY MANAGEMENT PRACTICE

SPECIFIED INVESTMENTS:

All such investments will be sterling dominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS;

These are any investments which do not meet the specified investment criteria. A maximum of 30% will be held in aggregate in non-specified investment.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	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

Strategy for specified Investments:

The Authority expects to have a net surplus of funds throughout 2020/21 and will invest those funds through the money markets with those organisations included on its approved lending list (attached as Annex A).

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

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

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

Investments will be made for terms of up to 365 days. The Authority will consider its cash flow requirements, prevailing market conditions and advice from its Treasury

Advisers when determining exact terms for each investment, in order to ensure that it is both favourable and prudent. At the time of writing, interest rates are at a low point.

Non-Specified Investments:

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

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

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

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

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

Term deposits with nationalised banks and banks and building societies

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

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

APPENDIX 5

Approved countries for investments

Based on lowest available rating as at 23.12.19

AAA

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

AA+

- Finland
- U.S.A

AA

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

AA-

- Belgium
- Qatar

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

i. **FRA**

- Receiving and approving reports on treasury management policies, practices and activities ;
- approval of annual strategy;
- budget consideration and approval;
- review and recommend for 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.

ii. **Treasurer**

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

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (Responsible) Officer:

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

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

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

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

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

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

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

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