DEVON & SOMERSET FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: **The Chair and Members of the Resources Committee**

(see below)

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Your ref :
Our ref : RC/MP/SS
Website : www.dsfire.gov.uk

Date : 28 August 2018
Please ask for : Sam Sharman
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday 5 September 2018

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 am in Committee Room B in Somerset House, Service Headquarters, Exeter** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

PLEASE REFER TO THE NOTES AT THE END OF THE AGENDA LISTING SHEETS

1 **Apologies**

2 **Minutes (Pages 1 - 6)**

of the previous meeting held on 16 May 2018 attached.

3 **Items Requiring Urgent Attention**

Items which, in the opinion of the Chair, should be considered at the meeting as matters of urgency.

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance 2018-19 - Quarter 1 (Pages 7 - 14)**

Report of the Director of Finance (Treasurer) (RC/18/14) attached.

5 **Financial Performance Report 2018-19 - Quarter 1 (Pages 15 - 24)**

Report of the Director of Finance (Treasurer) (RC/18/15) attached.

6 **Local Government Financial Settlement 2019-20: Technical Consultation (Pages 25 - 30)**

Report of the Director of Finance (Treasurer) (RC/18/16) attached.

7 **Exclusion of the Press and Public**

RECOMMENDATION that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in the following Paragraph(s) of Part 1 of Schedule 12A (as amended) to the Act, namely:

- Paragraph 3 (information relating to the financial and business affairs of any particular person – including the authority holding that information);

PART 2 - ITEMS WHICH MAY BE CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

8 **Restricted Minutes of the Resources Committee held on 16 May 2018 (Pages 31 - 34)**

The Restricted Minutes of the meeting held on 16 May 2018 are attached.

9 **Red One Limited Financial Performance: Q1 (Pages 35 - 38)**

Report of the Director of Finance (Treasurer) (RC/18/17) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Coles (Chair), Biederman, Drean, Hendy, Peart and Radford

NOTES	
1.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the “Please ask for” section at the top of this agenda.
2.	**<u>Reporting of Meetings</u>** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chair - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority. Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
3.	**<u>Declarations of Interests at meetings (Authority Members only)</u>** If you are present at a meeting and you are aware that you have either a disclosable pecuniary interest, personal interest or non-registerable interest in any matter being considered or to be considered at the meeting then, unless you have a current and relevant dispensation in relation to the matter, you must: (i) disclose at that meeting, by no later than commencement of consideration of the item in which you have the interest or, if later, the time at which the interest becomes apparent to you, the existence of and – for anything other than a “sensitive” interest – the nature of that interest; and then (ii) withdraw from the room or chamber during consideration of the item in which you have the relevant interest. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (ii) and (ii) above. Where a dispensation has been granted to you either by the Authority or its Monitoring Officer in relation to any relevant interest, then you must act in accordance with any terms and conditions associated with that dispensation. Where you declare at a meeting a disclosable pecuniary or personal interest that you have not previously included in your Register of Interests then you must, within 28 days of the date of the meeting at which the declaration was made, ensure that your Register is updated to include details of the interest so declared.
4.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
5.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Order 37, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

16 MAY 2018

Present:-

Councillors Coles (Chair), Biederman, Chugg, Greenslade, Hosking and Randall Johnson.

Apologies:-
Councillors Hendy.

Also in attendance:
Dr. Sian George – Independent Non-Executive Chair of Red One Ltd.

* **RC/24** **Minutes**

RESOLVED that the Minutes of the meeting held on 11 April 2018 be signed as a correct record.

* **RC/25** **Treasury Management - Quarter 4 and Annual Report 2017/18**

The Committee received for information a report of the Director of Finance (Treasurer) (RC/18/9) that set out the treasury management performance relating of the final quarter of 2017-18 financial year together with a summary of the annual performance for the year. The Chartered institute of Public Financial Accountancy's (CIPFA) Code of Practice required that the Authority received a report in respect fo borrowing and investment activities during the year as compared against the Authority's Treasury Management strategy.

Adam Burleton, representing Link Asset Services, the Authority's treasury management adviser, was present at the meeting and he gave an overview of the performance. He confirmed that the Authority had complied with the requirements of the CIPFA code with quarterly reports on treasury management performance having been submitted to the Committee for consideration together with the annual review comparing activity against the strategy in place.

The following points were highlighted in particular:

- The bank base interest rises had been pushed back due to slower than forecast GDP growth figures for the UK although an increase was still expected;
- The Authority's debt position was positive with no new borrowing being taken out within the year to support capital spending and thus, the Capital Financing Requirement (CFR) of £25.63m was matched to external debt;
- The Authority had investments totalling £37.3m with income earned of £0.184m which exceeded the target set by £0.106m due to investment during the year being higher than anticipated and returns exceeding the benchmark;
- The Investment Strategy incorporated within the Treasury Management Strategy Statement (TMSS) remained prioritised with security of capital and liquidity over yield.

Mr Burleton commented that, whilst it was too expensive for the Authority to repay the outstanding debt at present, it would need to look carefully at this in future to ensure that this was kept within the Prudential Indicators.

The Committee made reference to the return on investments during the year and enquired as to the feasibility of increasing this by utilising alternative methods of investment. Mr Burleton advised that there were alternative investment funds available that may achieve a higher yield such as in property or rents but this was dependent upon the Authority's strategy. There was a higher risk with the alternatives and the requirement to invest in such funds more longer term would also reduce the liquidity of the capital. The Director of Finance added that a report had been submitted to the Committee on the alternatives available earlier in the financial year and that she would circulate this again for reference. She commented that the Authority was bringing forward its Change and Improvement programme in 2018/19 and was likely to need to have funding available for future investments as a result. It was noted that there would be a report submitted to the Authority shortly setting out the strategy for Reserves.

RC/26 **Provisional Financial Outturn 2017-18**

The Committee considered a report of the Director of Finance (Treasurer) (RC/18/10) that set out the draft financial outturn position for 2017-18 against the agreed targets. In particular, the report provided a draft outturn spending position against the 2017-18 Revenue Budget with explanations of the major variations.

It was noted that spending was £0.322m below budget which was equivalent to 0.44% of the total budget, due largely to income in excess of the budget that had been received from Red One Ltd. The figures in the report were provisional at this stage subject to external audit of the accounts in July 2018.

RESOLVED

(a) That the Devon & Somerset Fire & Rescue Authority be recommended to approve the transfer of the provisional underspend against the 2017-18 revenue budget of £0.322m to the Comprehensive Spending Review Reserve as outlined in paragraph 6.1 of this report;

(b) That, subject to (a) above, the following be noted:

(i) The draft position in respect of the 2017-18 Revenue and Capital Outturn position, as indicated in this report.

(ii) That the underspend figure of £0.322m is after:

A. Transfers of £0.601m for Airwave, Urban Search and Rescue and the Severn Park Private Finance Initiative as agreed at previous Resources Committees (para 5.1(a));

B. A transfer of £0.323m to the Reserve for Capital funding (para 5.1(b));

C. A transfer of £0.157m to the Grants Unapplied Reserve as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised (para 5.1(c));

D. Reallocation of £2.450m of Capital Funding to support Equipment Purchases now classified as Revenue Expenditure (para. 5.1(d)); and

E. Additional provisions relating to pension liabilities and doubtful debts of £0.069m (para. 5.1(e)).

RC/27 Revisions to the Capital Programme 2018-19 to 2020-21

The Committee considered a report of the Director of Finance (RC/18/11) that set out proposed revisions to the Capital Programme for 2018-19 to 2020-21 to reflect:

a) An amount of money not spent in 2017-18 to be carried forward to 2018-19;

b) A revision of timing and cost of schemes;

c) Recognition of two schemes being revenue in nature, to be funded by earmarked reserve from 2017/18 under spend.

It was noted that the changes proposed did not result in a need for any additional funding, however, it was suggested that the Capital Programme should be reviewed in due course to ensure that projects received the requisite funding at the correct time.

RESOLVED that it be recommended to the Devon and Somerset Fire and Rescue Authority that the revised capital programme and associated prudential indicators for 2018-19 to 2020-21, as detailed in report RC/18/11 and summarised in Appendices A and B to these Minutes, be approved.

RC/28 Fire Funding Issues

The Committee considered a report of the Director of Finance (Treasurer) (RC/18/12) advising of the action that was being taken to seek to secure an improved funding settlement for the Authority for the 2019-20 and subsequent financial years.

RESOLVED that it be recommended that the Authority supports a sector-led approach to securing improved funding in preference to developing an individual business case.

*** RC/29 Exclusion of the Press and Public**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of Dr Sian George) be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the following Paragraph(s) of Part 1 of Schedule 12A (as amended) to the Act:

- Paragraph 3 (information relating to the financial and business affairs of any particular person – including the authority holding that information);

*** RC/30 Restricted Minutes of the Resources Committee held on 11 April 2018**

RESOLVED that the Restricted Minutes of the meeting held on 11 April 2018 be signed as a correct record.

* **RC/31** **<u>Red One Update</u>**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public (with the exception of Dr Sian George) were excluded for the meeting.

The Committee received for information a report of the Director of Finance (Treasurer) (RC/18/13) that gave an update on the current financial position in respect of Red One Ltd.

*** DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 3.00 pm and finished at 5.20 pm

APPENDIX A TO THE MINUTES OF RESOURCES COMMITTEE ON 16 MAY 2018

Capital Programme 2018/19 to 2020/21

Item	PROJECT	2018/19 £000 Approved Budget	2018/19 £000 Slippage & Approvals	2018/19 £000 Revised Budget	2019/20 £000 Approved Budget	2019/20 £000 Slippage & Approvals	2019/20 £000 Revised Budget	2020/21 £000 Indicative Budget	2020/21 £000 Slippage & Approvals	2020/21 £000 Revised Budget	2021/22 £000 Indicative Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
	Estate Development												
1	Site re/new build	400	(200)	200	500	200	700	0	600	600	0	0	0
2	Improvements & structural maintenance	2,943	170	3,113	4,245	(1,375)	2,870	2,465	(410)	2,055	1,800	1,800	1,800
	Estates Sub Total	**3,343**	**(30)**	**3,313**	**4,745**	**(1,175)**	**3,570**	**2,465**	**190**	**2,655**	**1,800**	**1,800**	**1,800**
	Fleet & Equipment												
3	Appliance replacement	4,150	(2,021)	2,129	3,650	39	3,689	2,540	1,120	3,660	2,740	2,740	2,740
4	Specialist Operational Vehicles	125	0	125	625	0	625	200	0	200	0	0	0
5	Equipment	1,985	(1,402)	583	150	216	366	200	0	200	200	200	200
6	ICT Department	627	(400)	227	0	0	0	0	0	0	0	0	0
7	Water Rescue Boats	46	0	46	0	0	0	0	0	0	0	0	0
	Fleet & Equipment Sub Total	**6,933**	**(3,823)**	**3,110**	**4,425**	**255**	**4,680**	**2,940**	**1,120**	**4,060**	**2,940**	**2,940**	**2,940**
	Overall Capital Totals	**10,276**	**(3,853)**	**6,423**	**9,170**	**(920)**	**8,250**	**5,405**	**1,310**	**6,715**	**4,740**	**4,740**	**4,740**
	Programme funding												
8	Earmarked Reserves:	**5,981**	**(3,853)**	**2,128**	**4,220**	**(920)**	**3,300**	**460**	**1,310**	**1,770**	**0**	**0**	**0**
9	Revenue funds:	**2,384**	**0**	**2,384**	**2,989**	**0**	**2,989**	**3,498**	**0**	**3,498**	**2,802**	**3,457**	**3,542**
10	Application of existing borrowing	1,911	0	1,911	1,961	0	1,961	1,447	0	1,447	1,938	1,283	1,198
	Total Funding	**10,276**	**(3,853)**	**6,423**	**9,170**	**(920)**	**8,250**	**5,405**	**1,310**	**6,715**	**4,740**	**4,740**	**4,740**

APPENDIX B TO THE MINUTES OF RESOURCES COMMITTEE HELD ON 16 MAY 2018

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS 2021/22 to 2023/24		
	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Capital Expenditure						
Non - HRA	6.423	8.250	6.715	4.740	4.740	4.740
HRA (applies only to housing authorities)						
Total	6.423	8.250	6.715	4.740	4.740	4.740
Ratio of financing costs to net revenue stream						
Non - HRA	4.03%	4.03%	3.97%	3.89%	3.52%	3.41%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,538	25,444	24,851	24,758	24,264	23,771
HRA (applies only to housing authorities)	0	0	0	0	0	0
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	25,055	24,427
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(182)	(191)	(694)	(197)	(610)	(628)
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	(182)	(191)	(694)	(197)	(610)	(628)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	27,007	26,910	26,787	26,189	26,071	25,553
Other long term liabilities	1,359	1,265	1,162	1,056	947	823
Total	28,367	28,174	27,949	27,244	27,018	26,376
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,731	25,637	25,544	24,951	24,857	24,364
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	27,029	26,847	26,656	25,961	25,765	25,155
Maximum Principal Sums Invested over 364 Days						
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000	5,000

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2017/18		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

REPORT REFERENCE NO.	**RC/18/14**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 SEPTEMBER 2018**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2018-19 – QUARTER 1**
LEAD OFFICER	**DIRECTOR OF FINANCE (TREASURER)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2018-19 (to June 2018) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 June 2018.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 16 February 2018 – Minute DSFRA/64c refers.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset Fire & Rescue Authority has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The Code recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Authority is implementing best practice in accordance with the Code and includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities;
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives;
- The receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

2.1 **UK.** Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently. This means that that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP. The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely.

2.2 During January and February, financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around. The MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been just one contributor. Since May, opinion again turned to suggest that an August Bank Rate increase was back on the cards and indeed the bank rate was increased on 2 August 2018 from 0.50 to 0.75%.

2.3 However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.

2.4 **EU.** A recovery to strong growth in 2016 and 2017 looks as if it will weaken somewhat going forward. Despite providing massive monetary stimulus, the European Central Bank (ECB) has been struggling to get inflation up to its 2% target. However, in April the headline Eurozone rate jumped up from 1.4% to 1.9% although the core inflation rate was still subdued in rising from 0.7% to 1.1%. At its June meeting, the ECB announced it would halve its monthly quantitative easing purchases from €30bn to €15bn, and then end all purchases after December. It is unlikely to make a start on increasing interest rates until late in 2019.

2.5 **USA.** Growth in the American economy was volatile in 2015, 2016 and 2017 during each year, with quarter 1 being particularly weak. The annual rate of GDP growth for 2017 was 2.3%. Quarter 1 in 2018 came in at 2.0%, down from 2.9% in the previous quarter. The Trump $1.5 trillion income tax cut package coming into effect in January 2018, is likely to boost growth to the Trump administration's 3% target. However, it is also likely to boost inflation at a time when spare capacity in the economy is minimal and unemployment, in particular, has fallen to the lowest level for 17 years, reaching 3.8% in May. The Federal Bank (the Fed) has started on an upswing in rates with seven increases since the first one in December 2015, the latest one being in June 2018 to lift the central rate to 1.75 – 2.00%. There could be a further two or more increases in 2018. In October 2017. The Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in respect of reinvesting maturing debt.

2.6 **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.7 **Japan** The best economic run (of positive growth for eight quarters) since the 1980s came to an end in quarter 1 with a contraction of -0.6% blamed on weak exports. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, with inflation falling to only 0.4% in May. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecasts

2.8 The Authority's treasury advisor, Link Asset Services, has provided the following forecast:

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

2.9 Link Asset Services undertook its last review of interest rate forecasts on 11 May 2018 after the quarterly Bank of England Inflation Report and MPC meeting at which the MPC kept Bank Rate unchanged at 0.50%. The MPC Minutes indicated they wanted to see whether the slowdown in growth in quarter 1 had been a temporary blip or a potential first sign of a prolonged period of weak growth.

2.10 The overall balance of risks to economic recovery in the UK is probably even. However, given the uncertainties around Brexit in particular, but also other uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

3. TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY

3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 16 February 2018. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a significant proportion of investments short term. This will not only cover short term cash flow needs but will also seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Link suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Link.

3.3 A full list of investments held as at 30 June 2018 are shown in Appendix A.

3.4 The average level of funds available for investment purposes during the quarter was £36.284m (£40.497m at the end of 2017/18). These funds were available on a temporary basis and the level of funds was dependent on the level of reserves, timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 1
3 Month LIBID	0.53%	0.71%	(£0.021)m.

3.5 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.18bp. It is currently anticipated that the actual investment return for the whole of 2018-19 will match the Authority's budgeted investment target of £201k.

BORROWING STRATEGY

Prudential Indicators:

3.6 It is a statutory duty for the Authority to determine and keep under review the "Affordable Borrowing Limits". The Authority's' approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

3.7 A full list of the approved limits (as amended) are included in the Financial Performance Report 2018-19, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to June 2018 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.8 The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 30 June 2018 was £25.631m, forecast to reduce to £25.584m by the end of the financial year as a result of standard loan repayments. All of this debt is at fixed rate with the remaining principal having an average rate of 4.10% and average life of 25.5 years.

Loan Rescheduling

3.9 No debt rescheduling was undertaken during the quarter. The Authority will continue to work closely with our treasury advisors to explore any opportunities to repay existing loans, however current Public Works Loan Board early repayment rates mean there is no financial benefit in undertaking premature loan repayment at this time.

New Borrowing

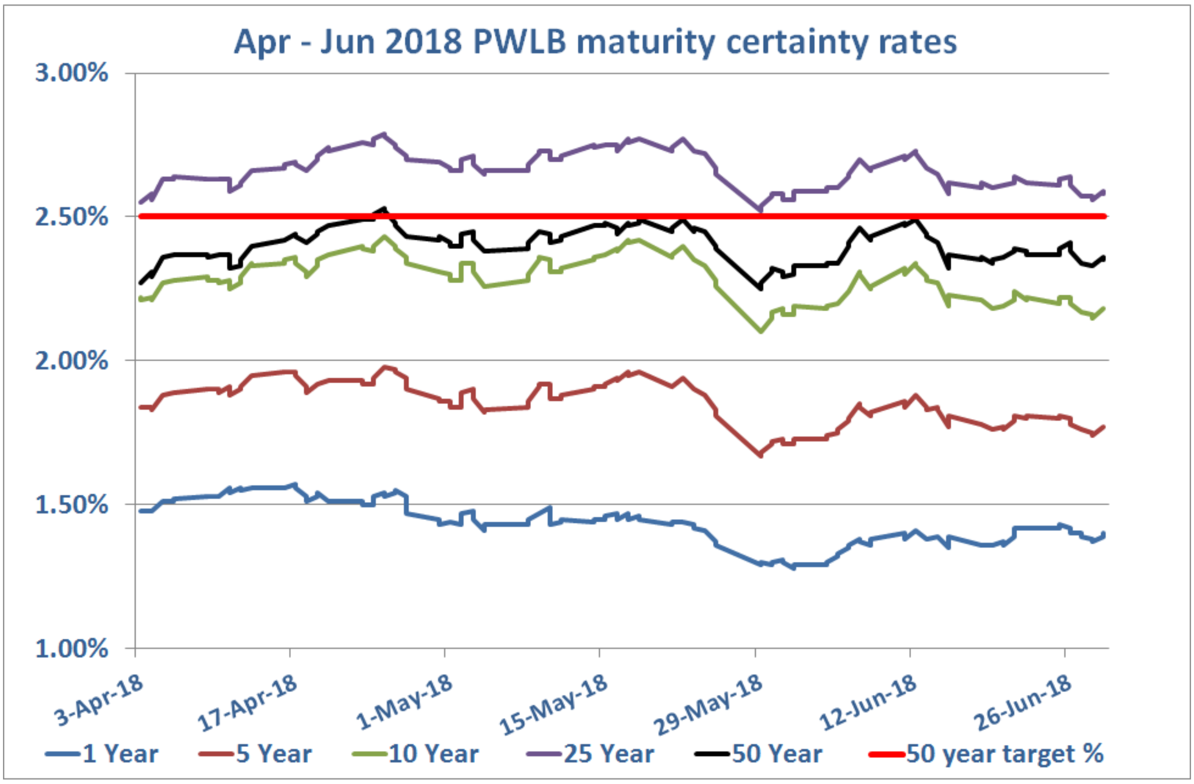
3.10 PWLB rates have not been on any consistent trend in this quarter. During the quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally reduced to 2.40%.

3.11 No new borrowing was undertaken during the quarter and none is planned during 2018-19 as a result of the Authority's adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

PWL rates quarter ended 30 June 2018

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.28%	1.67%	2.10%	2.52%	2.25%
Date	01/06/2018	29/05/2018	29/05/2018	29/05/2018	29/05/2018
High	1.57%	1.98%	2.43%	2.79%	2.53%
Date	17/04/2018	25/04/2018	25/04/2018	25/04/2018	25/04/2018
Average	1.44%	1.86%	2.29%	2.66%	2.40%

3.12 Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

3.13 The Authority has not borrowed in advance of need during this quarter.

4. SUMMARY AND RECOMMENDATION

4.1 In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the first quarter report on treasury management activities for 2018-19 to June 2018. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are recovering as a result of the increase in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target, as rates were forecast to rise when the budget was set.

AMY WEBB
Director of Finance & Treasurer

Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	7.000	2.100	T	12 mths	0.85%
		3.400	T	12 mths	0.90%
		1.500	T	12 mths	0.90%
Barclays Bank	8.000	3.000	T	12 mths	0.55%
		3.000	T	6 mths	0.81%
Barclays FIBCA		0.001	C	Instant Access	Variable
Goldman Sachs	7.000	5.000	T	6 mths	0.73%
		2.000	T	6 mths	0.80%
Highland Council	5.000	3.000	T	6 mths	0.75%
Lloyds Bank	2.000	2.000	T	12 mths	0.90%
Santander	7.000	1.000	T	6 mths	0.58%
		1.000	T	6 mths	0.63%
		1.000	T	6 mths	0.84%
		1.000	T	6 mths	0.68%
Standard Life	6.000	0.968	C	Instant Access	Variable
Sumitomo Mitsui	7.000	2.000	T	6 mths	0.58%
Total amount Invested		**31.969**			

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REPORT REFERENCE NO.	**RC/18/15**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 SEPTEMBER 2018**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2018-19 – QUARTER 1**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 3 of this report be recommended to the Devon & Somerset Fire & Rescue Authority for approval;*** ***(b) That the monitoring position in relation to projected spending against the 2018-19 revenue and capital budgets be noted;*** ***(c) That the performance against the 2018-19 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the first quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2018-19 revenue budget with explanations of the major variations. At this stage in the financial year, it is forecast that spending will be £0.750m less than budget, a saving of 1.02% of total budget.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2018-19.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1 This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of June 2018. As well as providing projections of spending against the 2018-19 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2018-19

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£73.871m	£73.121m	n/a	1.02%	n/a
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.19%	n/a	(2.19)bp*	n/a
	Capital Targets					
4 3	Spending within agreed capital budget	£6.423m	£6.423m	n/a	(0.00%)	(0.00%)
4	External Borrowing within Prudential Indicator limit	£27.029m	£26.896m	n/a	(0.49%)	(0.00%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.95%	n/a	(1.05)bp*	(0.00)bp*

**bp = base points*

1.3 The remainder of the report is split into the three sections of:

- **SECTION A** – Revenue Budget 2018-19.
- **SECTION B** – Capital Budget and Prudential Indicators 2018-19.
- **SECTION C** – Other Financial Indicators.

1.4 Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2018-19

2.1 Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £73.121m, representing a saving against the budget of £0.750m equivalent to 1.02% of the total budget. The forecast incorporates the budget virements requested in Table 4 elsewhere within this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2018-19

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2018/19

Line No		2018/19 Budget £000	Year To Date Budget £000	Spending to Month 3 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	28,651	7,131	7,029	28,560	(91)
2	On-call firefighters	12,820	2,908	2,408	12,742	(78)
3	Control room staff	1,597	392	350	1,440	(157)
4	Non uniformed staff	10,878	2,713	2,582	10,692	(186)
5	Training expenses	726	256	476	723	(3)
6	Fire Service Pensions recharge	2,703	890	382	2,703	-
		57,375	**14,290**	**13,226**	**56,859**	**(516)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,055	264	470	1,059	4
8	Energy costs	573	97	11	573	-
9	Cleaning costs	458	114	379	502	44
10	Rent and rates	1,747	513	545	1,767	20
		3,833	**989**	**1,404**	**3,901**	**68**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	601	219	139	630	29
12	Running costs and insurances	1,204	584	413	1,210	6
13	Travel and subsistence	1,455	277	573	1,439	(16)
		3,260	**1,079**	**1,125**	**3,279**	**19**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	3,037	759	921	3,116	79
16	Hydrants-installation and maintenance	190	47	22	187	(3)
17	Communications	2,086	521	246	2,096	10
18	Uniforms	644	161	128	663	19
19	Catering	65	16	17	47	(18)
20	External Fees and Services	144	36	37	160	16
21	Partnerships & regional collaborative projects	237	59	95	237	-
		6,401	**1,600**	**1,464**	**6,504**	**103**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	306	108	70	283	(23)
23	Advertising	20	5	11	20	-
24	Insurances	356	326	171	356	-
		682	**439**	**252**	**659**	**(23)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	669	130	128	679	10
		669	**130**	**128**	**679**	**10**
	CAPITAL FINANCING COSTS					
26	Capital charges	3,802	17	89	3,801	(1)
27	Revenue Contribution to Capital spending	2,084	-	-	2,084	-
		5,886	**17**	**89**	**5,885**	**(1)**
28	**TOTAL SPENDING**	**78,106**	**18,544**	**17,689**	**77,765**	**(341)**
	INCOME					
29	Investment income	(201)	(50)	21	(201)	-
30	Grants and Reimbursements	(2,300)	(662)	(426)	(2,647)	(347)
31	Other income	(696)	(128)	(181)	(758)	(62)
32	Internal Recharges	(18)	(5)	(10)	(18)	-
33	**TOTAL INCOME**	**(3,215)**	**(845)**	**(595)**	**(3,624)**	**(409)**
34	**NET SPENDING**	**74,891**	**17,699**	**17,094**	**74,141**	**(750)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to (from) Earmarked Reserve	(1,020)	-	(1,020)	(1,020)	-
38	**NET SPENDING**	**73,871**	**17,699**	**16,074**	**73,121**	**(750)**

2.2 These forecasts are based upon the spending position at the end of June 2018, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report.

2.3 Explanations of the more significant variations from budget (over £50k variance) are explained below.

3. NARRATIVE ON VARIANCES AGAINST BUDGET

3.1 When the 2018-19 budget was set there was uncertainty over the level of pay awards for uniformed staff and therefore a 3% pay award was included. At time of writing, the most recent pay offer is for 2%. Given the offer is yet to be accepted and is an interim position it might be subject to change and therefore the forecast position in this report includes the 3% as budgeted for Wholetime, On Call and Control room staff. There is potential for savings of around £0.350m if the final pay settlement comes in at the lower figure.

Wholetime Staff

3.2 At this stage it is projected that spending on wholetime pay costs will be £0.091m less than budget. The forecast saving is due to a high number of retirements expected during the year, the resulting vacancies will be covered by fixed term contracts with existing on call staff.

On Call Staff

3.3 On Call staffing costs are forecast at £12.742m against a budget of £12.820m, an under spend of £0.078m. Due to the nature of the On Call service, there is potential for the forecast to fluctuate throughout the year. Due to recent success in recruitment it is anticipated that this budget line will remain more stable than in previous years, barring spate conditions.

Control Room Staff

3.4 Savings of £0.157m are expected against the budget for Control staff. When the budget was set, an additional staff member on each shift was included to cover control technology training but this is no longer required.

Non Uniformed Staff

3.5 In- year savings of £0.186m are expected against the budget of £10.878m for Non Uniformed staff. The under spend is as a result of vacancies pending recruitment or being held pending reorganisation.

Equipment and Furniture

3.6 Equipment & Furniture is forecast to be overspent by £0.079m. Of this amount, £0.052m is for thermal imaging cameras and £0.023m for equipment bags – neither of these items were in the original budget but are needed for operational requirements.

Grants and Reimbursements

3.7 Grants & reimbursements - forecasting a positive variance at £0.346m over budget. £0.288m is additional income since the budget was set due to late notifications of changes to National Non-Domestic Rates (NNDR) income and Rural Services Delivery Grant. Additionally, £0.031m of unbudgeted income is included for the inflationary element of the Airwave grant.

Other Income

3.8 Other Income if forecast to over recover by £0.062m. £0.030m of this is forecast to come from HeartStart which will off-set the expenditure incurred but contained within budgets. A further £0.014m is due from the Breathing Apparatus Procurement framework agreement.

3.9 The Committee is asked to recommend to the Devon & Somerset Fire & Rescue Authority the budget virements (transfers between budget lines) shown in Table 3 below for approval. The transfers are reflected in Table 2 - budget monitoring statement and a narrative behind each budget transfer is provided within the table.

TABLE 3 – BUDGET TRANSFERS

Line Ref	Description	Debit £m	Credit £m
	Transfer of budget for staff and office costs from Business Intelligence Hub to the newly formed Data Architecture and Management Team.		
4	Non-Uniformed Staff	0.279	
5	Training	0.003	
14	Equipment & Furniture	0.004	
22	Publications/Subscriptions	0.001	
4	Non-Uniformed Staff		(0.279)
5	Training		(0.003)
14	Equipment & Furniture		(0.004)
22	Publications/Subscriptions		(0.001)
		0.287	**(0.287)**
	Maintenance of the New Dimensions assets will no longer be charged or reimbursed through the Service accounts		
30	Grants and Reimbursements	**0.273**	
12	Vehicle Repair & Maintenance		**(0.273)**
	It was anticipated at budget setting that the full grant for the National Resilience New Dimensions grant would be received in advance in 2017/18 and transferred to an Earmarked Reserve. Only £129,713 was received in advance, with the remaining £815,586 to be received in year.		
35	Reduce Transfer from Reserves budget	**0.816**	
30	Increase Grant budget		**(0.816)**
	The Airwave grant for 2018/19 was budgeted as grant income whereas it was actually received in 2017/18 and transferred to an Earmarked Reserve.		
30	Decrease Grant budget	**0.890**	
35	Increase Transfer from Reserves budget		**(0.890)**
		2.265	**(2.265)**

4. RESERVES AND PROVISIONS

4.1 As well as the funds available to the Authority by setting an annual budget, the Authority also holds reserve and provision balances.

Reserves

4.2 There two types of Reserves held by the Authority:

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

4.3 In addition to reserves the Authority may also hold provisions which can be defined as:

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

4.4 A summary of predicted balances on Reserves and Provisions is shown in Table 4 below. These figures include the changes made to Reserves as a result of the Reserves Strategy which was approved by the Fire Authority on 30 July 2018.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 30 JUNE 2018

RESERVES AND PROVISIONS	Balance as at 1 April 2018	Approved Transfers	Spending to Month 03	Forecast Spend 2018-19	Proposed Balance as at 31 March 2019	
RESERVES	**£000**	**£000**	**£000**	**£000**	**£000**	
Earmarked reserves						
Grants unapplied from previous years	(1,376)	-	72	1,021	(354)	
Invest to Improve	(6,424)	-	80	391	(6,033)	
Budget Smoothing Reserve	(918)	(900)	-	-	(1,818)	
Direct Funding to Capital	(16,647)	-	(10)	2,116	(14,531)	
Projects, risks, & budget carry forwards						
PFI Equalisation	(295)	-	-	-	(295)	
Emergency Services Mobile Communications Programme	(921)	-	5	3	(918)	
Breathing Apparatus Replacement	(1,650)	-	-	1,000	(650)	
Mobile Data Terminals Replacement	(800)	-	-	800	-	
PPE & Uniform Refresh	(504)	-	16	16	(488)	
Pension Liability reserve	(1,525)	900	-	593	(32)	
National Procurement Project	(215)	-	187	140	(74)	
Budget Carry Forwards	(598)	-	141	349	(249)	
Commercial Services	(72)	-	-	20	(52)	
Total earmarked reserves	**(31,944)**	**-**	**490**	**6,448**	**(25,495)**	
General reserve						
General Fund balance	**(5,315)**	-	-	-	**(5,315)**	
Percentage of general reserve compared to net budget						7.19%
TOTAL RESERVE BALANCES	**(37,259)**			**6,448**	**(30,810)**	
PROVISIONS						
Fire fighters pension schemes	(754)		-	100	(654)	

5. **SUMMARY OF REVENUE SPENDING**

5.1 At this stage early stage in the year, it is forecast that spending will be £0.750m below the budget figure for 2018-19, which is likely to grow if planned pay rises are below the levels budgeted. At the moment, no recommendations are made as the use of these savings.

6. **SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2018-19**

Monitoring of Capital Spending in 2018-19

6.1 Table 5 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

6.2 At the end of Quarter 1, there is no forecast variance against the capital programme of £6.423m, which has already been revised and approved by the Fire Authority following the year end process.

6.3 At this stage in the year, delivery of £3.313m of Estates and £3.110m of Fleet and Equipment projects are anticipated.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2018-19

PROJECT	2018/19 £000 Revised Budget	2018/19 £000 Forecast Outturn	2018/19 £000 Timing Differences	2018/19 £000 Re-scheduling / Savings
Estate Development				
Site re/new build	200	200	0	0
Improvements & structural maintenance	3,113	3,113	0	0
Estates Sub Total	**3,313**	**3,313**	**0**	**0**
Fleet & Equipment				
Appliance replacement	2,129	2,129	0	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	125	125	0	0
Equipment	583	583	0	0
ICT Department	227	227	0	0
Water Rescue Boats	46	46	0	0
Fleet & Equipment Sub Total	**3,110**	**3,110**	**0**	**0**
Overall Capital Totals	**6,423**	**6,423**	**0**	**0**
Programme funding				
Earmarked Reserves:	**2,128**	**2,128**	**0**	**0**
Revenue funds:	**2,384**	**2,384**	**0**	**0**
Application of existing borrowing	**1,911**	**1,911**	**0**	**0**
Total Funding	**6,423**	**6,423**	**0**	**0**

Prudential Indicators (including Treasury Management)

6.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 June 2018 stands at £25.631m and is forecast to reduce to £25.584m as at 31 March 2019. This level of borrowing is well within the Authorised Limit for external debt of £27.007m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

6.5 Investment returns in the quarter yielded an average return of 0.71% which outperforms the LIBID 3 Month return (industry benchmark) of 0.53%. It is forecast that investment returns from short-term deposits is anticipated to match the budgeted figure of £0.201m by 31 March 2019.

6.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2017-2018, which illustrates that there is no anticipated breach of any of these indicators.

7. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

7.1 Total debtor invoices outstanding as at Quarter 1 were £652,378, table 6 below provides a summary of all debt outstanding as at 30 June 2018.

7.2 Of this figure an amount of £351,904 was due from debtors relating to invoices that are more than 85 days old, equating to 53.9% of the total debt outstanding.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	99,526	15.3%
1 to 28 days overdue	59,249	9.1%
29-56 days overdue	157	0.0%
57-84 days overdue	141,541	21.7%
Over 85 days overdue	351,904	53.9%
Total Debt Outstanding as at 30 June 2018	**652,378**	**100.00%**

7.3 Table 7 below provides further analysis of those debts in excess of 85 days old.

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Name not disclosed.	3	£3,058	This debt results from the vehicle costs of two ex-employees, the debts are being pursued by the Risk and Insurance Officer.

Red One Ltd	37	£347,686	Invoices raised for Services supplied to Red One relating to services provided in 2016/17. Although a repayment plan has been agreed by the Authority, discussions are ongoing with Red One Ltd regarding settlement of the remaining outstanding balance.
Various	3	£517	Invoices with small debtors are being chased using standard procedures and pursued with our debt recovery officer where appropriate.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/18/15

PRUDENTIAL INDICATORS 2018-19

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	**6.423**	**6.423**	**(0.000)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**26.793** 25.584 1.209	**26.747** 25.538 1.209	**£0.046**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**26.793** 25.584 1.209	**28.367** 27,007 1.359	**(1.574)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.95%**	**5.00%**	**(1.05)bp**
Cost of Borrowing – Total - Interest on existing debt as at 31-3-18 - Interest on proposed new debt in 2018-19	**1.084** 1.084 0.000	**1.084** 1.084 0.000	**(0.000)**
Investment Income – full year	**0.201**	**0.201**	**(0.000)**
	Actual (30 June 2018) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.71%**	**0.53%**	**(0.18)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2019) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	0.36%	30.00%	0.00%	(29.64%)
12 months to 2 years	2.31%	30.00%	0.00%	(27.69%)
2 years to 5 years	4.21%	50.00%	0.00%	(45.79%)
5 years to 10 years	14.95%	75.00%	0.00%	(60.05%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**77.80%** 11.24% 15.61% 49.00% 1.95%	**100.00%**	**50.00%**	**(22.20%)**

REPORT REFERENCE NO.	**RC/18/16**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 SEPTEMBER 2018**
SUBJECT OF REPORT	**LOCAL GOVERNMENT FINANCE SETTLEMENT 2019-20: TECHNICAL CONSULTATION**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the proposed Consultation response outlined is approved by the Committee for submission to the Ministry of Housing, Communities and Local Government.***
EXECUTIVE SUMMARY	The Ministry of Housing, Communities and Local Government have issued a technical consultation on the Local Government Finance Settlement 2019-20 (the Consultation) which asks for responses to be submitted by 18 September 2018. The Consultation covers five questions which are addressed in the paper below. The Committee is asked to review the questions and proposed responses and form a view on the draft response. The Committee can then agree a response to be submitted on behalf of the Fire Authority.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Local Government Finance Settlement 2019-20: Technical Consultation
LIST OF BACKGROUND PAPERS	None

1. **INTRODUCTION**

1.1 The Ministry of Housing, Communities and Local Government have issued a technical consultation on the Local Government Finance Settlement 2019-20 (the Consultation) which asks for responses to be submitted by 18 September 2018.

1.2 Each of the topics in the consultation document below will be addressed in turn below with a suggested response. The Committee is asked to review the questions and proposed responses prior to submission.

2. MULTI YEAR SETTLEMENT OFFER

2.1 Page 5 of Appendix A confirms the Government's intention to adhere to the four year settlement, which commenced in 2016-17, for the final year 2019-20. The Authority accepted the four year settlement in October 2016 as did 97% of Councils so agreement with the principal of adhering to the settlement is consistent with this.

2.2 The proposal is cost neutral to this Authority as the proposal was already factored in to the Medium Term Financial Plan.

2.3 **Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?**

Suggested response: YES

The four year settlement offer was accepted by Devon & Somerset Fire & Rescue Authority and represents an opportunity to gain certainty over funding in the medium term, which has been most welcome for planning purposes.

3. NEW HOMES BONUS

3.1 Pages 8 and 9 of the Consultation document outline the proposal for payments of New Homes Bonus. The Authority is not eligible for this payment and it does not have an impact on the precept income that we receive from billing authorities.

4. COUNCIL TAX REFERENDUM PRINCIPLES

4.1 Pages 10 and 11 of the Consultation document outline the proposed referendum principles for the various types of Local Government body which are summarised below:

- A precept flexibility threshold of 3% for local authorities to include Fire and Rescue Authorities
- Continuation of the Adult Social Care precept (an additional 2% flexibility)
- Shire district councils in two-tier areas the higher of 3% or £5
- Police and Crime Commissioners to be allowed up to £12 increase if they can evidence improved service delivery
- No referendum principles for Mayoral Combined Authorities
- No referendum principles for town and parish council but an expectation of restraint in increases by the sector

4.2 The Fire Authority is impacted by the proposal to limit precept increases to 3% before a referendum would need to be held, the limit was 2% up to and including 2017-18. With forecast council tax base increases, each 1% rise on council tax is equivalent to £0.508m additional funding for this Authority. A 3% increase is equivalent to £1.524m in 2019-20.

4.3 The forecast savings requirement for the next three years is between £7.7m and £12.4m depending on council tax decisions and therefore the ability to increase council tax will be crucial to the financial stability and development potential of the Authority.

4.4 Greater flexibility in council tax precept increases would narrow the funding gap for the Authority and allow for greater investment in the change programme to improve service delivery in our communities.

4.5 The Consultation response should be mindful of the Government position on Fire Authority Reserves, namely that these are too high, and that only evidence of diminishing reserves and increased demand on services will result in precept flexibility. Year end reserves for 2017-18 were £31.9m and whilst these are currently forecast to reduce to £25.5m by the end of the year, low expenditure or in year revenue budget savings could result in a small net increase to reserves.

4.6 Additionally, the technical notes regarding the £12 precept flexibility for Police and Crime Commissioners are ambiguous and it would be in the interests of the Fire sector to receive greater clarity on the method of testing to be used.

4.7 **Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?**

Suggested response: NO

Devon & Somerset Fire & Rescue Authority would welcome greater precept flexibility over fire precept to support the sector at a time of increasing risk and pressure on services.

By imposing a referendum threshold, central government are effectively controlling the fire sector's ability to raise precepts beyond 3%. For this Authority, consisting of fifteen billing authorities, referendum costs are likely to be in excess of £2.3m, which prohibits increasing precepts above the trigger point. Due to the variety of governance models which complicate the funding situation across the sector, precept levels should be determined locally to enable individual Authorities to establish value for money for their communities. Affordability of council tax referendums also varies widely depending on the make-up of local authorities.

When setting its annual budget and level of council tax for the coming year the Authority will review risk and short to medium term resourcing requirements to set an appropriate level of council tax.

The risk within our communities is changing due to demographics including an exponential increase in the number of elderly citizens which requires investment in further prevention activity. New workloads have been generated as a result of the Hackett review and it is anticipated that further sector wide improvements will be required through the Governments Fire Reform programme.

The statutory duty to collaborate with other blue light services means the Service contributing more to the work of our partners. Whilst there are societal benefits many of these schemes require investment by the Fire and Rescue Authority for which no current funding is available.

Alongside those cost pressures, the sector needs to invest heavily in reform, particularly investing in our people and digital processes which will require significant financial resources over a sustained period.

A referendum threshold of the higher of 3% or £5 for Fire and Rescue Authorities, in line with that offered to Shire district councils, would allow the sector opportunity to invest to support the reform programme and determine a local approach to setting council tax levels.

Suggested additional comment:

The method of granting precept flexibility should be made transparent so that organisations have a clear understanding of the underpinning sector issues behind those decisions.

For the Police and Crime Commissioner's £12 precept flexibility, more information on the method of evaluating "clear and substantial progress on productivity and efficiency which will be assessed in advance of the provisional settlement" would be welcome so that the impact on funding of good/poor performance against objectives can be better understood. This appears to break the link between demand for services and precept flexibility.

5. NEGATIVE REVENUE SUPPORT GRANT

5.1 Pages 12 to 17 of the Consultation document outline the options for dealing with negative Revenue Support Grant (where business rates income collected by an Authority exceeds the baseline set by the settlement, funds are owed back to central government). The government proposal is that they will write off the negative grant, at a cost of £158m, to be funded centrally. The Authority is not affected by negative Revenue Support Grant.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Suggested response: NO COMMENT

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express you preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored in the consultation document please provide further detail.

Suggested response: NO COMMENT

6. EQUALITIES IMPACT

6.1 Page 18 of the Consultation document requests further information from respondents where they feel that the financial settlement may have an impact on people with protected characteristics.

6.2 Due to the way that funding is made available to the Fire Authority and the way that services are delivered to communities, it is not anticipated that the Settlement will have an adverse impact on those with protected characteristics.

Question 5: Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic?

Suggested response: NO COMMENT

AMY WEBB
Director of Finance (Treasurer)

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Ministry of Housing,
Communities &
Local Government

The 2019-20 Local Government Finance Settlement

Technical Consultation

24 July 2018

Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg
If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Contents

Scope of the consultation

Topic of this consultation:	This consultation covers proposals for the local government finance settlement for 2019-20.
Scope of this consultation:	This consultation seeks views on proposals for the local government finance settlement for 2019-20, in particular from representatives of local government.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	Since the Government does not envisage that the proposals within this consultation document will have an impact on business, no impact assessment has been produced.

Basic Information

To:	The consultation will be of particular interest to local authorities, and representative bodies for local authorities.
Body/bodies responsible for the consultation:	Local Government Finance Directorate within the Ministry of Housing, Communities and Local Government.
Duration:	This consultation will last for 8 weeks from 24 July 2018 to 18 September 2018.
Enquiries:	For any enquiries about the consultation please contact James Whitehouse: James.Whitehouse@communities.gsi.gov.uk
How to respond:	You can respond to the questions in this consultation via a pro-forma found at: https://www.gov.uk/government/consultations/local-government-finance-settlement-2019-to-2020-technical-consultation If the link is inoperable, the pro-forma can also be found as an Annex to this consultation document. Email details and an address for written responses can be found in the pro-forma.

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the EU General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex C.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

1 Summary of proposals

1.1 Background

1.1.1 Proposals for the 2019-20 Local Government Finance Settlement have been designed in the context of the overall Spending Review package, announced in 2015.

1.1.2 The Government's current intention is that the 2019-20 settlement will confirm the final year of the multi-year settlement that has provided certainty for 4 years. The 2019 Spending Review will confirm overall local government resourcing from 2020-21, and the Government is working towards significant reform in the local government finance system in 2020-21, including an updated, more robust and transparent distribution methodology to set baseline funding levels, and resetting business rates baselines.

1.1.3 Prior to these reforms in 2020-21, the Government is committed to testing aspects of the new system, and will be implementing a further round of Business Rates Retention pilots in 2019-20.

1.1.4 The 2016-17 multi-year settlement offered local authorities greater certainty over elements of their funding across the spending period and was accepted by 97% of local authorities. The Government proposes to allocate funding in 2019-20 in accordance with the agreed methodology announced by the Secretary of State in 2016-17, which ensures that local councils delivering similar services receive a similar percentage change in settlement core funding for those services[1].

1.2 Summary of proposals

1.2.1 The remaining sections of this document set out the Government's proposed approach to the 2019-20 settlement. It:

- outlines the fourth year of the multi-year settlement offer for those councils that accepted the offer, and arrangements for those that did not.
- outlines the Government's position on the New Homes Bonus threshold.
- outlines the Government's proposals for council tax referendum principles for 2019-20.
- outlines the Government's proposals for dealing with the issue known as 'Negative Revenue Support Grant'.

[1] Please note that the exact percentage change in 'Settlement Core Funding' will be influenced by the Government's decision on the issue of 'Negative RSG'. An explanation of, and consultation on, the issue of Negative RSG can be found at Section 5.

2 The multi-year settlement offer

2.1 Certainty of funding

2.1.1 The 2016-17 settlement offered councils a four-year settlement, giving greater certainty of funding until the end of the spending period. The offer included:

- Revenue Support Grant
- Business rates tariff and top-up payments[2]
- Rural Services Delivery Grant, and
- Transition Grant

2.1.2 97% of councils accepted the multi-year offer in return for publishing efficiency plans, allowing councils the confidence to plan ahead and implement reforms.

2.1.3 The Government will need to take account of any structural and functional changes, such as transfers of responsibility for functions between local authorities, mergers between authorities and any other relevant events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the Local Government Finance settlement[3], the Government intends to present these figures to Parliament as part of the 2019-20 Provisional Local Government Finance Settlement following Autumn Budget.

2.1.4 Those councils that did not accept the original offer made in 2016-17 will be subject to the existing annual process for determining the level of central funding that they will receive.

2.1.5 The Government has previously published individual local authority allocations for the improved Better Care Fund which total £1.8 billion in 2019-20[4].

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

[2] Business rates tariff and top-up payments will not change for reasons relating to the relative needs of local authorities.
[3] As described in sections 78 and 78A of the Local Government Finance Act 1988.

[4] https://www.gov.uk/government/publications/the-allocations-of-the-additional-funding-for-adult-social-care

2.2 **Business Rates Retention Pilots**

2.2.1 The Government is committed to working with local government to consider how best to implement our manifesto commitment to give local government greater control over the money they raise and address concerns about the fairness of current funding distributions.

2.2.2 Giving local government greater control of the money that they raise is a commitment in the Government's Industrial Strategy, which sets out a long term plan to boost productivity throughout the UK.

2.2.3 We have recently launched a prospectus that invites local authorities to submit proposals to pilot 75% business rates retention in 2019-20. This can be found at: https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus.

2.2.4 These pilots will help us test increased business rates retention and aid our understanding of the retention system at this level.

2.2.5 The one-year 2018-19 pilots will end on 31 March 2019, with participants invited to reapply for the 2019-20 75% pilots. The Department will continue to negotiate separately with London about the potential continuation of a business rates retention pilot in 2019-20.

2.2.6 Existing pilots in devolution deal areas will continue in 2019-20. This includes Cornwall, Liverpool City Region, Greater Manchester Combined Authority, West Midlands Combined Authority and the West of England.

2.2.7 As in previous years, the methodology for calculating the agreed changes in the local share of retained business rates and the level of tariff and top-ups for local authorities piloting business rates retention will be confirmed at provisional settlement. This methodology will be designed to ensure that no authorities anywhere in the country are adversely affected by these pilots.

2.3 **Business Rates Revaluation**

2.3.1 The most recent business rates revaluation took effect from 1 April 2017. This created change in business rates revenues outside the control of local authorities. When the Government introduced the 50% business rate retention scheme it signalled that it would adjust each authority's tariff or top-up following a revaluation to ensure, as far as is practicable, that their retained income is the same after revaluation as immediately before.

2.3.2 In the 2016-17 Local Government Finance Settlement technical consultation the Government detailed the method by which the impact of the 2017 business rates revaluation would be neutralised in the rates retention scheme. The Government committed to making the revaluation adjustment in three stages. The final stage of adjustment will occur in 2019-20 where we will cancel the one-off reconciliation adjustment for 2018-19 adjustments to tariffs and top-ups.

3 New Homes Bonus

3.1 **Background**

3.1.1 The New Homes Bonus (the ‘Bonus’) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Over £7 billion has been allocated to local authorities through the scheme to reward additional housing supply.

3.1.2 Although the Bonus was successful in encouraging authorities to welcome housing growth, it did not reward those authorities who are the most open to growth. In December 2016, following consultation, the government announced reforms to the Bonus as follows:

- reduction of the number of years New Homes Bonus payments are made from 6 to 5 years in 2017-18 and to 4 years from 2018-19; and
- introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017-18, below which the Bonus will not be paid.

3.2 **New Homes Bonus baseline 2019-20**

3.2.1 The Government has retained the option of making adjustments to the baseline in future years to reflect significant additional housing growth and to remain within spending limits set at Spending Review 2015.

3.2.2 In 2018-19 the baseline remained at 0.4%. Due to the continued upward trend for house building, the Government expects to increase the baseline in 2019-20.

3.2.3 New Homes Bonus calculations are based on additional housing stock reported through the council tax base and decisions on the baseline for 2019-20 will be made following a review of the data when it is published in November. Any changes intended for the baseline in 2019-20 will be detailed at the time of the provisional settlement. Any funding intended for New Homes Bonus payments that is not used for this purpose will be returned to local government.

3.3 **New Homes Bonus 2020 Onward**

3.3.1 2019-20 represents the final year of funding agreed through the Spending Review 2015. In light of this, it is the Government’s intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation.

4 Council tax referendum principles

4.1 **Council tax referendum principles for local authorities**

4.1.1 The 2018-19 Settlement struck a balance on council tax, giving local authorities the flexibility to address pressures on services while also recognising that many households face their own pressures. It also set out the Government's intention to maintain the same core principle and package of flexibilities in 2019-20.

4.1.2 The Government remains minded to do this. This would mean:

- a core principle of up to 3%. This would apply to shire county councils, unitary authorities, London borough councils, the Common Council of the City of London, the Council of the Isles of Scilly, the general precept of the Greater London Authority, and fire and rescue authorities.
- a continuation of the Adult Social Care precept, with an additional 2% flexibility available for shire county councils, unitary authorities, London borough councils, the Common Council of the City of London and the Council of the Isles of Scilly. This is subject to total increases for the Adult Social Care precept not exceeding 6% between 2017-18 and 2019-20, and consideration of authorities' use of the Adult Social Care precept in the previous years.
- shire district councils in two-tier areas will be allowed increases of up to 3%, or up to and including £5, whichever is higher.
- police and crime commissioners (PCCs) will be allowed increases of up to £12 in 2019-20 (including the Greater London Authority charge for the Metropolitan Police, and the PCC component of the Greater Manchester Combined Authority precept) subject to the delivery of clear and substantial progress on productivity and efficiency which will be assessed in advance of the provisional settlement.

4.2 Following consideration of responses, the Government intends to provide an update on its proposals for council tax referendum principles including the Adult Social Care precept, alongside the provisional Local Government Finance Settlement later in the year.

Council tax referendum principles for Mayoral Combined Authorities

4.2.1 Devolution Deals have led to the creation of 6 Mayoral Combined Authorities (MCAs) with powers such as transport and planning.

4.2.2 From 2018-19 five Combined Authority mayors had powers to raise additional resources to meet the costs of their functions through a precept (or additional charge) on local council tax bills. The precept may only be set with the agreement of the Combined Authority.

4.2.3 In May 2018, a mayor was elected to the Sheffield City Region and will also have powers to raise additional resources through a precept (or additional charge) on local council tax bills in 2019-20.

4.2.4 In 2018-19 the Government concluded that it should be for each mayor to balance their ambitions and other resources and to decide the level of the first precept they set, with the expectation that mayors would exercise restraint and set a precept proportionate to their needs and not burdensome to their residents. Only the Greater Manchester Combined Authority charged council tax for mayoral functions, a large proportion of which was to fund the fire service previously operated by the Greater Manchester Fire and Rescue Authority.

4.2.5 Given the restraint shown by Mayors in the setting of their precepts, the Government is minded not to set referendum principles for Mayoral Combined Authorities in 2019-20.

4.3 Council tax referendum principles for town and parish councils

4.3.1 In 2018-19 the Government decided to defer the setting of referendum principles for town and parish councils for three years. However, this was conditional upon:

- the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for other uses or for “invest to save” projects which will lower on-going costs; and
- the Government seeing clear evidence of restraint in the increases set by the sector.

4.3.2 In 2018-19, the average band D parish precept increased by 4.9% (£3.02). This compares to a 6.3% increase (£3.63) in 2017-18, and is the lowest year-on-year increase in parish precepts since 2015-16.

4.3.3 In view of this, the Government intends to continue the deferral of setting referendum principles for town and parish councils, but encourages parish councils to continue this downward trend, and will keep this area under active review.

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

5 Negative Revenue Support Grant

5.1 Background

5.1.1 Negative Revenue Support Grant is the name given to a downward adjustment of a local authority's business rates top-up or tariff. This occurs as a consequence of changes to the distribution methodology adopted at the 2016-17 settlement, which formed the basis of the multi-year settlement.

5.1.2 The 2016-17 methodology allocated central resources in a way that ensures local authorities delivering similar services receive a similar percentage change in 'Settlement Core Funding' for those services. Core Funding takes account of the main resources available to councils comprising:

- council tax income in 2015-16 (including any Council Tax Freeze Grant)
- estimated business rates income (baseline funding level under the business rates retention scheme)
- Revenue Support Grant

5.1.3 Under this methodology, for many authorities, the required reduction of Core Funding exceeded their available Revenue Support Grant. To deal with this, it was proposed that business rates tariffs and top-ups would be adjusted so that an increased amount of business rates were redistributed away from the authority and towards other authorities. This adjustment has since become colloquially known as 'Negative RSG'.

5.1.4 This adjustment was consulted on as part of the 2016-17 provisional settlement. In addition, reductions in Revenue Support Grant in 2019-20 were displayed in figures published at the 2016-17 settlement[5].

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[5] Negative RSG figures for the years 2016-17 to 2019-20 can be seen in Tariff/Top-up adjustment column in tables contained within the Publication "Key information for local authorities: final local government finance settlement 2016 to 2017". Please note that the same documents published at Settlement 2017-18 and 2018-19 only refers to the Tariff/ Top-up adjustment in relation to 2019-20 as the Government allocated additional resources to negate the occurrence of Negative RSG in both 2017-18 and 2018-19.

5.1.5 During the 2016-17 provisional settlement consultation there was strong opposition to Negative RSG. In addition, a number of authorities commented that the Negative RSG adjustment failed to recognise a commitment made during the implementation of the business rate retention scheme in 2013-14, that authorities' retained business rates baselines, which are used to determine their tariff and top-ups, would be fixed in real terms until the system was reset. This commitment was made so that local authorities would benefit directly from supporting local business growth as they would be able to keep half of any increases in business rates revenue until the reset[6].

5.1.6 Following this consultation, the Government allocated additional resources to negate the occurrence of Negative RSG in both 2017-18 and 2018-19. No decision was taken over whether to remove Negative RSG in 2019-20.

5.1.7 At provisional settlement 2018-19, the Secretary of State committed to explore all fair and affordable options for dealing with Negative RSG in 2019-20 and consult on options ahead of the 2019-20 settlement. A number of authorities who responded to the 2018-19 settlement consultation referred to Negative RSG, and welcomed the decision to consult, whilst a minority of authorities made representations opposing this step.

5.2 Negative RSG in 2019-20

5.2.1 In 2019-20 Negative RSG totals £152.9m and affects 168 authorities.

5.2.2 The Secretary of State's commitment to explore all fair and affordable options for dealing with Negative RSG recognises both the Government's commitment not to adjust top-ups and tariffs until the system is reset in 2020-21, but also the significant strength of feeling in the sector around this issue.

5.2.3 MHCLG has explored a number of possible options for addressing the issue of Negative RSG, and has formed an initial preference to eliminate the issue via forgone business rate receipts as the alternative options are either unaffordable or fail to resolve the issue.

[6] http://webarchive.nationalarchives.gov.uk/20140505105839/http://www.local.communities.gov.uk/finance/1314/practitionersguides.pdf

5.3 **Options**

5.3.1 Directly "eliminating" Negative RSG via forgone business[7] rates receipts

- In 2017-18 and 2018-19, Negative RSG was negated via forgone business rates, by not reflecting the downward Negative RSG adjustment of an authority's business rates tariffs and top-ups. This targeted approach could be continued in 2019-20.
- This recognises the Government's commitment not to adjust top-ups and tariffs until the system is reset in 2020-21. This Government believes that remaining consistent with its prior commitments is the fairest approach for the sector. This option would remove Negative RSG for all the authorities affected at a cost to the Government of £152.9m in forgone business rates receipts. In addition to being the only option which is both affordable and fair, dealing with Negative RSG in its entirety, this approach represents the most direct and simple solution to the problem.
- This funding would be met from the Government's share of business rates.

5.3.2 Altering the Core Funding methodology

- The Government considered altering the funding allocation methodology to reduce Negative RSG - changing the approach taken in accounting for council tax in the Core Funding formula, and adjusting each local authority's needs baseline assessment.
- The 2016-17 funding methodology considered full and actual amounts of council tax each authority raised in 2015-16, when it set the multi-year settlement allocations.
- Some local authorities have commented that taking actual council tax into account unfairly disadvantages certain councils due to historic differences in council tax levels.
- There could be an argument for changing the weighting of council tax in 2019-20 temporarily, until wider system reform in 2020-21. This approach would redistribute RSG across England and reduce overall Negative RSG.

[7] Under the current business rates retention scheme, non-business rate retention pilot local authorities retain 50% of the business rates they collect. The remaining 50% is passed to central government as the central share. By forgoing business rates receipts, central government choses to receive a smaller central share and the revenue is instead retained locally.

- However, the impact of this approach is limited. No approach to council tax weighting would completely eliminate Negative RSG. This Government believes that meeting its prior commitments, as discussed in paragraph 5.1.5, is the fairest approach for the sector, and this option fails to achieve this. Even removing council tax entirely from Core Spending Power calculations would cost in excess of £170 million and leave significant residual Negative RSG, failing to resolve the issue fairly and thus representing a poor use of resources. The cost of this approach results from meeting commitments guaranteeing all authorities at least as much RSG as agreed in the multi-year settlement.

- A second funding allocation approach considered was the adjustment of local authorities' needs baseline assessment.

- This method would alter the existing formulas to distribute funding as determined by authorities' net current expenditure on relevant services in 2015-16. The allocations would be a new, separate step in the RSG calculations, with a guarantee to authorities of at least as much RSG as agreed in the multi-year settlement.

- The Government has discounted this approach. Firstly, it goes against the Government's commitment to a multi-year settlement, providing funding certainty over the four year period. Furthermore, this would pre-empt on-going work on the review of local authorities' relative needs and resources, which will provide a new and far more robust distribution methodology to set baseline funding levels.

- In addition, this option is of limited effect, leaving significant residual Negative RSG. Finally, the cost imposed by this option as a result of guaranteeing all authorities at least as much RSG as agreed in the multi-year settlement is very substantial, in excess of £500 million, representing poor value for money and is not affordable.

- Both these options fail to fully deal with Negative RSG, and impose significant costs on the Government. In addition, authorities with residual Negative RSG would still be subject to a downward adjustment of business rates tariffs and top-up, leaving the Government in a position of being unable to meet its prior commitment to not adjust tariffs and top-ups until the system is reset in 2020-21.

5.3.3 Moving existing funding, or injecting additional funds into Core Funding

- The third policy avenue for resolving Negative RSG is by injecting resource into Revenue Support Grant. The Government considered multiple ways in which this could be achieved.

- This first option is that of allocating new funding on the basis of existing relative needs formulas, via population based metrics or through the existing RSG allocation methodology.
- However, even when modelling for significant additional funding (£500 million), these options similarly prove themselves of limited effectiveness in addressing Negative RSG. The quantum of funding needed to completely eliminate Negative RSG through this methodology is excessive totalling over £2 billion. This level of funding is not affordable.
- The second option considered is the consolidation of existing grants, outside of Core Spending power, such as Business Rates Reimbursement Grant and Indexation Grant into Revenue Support Grant.
- However, the distribution of these grants has limited correlation with Negative RSG distribution, and would still leave significant residual Negative RSG. In addition, this is primarily a technical movement of funding – that merely serves to disguise the movement in tariffs and top-ups.
- In addition, there are significant technical challenges present to the rolling in of the major grants identified. This would require the use of estimated figures for the 2019-20 settlement, and potentially lead to revised allocations in the future.

5.3.4 Remaining with the status quo of the current settlement methodology, such that authorities will have tariffs and top-ups adjusted

- In addition to exploring options for the resolution of Negative RSG, the Government has considered whether it is feasible to leave Negative RSG in place and adjust tariffs and top-ups in 2019-20 as detailed in the 2016-17 multi-year settlement.
- However, the Government does not favour the status quo option due to the following reasons:
    - In 2013 the Government made a commitment during the implementation of the business rates retention scheme, that tariff and top-ups would be fixed until the system is reset[8]. In advance of the system reset in 2020-21 and the implementation of 75% retention, the Government believes that the fairest deal for the sector is to honour this commitment.

[8]A guide to the Local Government Finance Settlement 2013, Annex A - Business Rates Retention Scheme, Paragraph 26. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/266886/LGFS_Guide.pdf

- There has been strong sector opposition to the issue of Negative RSG as demonstrated in responses to the 2016-17 provisional settlement consultation and subsequent consultations.

5.4 **Preferred Option**

5.4.1 The Government considers direct elimination of Negative RSG via forgone business rates receipts the preferred approach to resolve Negative RSG, meeting the key criteria of being both fair and affordable. This option also benefits from being both simple and direct. Alternative options add additional layers of complexity to the Local Government Finance system, and are either excessively expensive or fail to fully resolve the issue. Not resolving Negative RSG in its entirety would mean the Government would fail to meet its commitment not to adjust tariffs and top-ups and undermine the incentive for local government to invest in local growth.

5.4.2 Despite having made significant progress in improving the health of the public finances, we still face a challenging fiscal position in the UK and the scale of additional funding required to resolve Negative RSG via alternative routes, is not practicable.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express you preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

6 Equalities impacts of these proposals

6.1 Equality statements have been published for every year of the multi-year settlement this far, including 2018-19. Any representations made in response to this consultation will be used to inform the equalities statement to be published at the time of the 2019-20 provisional settlement.

Question 5: Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Annex A: Summary of consultation questions

- Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?
- Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?
- Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?
- Question 4: If you disagree with the Government's preferred approach to Negative RSG please express you preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored in the consultation document please provide further detail.
- Question 5: Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Annex B: Glossary of technical terms

Revenue Support Grant

Billing and most major precepting authorities receive Revenue Support Grant from central government in addition to their local share of Business Rates Aggregate. An authority's Revenue Support Grant amount plus the local share of the Estimated Business Rates Aggregate will together comprise its Settlement Funding Assessment.

Tariffs and top-ups

These are calculated by comparing at the outset of the business rates retention scheme an individual authority's business rates baseline against its baseline funding level. Tariffs and top-ups are self-funding, fixed at the start of the scheme and index linked to RPI in future years.

Local share

The percentage share of locally collected business rates that is retained by local government. This is set at 50% in non-pilot areas.

Baseline funding level

The amount of an individual local authority's Start-Up Funding Assessment for 2013-14 provided through the *local share* of the Estimated Business Rates Aggregate uprated each year by the change to the small business multiplier (in line with RPI).

Annex C: Privacy Notice

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gsi.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

- Other Government Departments including:
    - Attorney General's Office
    - Cabinet Office
    - Department for Business, Energy and Industrial Strategy
    - Department for Digital, Culture, Media and Sport
    - Department for Education Department for Environment
    - Food and Rural Affairs
    - Department for Exiting the European Union
    - Department for International Development
    - Department for International Trade
    - Department for Transport
    - Department for Work and Pensions
    - Department of Health and Social Care
    - Foreign and Commonwealth Office
    - Her Majesty's Treasury

- Home Office
- Ministry of Defence
- Ministry of Justice
- Northern Ireland Office
- Office of the Advocate General for Scotland
- Office of the Leader of the House of Commons
- Office of the Leader of the House of Lords
- Scotland Office UK
- Export Finance
- Wales Office

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for two years from the closure of the consultation.

6. Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

Annex D: Local Government Finance Settlement 2019-20: Technical Consultation

If you are responding to this consultation by email or in writing, please reply using this questionnaire pro-forma, which should be read alongside the consultation document.

You should save the pro-forma on your own device, from which you can complete the survey at your own pace, and submit when you are ready.

There are 5 questions in this survey. You do not have to answer every question should you not wish to.

Should you wish to attach further evidence or supporting information, you may attach and send this with the pro-forma.

Please **email responses to:**
LGFsettlement@communities.gsi.gov.uk

Alternatively, **written responses should be sent to:**

Local Government Finance Settlement Team
Ministry of Housing, Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Your opinions are valuable to us. Thank you for taking the time to read the consultation document and respond.

Your Details (Required details are marked with an asterisk (*))

Full Name*	
Organisation*	
Address*	
Address 2	
Town/City*	
Postcode*	
Country	
Email address*	
Phone Number	

Are the views Expressed on this form an official response from a:

- ◯ London Borough
- ◯ Metropolitan District
- ◯ Unitary Authority
- ◯ Shire County
- ◯ Shire District
- ◯ Fire and Rescue Authority
- ◯ Greater London Authority
- ◯ Combined Authority
- ◯ Parish or Town Council
- ◯ Local Authority Association or Special Interest Group
- ◯ Other Local Authority Grouping
- ◯ Local Authority Officer
- ◯ Local Authority Councillor
- ◯ Member of Parliament
- ◯ Other Representative Group
- ◯ Business
- ◯ Business Organisation
- ◯ Valuation Organisation
- ◯ Voluntary Organisation
- ◯ Member of the Public

Question 1

Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

◯ Yes

◯ No

◯ No comment

Additional comments

Question 2

Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

◯ Yes

◯ No

◯ No comment

Additional comments

Question 3

Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

◯ Yes

◯ No

◯ No comment

Additional comments

Question 4

If you disagree with the Government's preferred approach to Negative RSG please express you preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored in the consultation document please provide further detail.

◯ No Comment

Please Specify

Question 5

Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

- ◯ Yes
- ◯ No
- ◯ No comment

Additional comments

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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