DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

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

(see below)

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
EXETER
DEVON
EX3 0NW

Your ref :	Date : 30 January 2019	Telephone : 01392 872200
Our ref : DSFRA/MP/SS	Please ask for : Sam Sharman	Fax : 01392 872300
Website : www.dsfire.gov.uk	Email : ssharman@dsfire.gov.uk	Direct Telephone : 01392 872393

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Thursday, 7th February, 2019

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 - 4)**

of the previous meeting held on 15 November 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 3 (Pages 5 - 12)**

Report of the Director of Finance (Treasurer) (RC/19/1) attached.

5 **Financial Performance Report 2018-19: Quarter 3 (Pages 13 - 24)**

Report of the Director of Finance (Treasurer) (RC/19/2) attached.

6 Capital Strategy (Pages 25 - 32)

Report of the Director of Finance (Treasurer) (RC/19/3) attached.

7 2019-20 Revenue Budget and Council Tax Levels (Pages 33 - 88)

Report of the Director of Finance (Treasurer) (RC/19/4) attached.

8 Capital Programme 2019-20 to 2021-22 (Pages 89 - 98)

Report of the Director of Finance (Treasurer) (RC/19/5) attached.

9 Treasury Management Strategy (including Prudential and Treasury Indicators) Report 2019-20 (Pages 99 - 124)

Report of the Director of Finance (Treasurer) (RC/19/6) attached.

10 Exclusion of the Press and Public

RECOMMENDATION that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exceptions of Dr Sian George and Lisa Compton [Red One Ltd.] and Councillors Saywell [Authority appointed Non-Executive Director on the Board of Red One Ltd]) 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 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);

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

11 Restricted Minutes of the Resources Committee held on 15 November 2018 (Pages 125 - 126)

Restricted Minutes of the Resources Committee held on 15 November 2018 (attached).

12 Red One Ltd. Financial Performance 2018-19: Quarter 3 (Pages 127 - 132)

Report of the Director of Finance (Treasurer) (RC/19/7) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Coles (Chair), Biederman, Drean (Vice-Chair), Hendy, Hook, 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 an interest of a sensitive nature. You must still follow (i) 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.

This page is intentionally left blank

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

15 November 2018

Present:-

Councillors Coles (Chair), Drean (Deputy Chair), Radford, Hook and Wheeler (vice Peart)

Also in attendance:-

Dr. Sian George and Lisa Compton – Red One Ltd. and Councillor Saywell – Authority appointed Non-Executive Director of Red One Ltd.

Apologies:-

Councillors Biederman and Hendy

* **RC/8** **Minutes**

RESOLVED that the Minutes of the meeting held on 5 September 2018 be signed as a correct record.

* **RC/9** **Treasury Management Performance 2018-19 - Quarter 2**

The Committee received for information a report of the Director of Finance (Treasurer) (RC/18/17) that set out details of the treasury management performance for the second quarter of 2018-19 (to September 2018) as compared to the agreed targets for the year.

Adam Burleton, representing Link Asset Services – the Authority's Treasury Management Adviser – was present at the meeting and gave an overview of the Service's performance to date against the approved Treasury Management Strategy. He made reference to the following points:

- The first half of 2018/19 had seen UK economic growth post a modest performance at 1.5% with the interest rate remaining at 0.75% currently. The quarterly inflation report forecast was that growth might rise to 1.8% in 2019 albeit with a caveat in terms of Brexit. The Bank Base rate needed to be in the region of 1.5% by March 2021 for inflation to stay on track;
- The bank base rate was currently 0.75% with a further rate rise forecast for the second half of 2019;
- The Authority's focus remained on security and liquidity of its assets over yield;
- The Authority had outperformed the 3 month LIBID benchmark of 0.61% with a return of 0.86% in quarter 2 and investment interest of £0.043m; and
- There had been no new borrowing in this quarter with none planned and current external borrowing reducing to £25.537m by the end of the financial year; and
- the Authority had not breached its Prudential Indicators (affordability limits).

*** RC/10** **Financial Performance Report 2018-19 - Quarter 2**

The Committee considered a report of the Director of Finance (Treasurer) (RC/18/18) that set out the Service's financial performance during the second quarter of 2018-19 against the targets agreed for the current financial year. The report provided a forecast of spending against the 2018-19 revenue budget with explanation of the major variations.

The Committee noted that it was forecast that spending would be £0.825m (1.12%) less than budget. The Director of Finance (Treasurer) advised this was attributable largely to the savings on uniformed pay costs made as a result of the pay settlement for 2018-19 which was 2% instead of the 3% that had been included within the budget.

The Director of Finance (Treasurer) also explained the reasons behind the proposed budget transfers (£0.081m) as set out at Table 3 of the report.

Reference was made to the Community Infrastructure levy (CIL) and the Director of Corporate Services elaborated upon the utilisation of this within Devon & Somerset Fire & Rescue Service. He undertook to submit a report to the Committee on this matter in due course.

RESOLVED

(a) That the budget transfers shown in Table 3 of this report be approved;

(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.

*** RC/11** **Reserves Benchmarking**

The Committee received for information a presentation given by the Director of Finance (Treasurer) in respect of the benchmarking survey that had been led by Devon & Somerset Fire & Rescue Service (DSRS) across the Fire Sector (for English Fire & Rescue Authorities {FRAs}) and which would be used to inform the submission to be made by the National Fire Chiefs Council (NFCC) for the next Spending Review.

The presentation covered the following areas:-

- The level of total useable reserves held as compared with the revenue budget;
- General fund reserves as compared with the revenue budget;
- The reserves make up.

The Committee noted that the Service had a higher level of useable reserves held than the average for English FRAs, which was due largely to the strategy to invest in capital (58% of total reserves) as compared with the average (45%) and in Digital Transformation (16% of total reserves) compared with the average (2%). The Committee commented that this reflected the Authority's forward thinking strategy to invest in change that would help to secure a sustainable operating model. The Committee also noted that the Authority's total reserves was forecast to dip by 2022-23 in line with the national trend.

It was further noted that the Authority's General Fund reserve was 7.1% currently compared to the English FRA average of 8.75% and it was expected that this would remain fairly static (dipping to 6.8%) compared to the English FRA average which was forecasting a dip to about 5% by 2022-23. It was noted that 5% was the CIPFA recommended level for General Fund reserves. An assessment had been undertaken which indicated that the Authority's reserves needed to meet potential financial risks should be £5.329m with the Authority's General Fund reserves currently held being ££5.315m.

In terms of the make-up of reserves, the Authority was not dissimilar to the other FRAs although the notable variance was that the Authority had invested substantially in Digital Transformation (16%) compared with the other FRAs (2%).

Councillor Drean expressed thanks on behalf of the Committee for the excellent work that had been undertaken by the Director of Finance and her team on the reserves benchmarking survey.

*** RC/12** **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 exceptions of Dr Sian George and Lisa Compton [Red One Ltd.] and Councillors Saywell [Authority appointed Non-Executive Director on the Board of Red One Ltd] 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 Paragraph 3 of Part 1 of Schedule 12A (as amended) to the Act, namely information relating to the financial and business affairs of any particular person – including the authority holding that information.

*** RC/13** **Restricted Minutes of the Resources Committee held on 5 September 2018**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972, during which the press and public, with the exceptions of Dr Sian George and Lisa Compton [Red One Ltd.] and Councillor Saywell [Authority appointed Non-Executive Director on the Board of Red One Ltd], were excluded from the meeting.

(Councillor Saywell declared a personal interest in this matter but in accordance with the dispensation granted by the Authority at its Annual Meeting on 8 June 2018 – Minute DSFRA/5(a) refers – remained for the debate).

RESOLVED that the Restricted Minutes of the meeting held on 5 September 2018 be signed as a correct record.

*** RC/14** **Red One Financial Performance 2018-19 - Quarter 2**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972, during which the press and public, with the exceptions of Dr Sian George and Lisa Compton [Red One Ltd.] and Councillor Saywell [Authority appointed Non-Executive Director on the Board of Red One Ltd], were excluded from the meeting.

(Councillor Saywell declared a personal interest in this matter but in accordance with the dispensation granted by the Authority at its Annual Meeting on 8 June 2018 – Minute DSFRA/5(a) refers – remained for the debate).

The Committee received for information a report of the Director of Finance (Treasurer) (RC/18/19) that gave an update on the current financial position in respect of Red One Ltd. for Quarter 2 of 2018-19.

*** RC/15 Red One Limited Credit Risk**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972, during which the press and public, with the exceptions of Dr Sian George and Lisa Compton [Red One Ltd.] and Councillor Saywell [Authority appointed Non-Executive Director on the Board of Red One Ltd], were excluded from the meeting.

(Councillor Saywell declared a personal interest in this matter but in accordance with the dispensation granted by the Authority at its Annual Meeting on 8 June 2018 – Minute DSFRA/5(a) refers – remained for the debate).

The Committee received for information a report of the Director of Finance (Treasurer) (RC/18/20) that set out details of the credit risk assessment.

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

The meeting started at 10.00 am and finished at 12.55 pm

REPORT REFERENCE NO.	**RC/19/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2018-19 – QUARTER 3**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2018-19 (to December 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 31 December 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.** After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the Monetary Policy Committee (MPC) until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC has said that rates could go up or down, though it is probably much more likely to be down so as to support growth.

Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3% (excluding bonuses) in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

2.2 As for Consumer Price Index (CPI) inflation itself, this has been on a falling trend, reaching 2.3% in November 2018. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

2.3 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

2.4 **EUROZONE.** Growth fell in quarter 3 to 0.2% from 0.4% in quarter 2 but this is likely to be a one off blip caused primarily by a one off fall in car production. The European Central Bank (ECB) forecast growth in 2018 to be 1.9% falling to 1.7% in 2020. The ECB ended its programme of quantitative easing purchases of debt in December 2018, which now means that the central banks in the US, UK and EU have all now ended the phase of post financial crisis expansion of liquidity supporting world financial markets.

2.5 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5% in quarter 3. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.1% in November 2018, however, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019.

The Federal Bank (Fed) increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

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

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

Interest Rate Forecasts

2.8 The Authority's treasury advisor, Link Asset Services, has provided the following forecast and commentary in paragraphs 2.9 to 2.10:

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

2.9 After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. The above forecast and other comments in this report are based on a central assumption that there is an agreement on a reasonable form of Brexit. In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

2.10 The balance of risks to the UK

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

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; and
- 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 The average level of funds available for investment purposes during the quarter was £44.272m (£45.041m at the end of Q2). 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 3
3 Month LIBID	0.79%	0.92%	£0.095m.

3.4 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.13bp. It is currently anticipated that the actual investment return for the whole of 2018-19 will exceed the Authority's budgeted investment target by £80k.

A full list of investments held as at 31 December 2018 are shown in Appendix A.

BORROWING STRATEGY

Prudential Indicators:

3.5 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.

3.6 A full list of the approved limits 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 December 2018 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.7 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 31 December 2018 was £25.584m, forecast to reduce to £25.537m 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 4.24% and average life of 25.6 years.

Loan Rescheduling

3.8 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

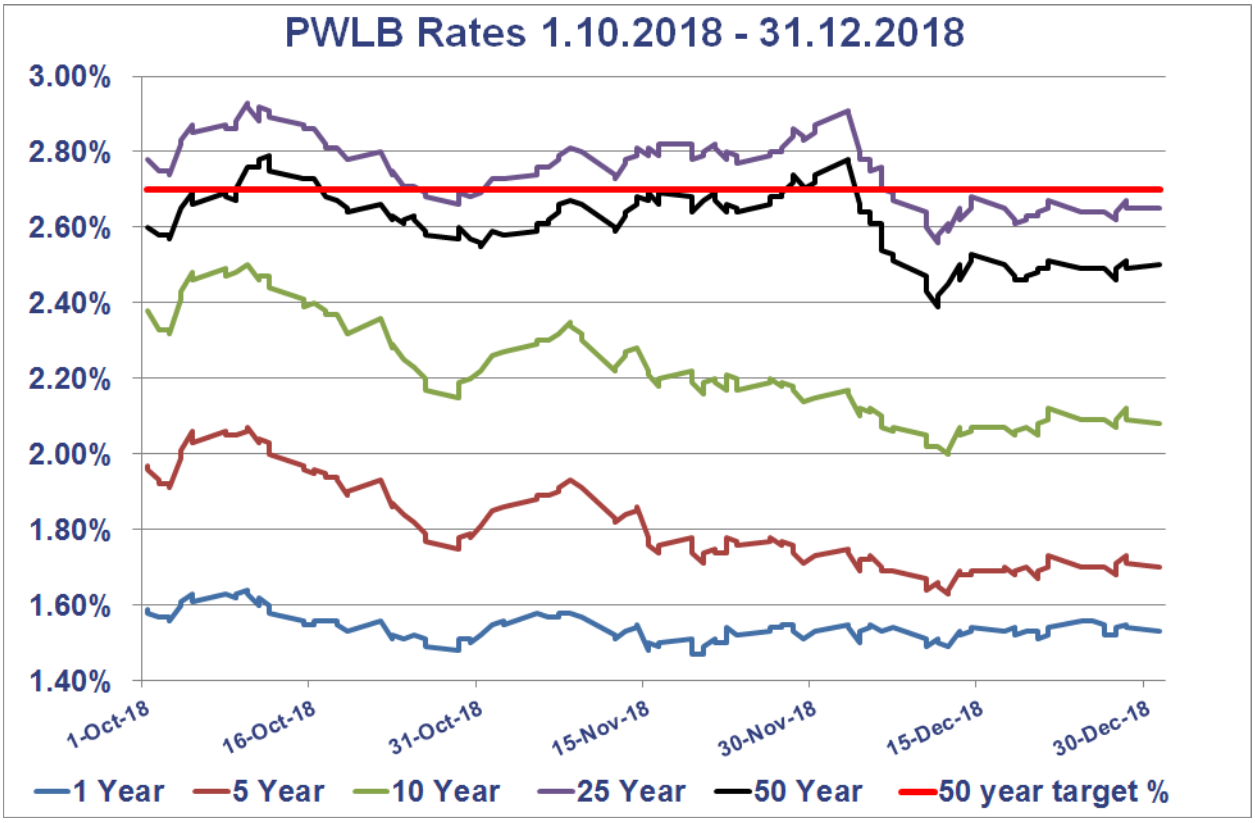
3.9 PWLB rates have not been trading in a narrow range during this period. The 50 year PWLB target (certainty) rate for new long term borrowing varied between 2.40% and 2.70% during this period.

3.10 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 and reserve funds to finance capital investment needs for the medium term.

PWLB rates quarter ended 31 December 2018

	1 Year	5 Year	10 Year	25 Year	50 Year	50 year target
2-Apr-18	1.68%	1.85%	2.23%	2.57%	2.29%	2.70%
31-Dec-18	1.53%	1.70%	2.08%	2.65%	2.50%	2.70%
Low	1.47%	1.63%	2.00%	2.50%	2.25%	2.40%
Date	19/11/2018	12/12/2018	12/12/2018	20/07/2018	29/05/2018	-
High	1.77%	2.07%	2.50%	2.93%	2.79%	2.70%
Date	16/04/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018	-
Average	1.62%	1.83%	2.24%	2.68%	2.48%	2.59%

3.11 Borrowing rates for this quarter are shown below.



3.12 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 December 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. Now that investment returns are recovering from historic lows as a result of the increase in interest rates, the Authority is anticipating that investment returns will exceed the budgeted target due to strong performance of the portfolio; the 2018-19 budget was set assuming higher interest rates throughout the year.

AMY WEBB
Director of Finance

Counterparty	**Maximum to be invested**	**Amount Invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	£m			
Aberdeen Standard Investment	5.000	0.500	C	Instant Access	Variable
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	2.000	T	6 mths	0.78%
		3.000	T	6 mths	0.82%
Barclays FIBCA		0.001	C	Instant Access	Variable
Coventry	4.000	3.100	T	6 mths	0.79%
Federated	5.000	0.575	C	Instant Access	Variable
Goldman Sachs	7.000	5.000	T	6 mths	0.91%
Santander	7.000	3.000	T	12 mths	0.94%
		1.000	T	6 mths	0.88%
		1.000	T	6 mths	0.86%
		1.000	T	6 mths	0.90%
		1.000	T	6 mths	1.00%
Sumitomo Mitsui	7.000	5.000	T	12 mths	0.85%
		2.000	T	6 mths	0.82%
Thurrock Borough Council	5.000	3.500	T	12 mths	0.97%
Total amount Invested		**38.676**			

REPORT REFERENCE NO.	**RC/19/2**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2018-19 – QUARTER 3**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers below £0.150m, shown in Table 3a of this report, be approved;*** ***(b) That the budget transfers in excess of £0.150m, shown in Table 3b of this report, be recommended to the Full Authority for approval;*** ***(c) That the monitoring position in relation to projected spending against the 2018-19 revenue and capital budgets be noted;*** ***(d) That the performance against the 2018-19 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third 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 the report includes recommendations on utilising the savings made year to date, and therefore it is forecast that spending will be £0.007m less than budget, a saving of 0.01% 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	A. Summary of Prudential Indicators 2018-19.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 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 3	Previous Quarter	Quarter 3 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£73.871m	£73.864m	£73.046m	0.01%	1.12%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.19%	7.19%	(2.19)bp*	(2.19)bp*
	Capital Targets					
4 3	Spending within agreed capital budget	£6.423m	£3.942m	£4.580m	(38.63%)	(28.69%)
4	External Borrowing within Prudential Indicator limit	£27.029m	£26.747m	£26.747m	(1.04%)	(1.04%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.92%	3.93%	(1.08)bp*	(1.07)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 £73.864m, representing a saving against the budget of £0.007m equivalent to 0.001% of the total budget. The forecast incorporates the budget virements requested in Table 3 within this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2018-19

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY

Revenue Budget Monitoring Report 2018/19

Line No	SPENDING	2018/19 Budget £000	Year To Date Budget £000	Spending to Month 9 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	EMPLOYEE COSTS					
1	Wholetime uniform staff	28,551	21,459	21,373	28,436	(115)
2	On-call firefighters	12,596	9,330	8,445	12,413	(183)
3	Control room staff	1,447	1,192	1,059	1,421	(26)
4	Non uniformed staff	10,678	8,152	7,897	10,669	(10)
5	Training expenses	726	769	743	675	(50)
6	Fire Service Pensions recharge	2,703	2,239	1,504	2,698	(5)
		56,701	**43,142**	**41,021**	**56,312**	**(390)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,136	852	794	1,179	43
8	Energy costs	573	384	224	541	(32)
9	Cleaning costs	458	343	430	507	49
10	Rent and rates	1,747	1,540	1,577	1,772	25
		3,914	**3,119**	**3,025**	**3,999**	**85**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	651	451	571	805	154
12	Running costs and insurances	1,204	959	1,316	1,297	93
13	Travel and subsistence	1,455	1,004	1,327	1,481	26
		3,310	**2,413**	**3,214**	**3,583**	**273**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	3,037	2,277	1,981	2,991	(46)
16	Hydrants-installation and maintenance	190	142	78	127	(63)
17	Communications	2,310	1,564	1,826	2,290	(20)
18	Uniforms	644	483	471	653	9
19	Catering	65	49	44	72	7
20	External Fees and Services	144	108	97	162	18
21	Partnerships & regional collaborative projects	237	178	140	255	18
		6,625	**4,801**	**4,636**	**6,548**	**(77)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	306	242	171	295	(11)
23	Advertising	20	15	33	36	16
24	Insurances	356	346	527	374	18
		682	**603**	**732**	**705**	**23**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	669	464	493	782	113
		669	**464**	**493**	**782**	**113**
	CAPITAL FINANCING COSTS					
26	Capital charges	3,502	609	723	3,469	(33)
27	Revenue Contribution to Capital spending	2,384	-	-	2,031	(353)
		5,886	**609**	**723**	**5,500**	**(386)**
	PROVISIONS					
28	Provision for Doubtful Debts	600	-	50	600	-
		600	**-**	**50**	**600**	**-**
29	**TOTAL SPENDING**	**78,387**	**55,151**	**53,894**	**78,028**	**(359)**
	INCOME					
30	Investment income	(201)	(151)	(395)	(272)	(71)
31	Grants and Reimbursements	(2,600)	(1,725)	(1,723)	(2,602)	(2)
32	Other income	(777)	(537)	(521)	(704)	73
33	Internal Recharges	(18)	(14)	(20)	(19)	(1)
34	**TOTAL INCOME**	**(3,596)**	**(2,426)**	**(2,658)**	**(3,597)**	**(1)**
35	**NET SPENDING**	**74,791**	**52,725**	**51,236**	**74,431**	**(360)**
	TRANSFERS TO EARMARKED RESERVES					
36	Transfer to (from) Earmarked Reserve	(920)	(56)	(1,020)	(920)	-
37	Capital Funding	-	-	-	353	353
		(920)	**(56)**	**(1,020)**	**(567)**	**353**
38	**NET SPENDING**	**73,871**	**52,669**	**50,216**	**73,864**	**(7)**

2.2. These forecasts are based upon the spending position at the end of December 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

Wholetime Staff

3.1. At this stage it is projected that spending on Wholetime pay costs will be £0.115m less than budget. The forecast saving is mainly due to the 1% saving against budgeted pay award, there are also 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

3.2. On Call staffing costs are forecast at £12.413m against a budget of £12.596m, an under spend of £0.183m, largely due to savings on pay award. Due to the nature of the On Call service, there is potential for the forecast to fluctuate throughout the year.

Training Expenses

3.3. 3.3 Savings of £0.050m are expected against the budget for Training Expenses. £0.024m of this is from utilising internal instructors better, resulting in a reduction in external trainers. £0.011m stems from Estates where availability of staff and coursers has caused a delay. A further £0.011m is from Marauding Terrorist group where training has been delivered by partners without the need to engage with external trainers.

Transport Repair and Maintenance

3.4. Repair and Maintenance costs are forecast to be £0.154m higher than budget due to an increase in unscheduled repairs. Coupled with this, the costs for replacement parts is higher than budgeted due to greater failure from an ageing fleet. A new requirement to fit out National Incident Liaison Officer vehicles with additional kit has also impacted. There is an urgent need to replace the outriggers on two of the Aerial Ladder Platforms. £0.050m is anticipated to be spent this year, a further £0.100m is requested to be moved into an Earmarked Reserve to fund the expenditure, per table 3 of this report.

Running Costs and Insurances

3.5. An over-spend of £0.093m is forecast due increased fuel costs of £0.028m. The repair costs for damaged vehicles are also greater than budgeted with an anticipated £0.061m overspend forecast.

Hydrants – Installation and Maintenance

3.6. Hydrants is forecast to be underspent by £0.063m. There was a large number of planned works scheduled for this year. Some of these are no longer going to be completed before year-end due to the backlog of repairs logged with the water companies.

Support Service Contracts

3.7. There is a forecasted overspend of £0.113m with Support Service Contracts. The costs associated with HR issues coupled with increases in costs of Occupational Health account for £0.086m of this overspend. Greater than anticipated legal costs account for £0.025m.

Revenue Contribution to Capital Spending

3.8. Due to reduced in-year capital expenditure as reported in Section B of this report, it is forecast that £0.353m of the Revenue Contribution to Capital will not be utilised in 2018-19. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years.

Provision for Doubtful Debt

3.9. Arising from the increasing amount of long-term overdue sales invoices, a prudent approach is to increase the provision to cover potential non-payment. Any unused provision can be credited back to the Revenue Account in future years upon payment of invoices.

Investment Income

3.10. Interest on the Authority's investments is expected to outperform the budget of £0.201m by £0.071m, this is due to careful investment planning by the Finance Team which enables longer term investments to be made with a stronger yield.

Other Income

3.11. Other Income is forecast to be £0.073m less than budget. Positive variances of £0.084m due to Procurement Framework income, additional mast rental and the Heartstart initiative assisted by Station 60 training and income for Fleet are offset by under recovery in other areas; most notably co-responding income is predicted at £0.114m below budget due to a change in the category of call outs, Red One recharges are expected to be £0.052m less than budget due to forecast turnover.

3.12. Savings made against budget this year provide an opportunity to invest in emerging issues throughout the year. The Committee is asked to approve the budget transfers up to £0.150m and to recommend to the Devon & Somerset Fire & Rescue Authority those in excess of £0.150m. Table 3a below details the virements under £0.150m and Table 3b those over £0.150m for approval. The transfers are reflected in Table 2 - budget monitoring statement - and a narrative behind each budget transfer is provided within Tables 3a and 3b overleaf.

TABLE 3a – BUDGET TRANSFERS LESS THAN £0.150M

Virements less than £0.150m			
Line Ref	**Description**	**Debit £m**	**Credit £m**
	Transfer budget 2018/19 and an Earmarked Reserve for repairs to be carried out in 2019/20 on the VEMA appliances following defect		
11	Repair and Maintenance	0.050	
35	Transfer to Earmarked Reserves	0.100	
3	Control Room staff		(0.150)
		0.150	**(0.150)**

Table 3b – BUDGET TRANSFER GREATER THAN £0.150m

Virements greater than £0.150m			
Line Ref	**Description**	**Debit £m**	**Credit £m**
	Transfer of budget for Uniforms following a change in responsibility for the management of the uniforms to Research & Development.		
18	Uniforms	0.425	
18	Uniforms		(0.425)
	Provision for Doubtful debts - increase the total provision available to £0.650m, a prudent approach due to ongoing levels of aged debt - the provision can be released back to the revenue budget upon debt repayment		
28	Provision for Doubtful debts	0.600	
30	Grants and reimbursements		(0.300)
4	Non-uniformed staff		(0.200)
1	Uniformed Pay		(0.100)
	Transfer budget to fund Fireground Radios to improve Firefighters' ability to communicate at operational incidents		
17	Communications	0.224	
2	On-Call firefighters		(0.224)
		1.249	(1.249)

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 31 DECEMBER 2018

RESERVES AND PROVISIONS							
RESERVES	Balance as at 1 April 2018 £000	Approved Transfers £000	Proposed Transfers £000	Spending to Month 09 £000	Forecast Spend 2018-19 £000	Proposed Balance as at 31 March 2019 £000	
Earmarked reserves							
Grants unapplied from previous years	(1,376)	-	-	55	1,051	(324)	
Invest to Improve	(6,424)	-	-	485	616	(5,807)	
Budget Smoothing Reserve	(918)	(900)	-	-	-	(1,818)	
Direct Funding to Capital	(16,647)	-		-	-	(16,647)	
Projects, risks, & budget carry forwards							
PFI Equalisation	(295)	-	-	-	-	(295)	
Emergency Services Mobile Communications Programme	(921)	-	-	4	7	(914)	
Breathing Apparatus Replacement	(1,650)	-	-	1,635	1,650	0	
Mobile Data Terminals Replacement	(800)	-	-	75	479	(321)	
PPE & Uniform Refresh	(504)	-	-	16	16	(488)	
Pension Liability reserve	(1,525)	900	-	-	593	(32)	
National Procurement Project	(215)	-	-	109	126	(89)	
Budget Carry Forwards	(598)		(100)	248	272	(426)	
Commercial Services	(72)	-	-	-	20	(52)	
Total earmarked reserves	**(31,944)**	-	**(100)**	**2,628**	**4,829**	**(27,214)**	
General reserve							
General Fund balance	**(5,315)**	-	-	-	-	**(5,315)**	
Percentage of general reserve compared to net budget							7.19%
TOTAL RESERVE BALANCES	**(37,259)**				**4,829**	**(32,529)**	
PROVISIONS							
Doubtful Debt	(100)		(550)		-	(650)	
Fire fighters pension schemes	(754)		-	-	100	(654)	

5. SUMMARY OF REVENUE SPENDING

5.1. At this stage in the year, it is forecast that spending will be £0.007m below the budget figure for 2018-19. Several budget virements are recommended within the report to realign the budget with expenditure requirements within year, including the proposal to Earmark funds for safety-critical projects ahead of the financial year end, making use of in year 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 3 there is a forecast timing difference of £2.468m against the capital programme of £6.423m. There are also reported rescheduling/savings of £0.013m.

6.3. **Estates** £0.100m of timing differences have arisen at the planning stage of the new Brixham station as a result of sewerage issues with South West Water. Planning approval took an extended time on the Cullompton site which has resulted in a £0.200m timing delay. The refurbishment planned for Camels Head Station which also includes the ship structure, has been delayed at £0.761m. The £0.450m of timing differences on the maintenance programme, such as storage rationalisation and security, are subject re-scoping in order to reduce costs.

6.4. **Fleet & Equipment**. Several projects are subject to timing differences which means they will now be delivered in 2019/20; £0.400m for eight 4x4 vehicles and £0.125m for a water bowser as a new procurement specification is required; the replacement of two Incident Support Units is now awaiting the result of the Change and Improvement plan at £0.210m. There has also been a delay in replacing the water rescue boats at £0.046m and an £0.176m upgrade to the SQL Server environment will now be delivered in 2019/20.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2018-19

Capital Programme 2018/19					
Item	**PROJECT**	**2018/19 £000 Revised Budget**	**2018/19 £000 Forecast Outturn**	**2018/19 £000 Timing Differences**	**2018/19 £000 Re-scheduling/ Savings**
	Estate Development				
1	Site re/new build	200	100	(100)	0
2	Improvements & structural maintenance	3,113	1,702	(1,411)	0
	Estates Sub Total	**3,313**	**1,802**	**(1,511)**	**0**
	Fleet & Equipment				
3	Appliance replacement	2,129	1,552	(610)	33
5	Specialist Operational Vehicles	125	0	(125)	0
6	Equipment	583	537	0	(46)
7	ICT Department	227	51	(176)	0
8	Water Rescue Boats	46	0	(46)	0
	Fleet & Equipment Sub Total	**3,110**	**2,140**	**(957)**	**(13)**
	Overall Capital Totals	**6,423**	**3,942**	**(2,468)**	**(13)**
	Programme funding				
	Earmarked Reserves:				
9	Capital reserve	2,116	0	(2,103)	(13)
10	USAR - Water Rescue Boats	12	0	(12)	0
	Earmarked Reserves:	**2,128**	**0**	**(2,115)**	**(13)**
	Revenue funds:				
11	Revenue contribution to capital in year	2,084	1,731	(353)	0
12	Red One contribution to captal	300	300	0	0
13	Capital receipt	0	0	0	0
	Revenue funds:	**2,384**	**2,031**	**(353)**	**0**
14	Application of existing borrowing	1,911	1,911	0	0
	Total Funding	**6,423**	**3,942**	**(2,468)**	**(13)**

__Prudential Indicators (including Treasury Management)__

6.5. Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2018 stands at £25.584m and is forecast to reduce to £25.537m as at 31 March 2019. This level of borrowing is well within the Authorised Limit for external debt of £27.029m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

6.6. Investment returns in the quarter yielded an average return of 0.92% which outperforms the LIBID 3 Month return (industry benchmark) of 0.74%. It is forecast that investment returns from short-term deposits will surpass the budgeted figure by £0.071m at 31 March 2019.

6.7. Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2018-19, 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 3 were £707,214, table 6 below provides a summary of all debt outstanding as at 31 December 2018.

7.2. Of this figure an amount of £516,216 (£558,987 at Quarter 2) was due from debtors relating to invoices that are more than 85 days old, equating to 73.01% (64.57% at Quarter 2) of the total debt outstanding.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	14,408	2.04%
1 to 28 days overdue	49,652	7.02%
29-56 days overdue	38,651	5.47%
57-84 days overdue	88,151	12.47%
Over 85 days overdue	516,216	73.01%
Total Debt Outstanding as at 31 December 2018	**707,214**	**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**
Gloucestershire Fire and Rescue Service	1	£4,220	The account will be cleared week commencing 21st January 2019
Red One Ltd	41	£507,122	Discussions are ongoing with Red One Ltd regarding settlement of the outstanding balance.
Various	10	£4,874	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/19/2

PRUDENTIAL INDICATORS 2018-19

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	**3.942**	**6.423**	**(2.841)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**26.746** 25.537 1.209	**26.747** 25.538 1.209	**(0.001)**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**26.746** 25.537 1.209	**28.367** 27,007 1.359	**(1.621)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.92%**	**5.00%**	**(1.08)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	**0.272**	**0.201**	**(0.071)**
	Actual (30 Dec 2018) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.92%**	**0.74%**	**(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%)**

This page is intentionally left blank

REPORT REFERENCE NO.	**RC/19/3**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**CAPITAL STRATEGY**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATION	***That the Authority be recommended to endorse the Capital Strategy as set out in this report.***
EXECUTIVE SUMMARY	The 2017 Prudential Code included the new requirement for all Local Authorities to produce a capital strategy that has been agreed by the Members, within the 2108/19 financial year. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017

1. INTRODUCTION

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 includes a new requirement for local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability and affordability within the 2018/19 financial year.

1.2. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

2.1. Capital expenditure is incurred on the acquisition or creation of assets that yield benefits for a period of more than one year and carry significant cost; for this Authority the capital de minimis level is set as £5,000. It includes land, new buildings, enhancement to existing buildings within the estate and the acquisition of vehicles and major items of equipment. Intangible assets such as software can also be classed as capital expenditure this is in contrast to revenue expenditure which represents spending on day to day running costs such as salaries, heat and light.

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

3.1. Treasury Management investments arise from the organisation's cash flows and debt management activity, and ultimately represent balances which can be invested until the cash is required for use in the course of business. As an example, the Authority set-a-side an amount each year to reflect the usage of an asset (Minimum Revenue Provision [MRP] – see Section 17 below). This amount is invested but cannot be used to fund future capital expenditure as it is required to pay off a loan on maturity.

3.2. For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the annual Treasury Management Strategy Statement.

3.3. Performance of the Treasury Management investments is reported to the Resources Committee at the end of each quarter.

4. CAPITAL REQUIREMENTS

4.1. This Authority has experienced significant revenue grant reductions since 2010 and no longer receives any capital grant. With further grant reductions expected and increasing cost pressures, new ways of working are being considered in order that the Service can address the risks within our communities and balance the budget. The Safer Together programme identifies those risks and helps quantify the requirements in terms of premises and vehicles that are needed in each location. The IRMP, along with the Fire and Rescue National Framework, identifies emerging challenges such as the continued threat of terrorism, the impacts of climate change and impacts of an ageing population.

4.2. The Authority has 85 fire stations across the counties of Devon and Somerset which are aligned to the old standards of fire cover and are not necessarily reflective of future risk profiles.

4.3. Currently, the Service has 121 front-line Appliances and 19 Special Appliances, many of these have passed their replacement date. Ensuring prioritisation on where the capital resources are used to ensure our Estate and Fleet of vehicles is fit for purpose is paramount.

5. PROJECT INITIATION

5.1. Capital projects are subject to a robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.

5.2. Proposals are commissioned by the Executive Board and then monitored through regular meetings between capital leads, procurement and finance officers. The Safer Together Programme Board considers variations to plan and monitors milestones.

5.3. A formal process of project management is followed with a project manager or building surveyor assigned to each Capital scheme to ensure they are subject to thorough oversight for the duration of the project. The project manager will oversee planning, delivery, management, skills assessment and governance of capital projects.

5.4. Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure.
- Identified need – e.g. vital repairs and maintenance to existing assets.
- Achievability – this may include alternatives to direct expenditure such as partnerships.
- Affordability and resource use – to ensure investment remains within sustainable limits.
- Practicality and deliverability.
- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

5.5. To support a robust governance process, for larger capital investment projects, the Service uses the "Five Case" model to develop the business case as recommended by HM Treasury. The model provides a discipline and structure to arrive at the best possible decision and considers; The strategic case (the case for change), the economic case (value for money), the commercial case (it is commercially viable and attractive to the market), the financial case (to ensure the proposed spend is viable) and finally the management case (that the requirement is achievable).

6. THE SERVICE CAPITAL PROGRAMME 2019/20 – 2023/24

6.1. The Service capital programme for 2019/20 – 2023/24 is considered annually and is set out in Table 1.

Table 1 – The Capital Programme

PROJECT	2019/20 £000 Budget	2020/21 £000 Budget	2021/22 £000 Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
Estate Development					
Site re/new build (subject to formal authority approval)	1,100	3,100	200	0	0
Improvements & structural maintenance	3,307	7,100	7,700	9,300	7,000
Estates Sub Total	**4,407**	**10,200**	**7,900**	**9,300**	**7,000**
Fleet & Equipment					
Appliance replacement	1,793	3,800	3,300	2,700	2,200
Specialist Operational Vehicles	1,134	2,300	1,400	900	1,900
Equipment	366	200	200	200	200
ICT Department	268	0	0	0	0
Water Rescue Boats	46				
Fleet & Equipment Sub Total	**3,607**	**6,300**	**4,900**	**3,800**	**4,300**
Overall Capital Totals	**8,014**	**16,500**	**12,800**	**13,100**	**11,300**
Programme funding - revenue funding at 2019/20 figure					
Earmarked Reserves:	3,734	11,484	1,782	0	0
Revenue funds:	2,319	2,319	2,319	2,319	2,319
Capital receipts	0	0	0	0	520
Borrowing - internal	1,961	1,447	1,938	1,572	1,929
Borrowing - external			6,511	9,159	4,271
Contributions	0	1,250	250	50	2,261
Total Funding	**8,014**	**16,500**	**12,800**	**13,100**	**11,300**

7. FUNDING THE CAPITAL PROGRAMME

7.1. There are several funding sources available to meet the Authority's capital expenditure requirements. These are explored in more detail.

8. REVENUE FUNDING

8.1. The Authority agreed on the 24th February 2014 that an element within the Revenue budget for each year will go towards funding the capital programme and this has continued into each subsequent financial year. The amount awarded to assist with the capital programme is based on affordability and is specific to that year. Table 1 identifies the amount the Authority is hoping to fund from Revenue each year.

9. PRUDENTIAL BORROWING

9.1. The Authority is permitted to take out regulated external borrowing. The Local Government Act 2003 refers to affordability and the requirement that the local authorities in England and Wales keep under review the amount of money they borrow for capital investment.

9.2. The Code requires that “The local authority shall ensure all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt (including MRP) and consideration of risk and the impact on the overall fiscal sustainability”. The impact of borrowing is outlined within the Treasury Management Strategy Statement and monitored by the Resources Committee on a quarterly basis.

10. RESERVES

10.1. It has been the strategy of the Authority to utilise revenue contribution to fund capital expenditure. Following approval by Authority, an amount of the in-year revenue budget underspend has been set-a-side and moved in to a Reserve to fund the future capital programme. The amount of Earmarked Reserve funding identified to fund the Capital programme is shown in Table 1 above. No additional external borrowing has been taken out - the last loan the Authority took out was in 2012. Depending on the size of the Capital programme, there could be a requirement for new borrowing within financial year 2021/22 if the quantity and type of assets remain the same.

11. MONITORING CAPITAL EXPENDITURE

11.1. The performance of the capital programme is reported to Officers each Month and to Members each quarter and forms part of the Financial Performance report. Any timing differences are also identified within the report.

12. RISK MANAGEMENT

12.1. The Prudential Code recognises that in making its capital investment decisions, the authority must have explicit regards to option appraisal and risk:

> “The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability.”

12.2. Each Capital scheme project will have its own risk register and options appraisal to manage the operational risk arising from the project, however this section of the strategy focuses on strategic risks arising from capital investment activity.

12.3. Every item will go through a rigorous justification process so that a greater scrutiny can be achieved over what is included within the capital programme. This will become even more critical if collated bids exceed the available funding. All investment will be aligned to the Integrated Risk Management Plan and the Fire & Rescue Plan to ensure that the Service is replacing the right assets, at the right location to address the risk and at the same time reducing our revenue costs to help balance the budget.

12.4. The Capital budget requirement is determined on an annual basis. The process starts at the end of the summer with relevant departments determining their requirements. Once formalised, the requirements are discussed and scrutinised with the relevant Director. Following that, they are presented to the Executive Board in Late November/early December before being presented to the Authority in February for approval in advance of the financial year to which it relates.

13. CREDIT RISK

13.1. There is a risk that a supplier becomes insolvent and cannot complete the agreed contract. Appropriate due diligence is carried out before a contract is as part of the procurement process.

14. LIQUIDITY RISK

14.1. This is the risk that the timing of cash inflows from a project will be delayed. In the main, the Authority's capital projects are self- funded and therefore don't rely on other organisations contributing or failing to make their contributions when agreed. Under the collaboration agenda it is likely that an increasing number of Capital projects will be shared across organisations. Liquidity risk and the impact on cash flows is monitored on daily basis by the Treasury Management function.

15. FRAUD, ERROR AND CORRUPTION

15.1. This is the risk that financial losses will occur due to error, fraudulent or corrupt activities. The Authority has procedures in place to minimise the risk of fraud especially regarding changing of bank details for suppliers. There are also policies in place to address some of the risk such as the Whistleblowing Code, the Strategy on Protection and Detection of Fraud and the Declaration of Interests.

16. LEGAL AND REGULATORY RISK

16.1. This is the risk that changes to laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering in to a capital project, officers will determine the powers under which any investment is made with input from our Treasury Management advisors.

16.2. Capital schemes must comply with legislation (Disability and Discrimination Act as an example) and also consider Authority Regulations, Service plans and Policies such as:

- Fire & Rescue Plan;
- Integrated Risk Management Plan;
- Contract Standing Orders; and
- Financial Regulations.

17. MINIMUM REVENUE PROVISION

17.1. Within the Local Government Act 2003, local authorities are required to have regard to the statutory guidance on Minimum Revenue Provision (MRP). The Ministry of Housing, Communities and Local Government has produced statutory guidance which local authorities must have regard to.

17.2. MRP represents the minimum amount that must be charged to an authority's revenue budget each year for financing capital expenditure, where it has initially been funded from borrowing. The MRP accounting practice allows the Authority to set aside an amount of money each year to ensure that it can pay off the debts it has from buying capital assets.

17.3. The MRP Policy is reviewed annually and is outlined within the Authority's Treasury Management Strategy Statement.

18. AFFORDABILITY OF THE CAPITAL PROGRAMME

18.1. A variety of factors are taken in to account when determining the affordability of the Capital programme, including the impact on revenue budgets and reserves:

- Minimum revenue provision
- Interest payable
- Interest receivable
- Revenue contribution to capital
- The Authority's affordability indicator, that debt charges must be <5% of net revenue budget in each financial year

18.2. The cheapest and most sustainable method to fund a Capital Programme is to set aside an amount from revenue each year to purchase assets, with any variations to the programme being smoothed out using an Earmarked Reserve for Capital.

18.3. Historically, the Authority received a Capital Grant of up to £2m per year and funded its capital programme using borrowing. It became apparent that the 5% indicator of affordability would soon be breached and therefore restrictions were placed on the asset replacement schedule, with the life of assets being extended.

The Authority's strategy is to reduce borrowing

18.4. As at 31 March 2019 external debt will be £25.6m.

18.5. Due to the introduction of a baselined revenue contribution to capital, budget and in year savings a healthy capital reserve has been built up, meaning that the Authority could spend c£40m over the next five years replacing and improving its assets without needing to borrow any more.

18.6. As a result of restrictions on the Capital programme over the past decade, there are now a considerable number of assets needing replacement or enhancement and the proposed programme totals £61.7m over the next five years. As only £41.8m of funding is available, officers will need to bring forward plans to prioritise expenditure to avoid borrowing in the future.

18.7. The Safer Together programme will review the Service Delivery Operating model and also focus on the way Vehicles and Equipment are managed. Both of these programmes are expected to present opportunities to rationalise the asset basse and will feed in to the next iteration of the Capital Programme and Medium Term Financial Plan.

AMY WEBB
Director of Finance (Treasurer)

This page is intentionally left blank

REPORT REFERENCE NO.	**RC/19/4**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**2019-20 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Treasurer and Chief Fire Officer**
RECOMMENDATIONS	***That the Committee consider this report with a view to recommending to the budget meeting of the Devon and Somerset Fire and Rescue Authority on 19 February 2019, an appropriate level of revenue budget and Council Tax for 2019-20.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 1 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2019-20 that would trigger a requirement to hold a Council Tax referendum is to be 3.0%. This report considers potential options A and B below for Council Tax in 2019-20: OPTION A – Freeze Council Tax at 2018-19 level **(£84.01 for a Band D Property).** OPTION B – Increase Council Tax by 2.99% above 2018-19 **(increase of £2.51 pa to £86.52 for Band D Property).** The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 19 February 2019.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2019-20. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. C. DSFRA response to the Department of Communities and Local Government consultation document “LocalGovernment Finance Settlement – Technical Consultation Paper”. D. BMG Report on Precept Consultation for 2019-20 Revenue Budget E. Report on Precept Consultation via Social Media
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1. It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (the Authority) sets a level of revenue budget and Council Tax for the forthcoming financial year, before 1 March, in order that it can inform each of the fifteen Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2019-20. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels for the Authority.

1.2. The Localism Act 2011 includes provisions which require a local authority to hold a Council Tax referendum where an authority's Council Tax increase exceeds the Council Tax "excessiveness principles" applied for that year.

1.3. On 13 December 2018, the Ministry of Housing, Communities and Local Government (MHCLG) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2019-20. This is to be 3.0% which, if exceeded, would trigger the need to hold a referendum.

1.4. Given that the administration costs associated with holding a local referendum for the Service for one year are estimated to be in excess of £2.3m, this report does not include any proposals to go beyond the referendum limit. Instead, it considers two options, A and B below, of which the maximum proposed increase is 2.99%:

- **OPTION A** – Freeze Council Tax at 2018-19 level (£84.01 for a Band D Property).
- **OPTION B** – Increase Council Tax by 2.99% above 2018-19 - an increase of £2.51 pa (21p a month) to £86.52 for Band D Property.

1.5 The Committee is asked to consider each of these options with a view to making a recommendation of one option to the Fire and Rescue Authority at its meeting to be held on 19 February 2019.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2019-20

2.1. The provisional Local Government Finance Settlement was announced on 13 December 2018, which provided local authorities with individual settlement funding assessment figures for 2019-20, being the last of the four-year settlement which has been accepted by the Authority.

2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which results in a reduction in 2019-20 of 2.91% over 2018-19 and an overall reduction of 25.3% since 2015-16:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	**SFA Reduction**	
	£m	**£m**	**%**
2015-16	29.413		
2016-17	26.873	-2.540	-8.64%
2017-18	23.883	-2.990	-11.13%
2019-20	22.618	-1.265	-5.30%
2019-20	21.961	-0.657	-2.91%
Reduction over 2015-16		**-7.452**	**-25.34%**

2.3. With regard to the accepted offer of a four-year settlement, the Government has made a clear commitment to provide central funding for the period of the Spending Review to those authorities that choose to accept the offer and have published an Efficiency Plan. A confirmation letter was received by the Authority on 14 December 2016 from the Minister of State for Policing and Fire Service confirming the settlements until 2019-20.

2.4. In practice, final figures for each year are subject to changes in the business rates multiplier which is based on the Retail Prices Index in September each year. However, barring exceptional circumstances, e.g. transfer of new responsibilities between authorities, and subject to the normal statutory consultation process for the local government finance settlement, the government expects the future year figures to be presented to Parliament each year.

2.5. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £81m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £424k for 2019-20. This grant will be paid as a Section 31 grant (which means it is not in base funding) and is therefore included as income within the draft budget proposed in this report.

3. <u>REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES</u>

3.1. Since 2013-14 there has been a requirement for an authority to hold a local referendum should it propose to increase Council Tax beyond a government set limit (principles), which for this Authority results in estimated referendum costs of £2.3m. The Service has asked MHCLG to consider an alternative set of principles for fire and rescue authorities (most recent letter to MHCLG in October 2017 – copy included at Appendix C to this report) that would apply a cash amount, e.g. £5, rather than applying a percentage increase.

3.2. On 13 December 2018, MHCLG announced the referendum threshold to be applied in 2019-20 will remain at 3.0%. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £24 threshold in 2019-20, the current referendum limit recognises that Fire and Rescue Authorities are facing increasing inflationary pressures.

3.3. Due to the high proportion of people costs, pay awards have a significantly higher impact on the Authority's revenue budget than the effect of price rises on goods and services. Whilst not explicitly stated in the provisional finance settlement, it is likely that the raising of the referendum threshold to 3% is in recognition of likely pay awards.

3.4. Each 1% pay award for staff costs the Authority £0.540m and this budget proposal contains provision for a 2% pay award for all staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2019-20

Council Tax

4.1. Unlike in the previous Spending Review period, the Government has not overtly laid out any expectation that local authorities should freeze Council Tax, and therefore, there is no offer of a Council Tax Freeze Reward Grant to those authorities that freeze or reduce Council Tax in 2019-20.

4.2. It is, of course, still an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2019-20, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2018-19 level (£84.01 for a Band D Property);
- **OPTION C** – Increase Council Tax by 2.99% above 2018-19 - an increase of £2.51 pa (21p a month) to £86.52 for Band D Property.

4.3. The Committee could decide to set any alternative level below 3%. Each 1% increase in Council Tax represents an 84p a year increase for a Band D property, and is equivalent to a £0.524m variation on the revenue budget. In relation to the referendum option, it is the Treasurer's view that given the costs of holding a referendum (circa £2.3m), it is not a viable option for the Authority to consider a Council Tax increase in excess of the 3% threshold.

4.4. As outlined in Table 2 below, Option A would result in a net funding reduction for the Authority whilst Option B would result in increased funding.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2019-20 and therefore, the figures in Table 2 will be subject to change. The impact of any changes will be reported at the meeting.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – REDUCTION IN FUNDING 2019-20

	OPTION A Council Tax Freeze at £84.01 £m	OPTION B Council Tax Increase of 2.99% to £86.52 £m
TOTAL FUNDING 2018-19	**73.871**	**73.871**
Reduction in Formula Funding	(0.776)	(0.776)
Decrease in Retained Business Rates from Business Rate Retention System.	(0.083)	(0.083)
Changes in Council Tax Precept		
- increase in Council Tax Base	0.694	0.694
- resulting from an increase in Band D Council Tax	-	1.524
- increase in Share of Billing Authorities Council Tax Collection Funds	(0.002)	(0.002)
Net Change in precept income	**0.692**	**2.216**
TOTAL FUNDING AVAILABLE 2019-20	**73.704**	**75.228**
NET CHANGE IN FUNDING	**(0.167)**	**1.358**

Council Tax Base

4.5. The total reduction in government funding of £0.776m was expected and planned for, the Service had also anticipated an increase in Council Tax receipts of 1.50% arising from house building in the area, although the actual increase has been lower than forecast at 1.38%. The Authority's share of Council Tax collection fund surplus has decreased by £0.002m which reflects a slight decline in the rate of Council Tax collection by districts.

Net Budget Requirement

4.6. Table 3 overleaf provides a summary of the Core Budget Requirement for 2019-20. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2019-20

	£m	%
Approved Net Revenue Budget Requirement 2018-19	**73.871**	
PLUS Provision for pay and price increases (Pay award assumed 2%)	1.502	*2.03%*
PLUS Removal of one off provisions in 2018-19	(0.248)	*-0.34%*
PLUS Inescapable Commitments	4.882	*6.61%*
PLUS New Investment	1.071	*1.45%*
MINUS Changes to income	(3.292)	*-4.46%*
CORE SPENDING REQUIREMENT 2019-20	**77.786**	
INCREASE IN BUDGET OVER 2018-19 (£m)	**3.915**	***5.30%***

4.7. £1.071m of new investment opportunities have been identified which will be offset by savings identified from a review of Service Delivery management structures:

- £0.150m to enable strengthening and redesign of the senior management team in order to better support the change programme - this is a suggested cost cap and will be subject to Fire Authority approval
- £0.071m investment in Fire Safety School training and seminars – to support additional work emerging from the Grenfell tower incident
- £0.850m of short term investment in Service Delivery activities of prevention, protection and response to realign activity to the Integrated Risk Management Plan and the Safer Together programme

Budget Savings

4.8. As is indicated in Table 3, the Core Budget Requirement for 2019-20 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £77.786m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 overleaf provides an analysis of on-going savings identified to be delivered in 2019-20.

TABLE 4 – BUDGET SAVINGS 2019-20

REVENUE BUDGET SAVINGS	
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.487m of recurring savings which include ICT Delivery, On Call Activity, Vehicle Leasing and Estates Management Costs	(0.685)
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.117)
Service Delivery Restructure – Resulting from a review of the number of and role types for Station Managers across the service	(1.094)
Vacancy Margins – As a result of the current strategy to hold vacancies whilst awaiting outcomes of the Safer Together plan	(0.480)
BUDGET SAVINGS (£m)	**(2.376)**

4.9. Whilst the Service is confident that savings of £2.376m can be delivered, this still leaves the Authority with a budget shortfall in order that it can set a balanced budget for 2019-20. Based on Option B (increase of 2.99% of Council Tax) this shortfall is £0.183m. If Council Tax is frozen, the funding shortfall will increase to £1.706m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2019-20

SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT	OPTION A	OPTION B
Net change in funding over 2018-19	(0.167)	1.357
Increase in spending requirement since 2018-19	3.915	3.915
Savings requirement 2019-20	(4.082)	(2.558)
Less Budget savings already achieved	(2.376)	(2.376)
FUNDS REQUIRED TO BALANCE BUDGET	**(1.706)**	**(0.183)**

4.10. It is proposed that the Revenue Contribution to Capital is reduced under both options, which will enable to Authority to set a balanced budget whilst the Safer Together programme is further refined to deliver savings over the medium term. However, there are implications for the long term affordability of the Capital Programme.

4.11. Elsewhere on this agenda is the Capital Programme for 2019-10 which also gives an indication of the proposed programme and sources of funding over the next six years. The Authority has a long term strategy to reduce reliance on borrowing and therefore it is essential that a healthy level of Revenue Contribution to Capital is maintained to fund investment in asset infrastructure.

4.12. It is proposed as part of this draft budget that, in the event of a 2.99% increase to Council Tax (Option B) the revenue contribution to capital expenditure is reduced by £0.183m to £2.319m (of which an amount of £0.300m is earmarked from Red One contribution) in order to balance the budget for the 2019-20 financial year.

4.13. Each 1% increase in Council Tax income represents £0.508m of additional funding which could be used to support our future capital programme, some examples of what could be funded by maintaining a revenue contribution to capital as a result of a Council Tax increase of 2.99% are outlined below:

Item of Capital Expenditure	Illustrative quantity which could be funded under Option B (£2.319m of Capital Funding available)	Total cost
RDS Fire Station Rebuild	2	£1,800,000
Medium Rescue Pump	8	£2,320,000
Rapid Intervention Vehicle	20	£2,240,000

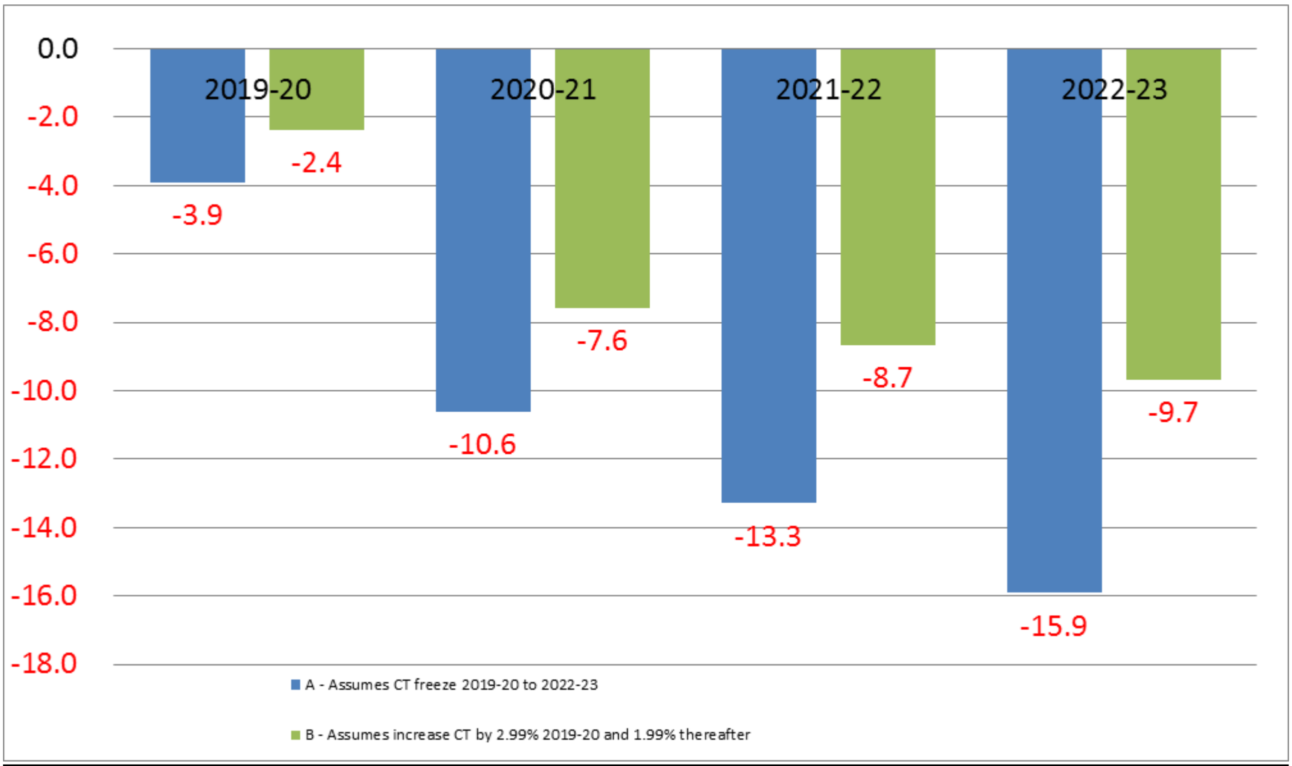
5. MEDIUM TERM FINANCIAL PLAN

5.1. Given that this is the last year of the four year settlement, the future funding position is less certain. Additionally, a new pensions burden has arisen from the Government Actuarial Department (GAD) valuation of the Firefighter Pension Schemes, which may result in a £4.1m cost for this Authority. There is no indication of whether the government will meet the pensions cost beyond 2019-20 and so a prudent approach has been taken, assuming the worst case, in the Medium Term Financial Plan (MTFP).

5.2. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document which will be taken forward to the Full Authority.

5.3. The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2019-20 to 2022-23. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2019 TO 2023 (BASE CASE) - £MILLIONS



5.4. Chart 1 illustrates that further savings will be required beyond 2019-20 to plan for a balanced budget over the next three years to 2022-23. Should the Authority decide to freeze Council Tax in 2019-20 (Option A) and the following three years then the MTFP forecasts that further savings of £12.0m need to be planned for.

5.5. As is stated earlier in this report each 1% increase in Council Tax results in additional precept of £0.508m. Should it be agreed to increase Council Tax by 2.99% in 2019-20 (Option B) and by the maximum increase (not subject to a decision at this meeting) in each year from 2019-20 to 2021-22 then the saving target by 2020-22 would be reduced from £12.0m to £7.3m.

6. PLANS TO DELIVER SAVINGS 2019-2023

Authority Plan 2019 onwards

6.1. This budget report proposes a balanced budget for the next financial year 2019-20 including proposals as to how budget savings can be achieved.

6.2. Looking beyond 2019-20 it is clear that the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period. The strategic approach to deliver the required savings is being developed following approval of the Integrated Risk Management Plan and the Fire and Rescue Plan by the Authority.

6.3. The change programme, called Safer Together, describes the transition needed to meet our aspirations for meeting community and organisational risks and will support delivery savings needed. It is clear from the MTFP forecasts and the Capital Affordability scenarios that the Service asset base will need to be reduced to support a sustainable model for revenue and capital expenditure in the future.

7. PRECEPT CONSULTATION 2019-20

7.1. Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.

7.2. In addition to the statutory requirement, members of the public have in previous years also been consulted as it was deemed appropriate to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

7.3. The consultation process ran throughout November and December 2018 and involved:

- A telephone survey of 400 business and 400 residents;
- Use of an online survey promoted via social media

7.4. The full results of the telephone survey and online survey can be found in Appendices D and E.

Results from the Telephone Survey

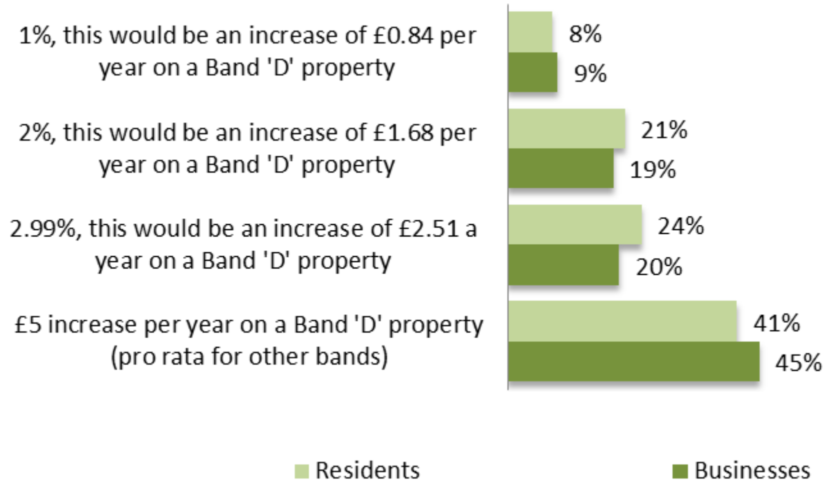
7.5. Over three in five (65%) of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2019/20, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement of +46%.

7.6. Agreement was consistent by Local Authority District (LAD), industry sector and gender. Respondents aged 55 or above were somewhat more positive (71% agreed it is reasonable for the Authority to consider increasing its Council Tax charge). Perhaps unsurprisingly those respondents who had used a service were significantly more likely to agree (70% cf. 60% who have not used a service).

7.7. Over three in five (67%) of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2019/20, while close to a fifth (18%) disagreed, giving a net agreement of +49%.

7.8. Agreement was consistent by LAD and age. However, male residents were significantly more likely to agree (73% cf. 61% females). Those respondents who had used a service were more likely to agree than those who had not (77% cf. 60% who have not used a service).

Chart 1: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20)



7.9. Of those respondents who agreed that a Council Tax increase would be reasonable, 65% of businesses and 65% of residents would support an increase of 2.99% or above.

7.10. 84% of business and 89% of residents felt that the Service provides value for money.

7.11. Additional questions were included to determine satisfaction levels; overall 80% of business and 83% of residents said they were satisfied with the service. Levels of satisfaction significantly increased amongst those who had used a service from 74% amongst those who have not used a service to 95%.

Results from the Online Survey

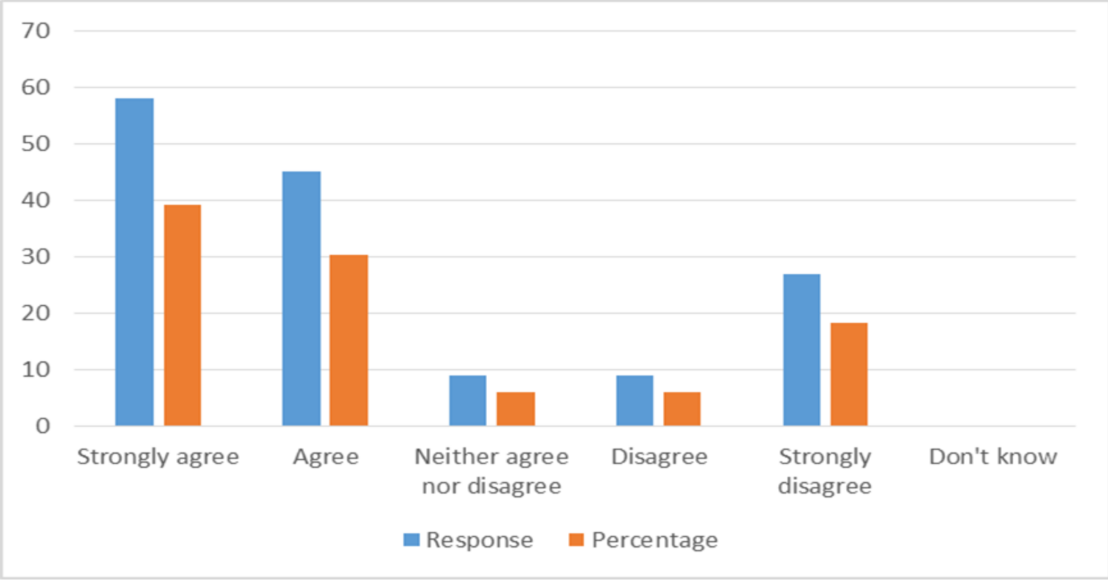
7.12. The online survey was available from 31 October – 21 December 2018. The consultation period was promoted through our website, press releases, targeted adverts on Facebook and Twitter.

7.13. In that period a total of 202 responses were received. Of those 202 responses, 149 fully completed the questionnaire and 53 partially completed it. As only five of these responses represented the business sector, the results have not been separated.

7.14. This year's consultation exercise highlighted a significant increase in total number of respondents when compared with the 2018/19 survey of 51 respondents.

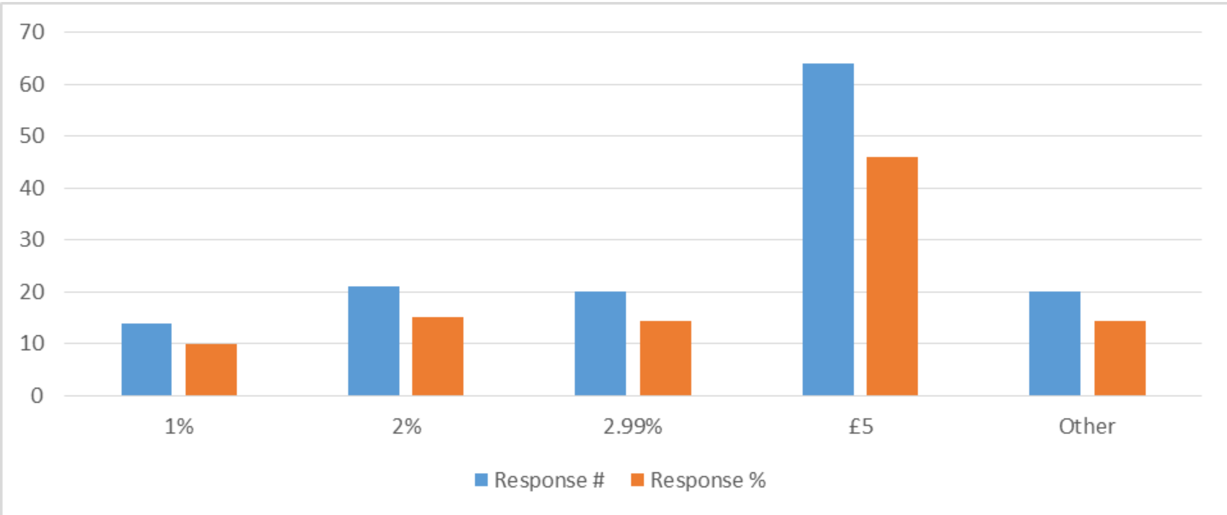
7.15. The results indicate that almost 70% of respondents agree that the Authority should consider increasing its charges.

Chart 2: Question 1 Results of agreement to consider increasing the precept



7.16. The results indicate that (46%) of respondents are in support of a £5 increase and that in total, 60.43% of respondents support an increase at 2.99% or above.

Chart 3: Question 2 Results of options to increase the precept



7.17. The results indicate that the majority of respondents almost 69% agree that the Service provides value for money.

7.18. Additional questions were asked to ascertain whether respondents had interacted with the Service. The results indicate that 67% of respondents had not interacted with the Service in the last 12 months, however 18% had attended Community Events and 6% had received a home fire safety check/visit.

7.19. In contrast with the phone survey, only 56% of respondents said they were satisfied or very satisfied with the service provided.

Survey Conclusion

7.20. The results of the consultation indicate that a significant majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2019-20. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of a £5 increase.

7.21. Since the survey was commissioned, MHCLG has confirmed that the maximum amount of Council Tax increase before a referendum is triggered is 3% and therefore a suggested Council Tax increase of 2.99%, equivalent to £2.44 for a Band D property is included within this report. The increase outlined in Option B of 2.99% represents a significant reduction against the maximum consultation figure of £5.00.

7.22. Both business respondents and members of the public agreed that the Service provides value for money, at around £42 per head of the population per year, and were satisfied by the service provided by Devon and Somerset.

8. STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES

8.1. It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions. This statement is included as Appendix B to this report.

9. SUMMARY

9.1. The Authority is required to set its level of revenue budget and Council Tax for 2019-20 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

9.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the full Authority, to be held on the 19 February 2019

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/19/4

DRAFT REVENUE BUDGET REQUIREMENT 2019-20 (BASED UPON OPTION B FOR ILLUSTRATIVE PURPOSES

		2019/2020	
	£'000	£000	%
Approved Budget 2018-19		**73,871**	
Provision for pay and prices increase			
Uniformed Pay Award (assume 2.0% from July 2019)	862		
Non-uniformed Pay Award (assume 2% from April 2019)	218		
Prices increases (assumed 2.4% CPI from April 2019)	349		
Pensions inflationary increase (tracks CPI - 2.4%)	73		
		1,502	2.0%
Funding Adjustments			
Over provision in 2018/19 for uniformed pay award (estimated 3% actual was 2%	-248		
		-248	
Inescapable Commitments			
Support Staff Increments	1		
Support staff increases	798		
Increase to pension charges for FFPS rate increase - WT	2,599		
Increase to pension charges for FFPS rate increase - on-call	1,428		
Unforeseen budget requirements			
		4,882	
New Investment			
Senior management to support change programme	150		
Fire Safety School training & seminars	71		
Investment in Service Delivery for the Safer Together programme	850		
		1,071	
Income			
decrease Red One Contribution target	8		
Decrease Co-responder Activity	129		
Section 31 grants - Rural Services Delivery Grant	-103		
Section 31 grants - linked to Pension cost increase	-3,326		
		-3,292	
Anticipated savings			
Service delivery restructure	-1,094		
Vacancy margin - support staff	-230		
Vacancy margin - whole-time staff	-250		
Cumulative minor budget variances	-198		
Pensions - anticipate reduced Ill Health/ Injury leavers	-117		
Reduction in Retained activity levels	-122		
ICT Service Delivery changes	-105		
Estates (Property Maintenance)	-89		
Light vehicles leasing costs	-171		
Revenue Contribution to Capital	-183		
		-2,559	
CORE BUDGET REQUIREMENT		**75,227**	

This page is intentionally left blank

STATEMENT OF THE ROBUSTNESS OF THE BUDGET ESTIMATES AND THE ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY LEVELS OF RESERVES

It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions.

THE ROBUSTNESS OF THE 2019-20 BUDGET

The net revenue budget requirement for 2019-20 has been assessed as £75.227m (Option B in report). In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Integrated Risk Management Plan and the Fire and Rescue Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2020, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. The most significant example of this is the increase in employers pension costs following the GAD Valuation and the unknown funding shortfall as a result. For example, the majority of retained pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a five year period covering the years 2019-20 to 2023-24. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Consumer Prices Index.

TABLE 1 – BUDGET SETTING 2019-20 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2019-20 £m	*RISK AND IMPACT*	MITIGATION
Wholetime Pay Costs	31.2	Wholetime Pay represents nearly a third of Service costs. There is a high level of uncertainty around future pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response. Each 1% pay award is equivalent to £xxx of additional pressure on the revenue budget. It is not anticipated that any additional funding will be allocated for pay and therefore large increases could mean the Authority needs to utilise reserves in order to balance its budget.	An unfunded pay award of 2% has been factored in to the budget for 2019-20 which represents a prudent approach.
On Call Pay Costs	14.4	A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict e.g. spate weather conditions. Abnormally high or low levels of calls could result in significant variations against budget provision.	In establishing a General Reserve for 2019-20 an allowance has been made for a potential overspend on this budget
Fire-fighter's Pensions	2.7	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a General Reserve for 2018-19 an allowance has been made for a potential overspend on this budget
Insurance Costs	0.9	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	General Reserve
Fuel Costs	0.7	As fuel prices are slowly starting to increase it is highly possible that inflationary increases could be in excess of the budget provided.	General Reserve
Treasury Management Income	(0.2)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income for 2019-20 has been set at a prudent level of achieving only a 0.7% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.6)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.7m of external income whilst setting the reliance on the Service budget for Red One Income at £0.3m. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Capital Programme	8.0	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.
Revenue Contribution to Capital	2.3	£0.3m of the Contribution is dependent on maintaining trading income levels, if these are not achieved the capital budget will need to be reduced by this amount	Capital programme and strategy, £16.6m Capital Reserve
Business Rates	(0.9)	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	There is a specific reserve of £1.8m set up which will be utilised to smooth in year changes.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2018 is £37.3m made up of Earmarked Reserves (committed) of £31.9m, and General Reserve (uncommitted) of £5.3m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £5.3m is equivalent to 7.2% of the total revenue budget, or 27 days of Authority spending, the figure is subject to a risk assessment annually.

The Authority has adopted an “in principle” strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

It is pleasing that the Authority has not experienced the need to call on general reserve balances in the last five years to fund emergency spending, which has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. The importance of holding adequate levels of general reserves has been highlighted on a number of occasions in recent times, the impact of flooding and the problems experienced by the global financial markets are just two examples of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

The Authority’s Reserves Strategy is reviewed annually and is available on the website www.dsfire.gov.uk.

CONCLUSION

It is considered that the budget proposed for 2019-20 represents a sound and achievable financial plan, and will not increase the Authority’s risk exposure to an unacceptable level. The estimated level of reserves is judged to be adequate to meet all reasonable forecasts of future liabilities.

AMY WEBB
Director of Finance (Treasurer)

This page is intentionally left blank

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)

This page is intentionally left blank

bmg research

Research Report

DEVON & SOMERSET FIRE & RESCUE SERVICE

Council Tax Precept Survey 2019/20

Prepared for: Devon and Somerset Fire and Rescue Service

Council Tax Precept Survey 2019/20

Prepared for: Devon and Somerset Fire and Rescue Service

Prepared by: Sharon Gowland, Research Manager

Date: December 2018

Produced by BMG Research

www.bmgresearch.co.uk

Project: 1704

Registered in England No. 2841970

Registered office:

BMG Research
Beech House
Greenfield Crescent
Edgbaston
Birmingham
B15 3BE
UK

Tel: +44 (0) 121 3336006

Table of Contents

1 Introduction 1
1.1 Background and method 1
2 Survey Findings 2
2.1 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2019/20 2
2.2 Level of increase that would be reasonable 4
2.3 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2019/20 5
2.3.1 Businesses 5
2.3.2 Residents 6
2.4 Agreement or disagreement that DSFRS provides value for money 7
2.5 Reasons for disagreeing that DSFRS provides value for money 8
2.5.1 Businesses 8
2.5.2 Residents 9
2.6 Services used 10
2.7 Satisfaction with the service provided by DSFRS 11
3 Appendix 1: Profile Information 13
3.1 Businesses 13
3.2 Residents 15
4 Appendix 2: Call outcomes 16
4.1 Businesses 16
4.2 Residents 16

1 Introduction

1.1 Background and method

In October 2018, Devon and Somerset Fire and Rescue Service (DSFRS) commissioned BMG Research to undertake a survey amongst 400 businesses and 400 residents. The purpose of the surveys was to assess the opinions of business decision makers and residents on how DSFRS should approach setting its budget for 2019/20 and on whether the Service is currently deemed to be providing value for money.

The questionnaire for the survey was provided by DSFRS. The contacts for the survey were purchased by BMG Research from a commercial database provider. To ensure the survey was broadly representative, quotas were set by local authority district (LAD), number of employees and broad industry sector for the business survey and local authority district, age and gender for the resident survey. The data has been weighted (adjusted) by these characteristics to correct for any under or over-representation in the final data set.

In total, 400 interviews with businesses and 400 interviews with residents were completed during November and December 2018. Details of the profile of the sample can be found in Appendix 1.

On a sample of 400 the confidence interval at the 95% level is +/- 4.3%. This means that if a statistic of 50% was observed, we can be 95% confident that the true response among the total population lies between 45.7% and 54.3%.

This report summarises the main findings from both surveys.

2 Survey Findings

2.1 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2019/20

Respondents were provided with the following contextual information regarding DSFRS:

> "*Devon and Somerset Fire and Rescue Authority is committed to its plans to end preventable fire and rescue emergencies across the two counties while addressing the funding cuts passed down by the Government. The service provides 85 local fire stations across Devon and Somerset and employs about 2,000 staff, helping to keep safe a population of 1.7 million. On average, we attend about 17,500 incidents each year, which includes flooding, road traffic collisions, fires and other emergencies. The Authority is seeking feedback about the level of council tax precept for the coming year and how satisfied you are with the service it provides.*"

They were then informed of the following:

> *"Devon & Somerset Fire & Rescue Authority is considering its Council Tax charges for 2019/20. The current charge is £84.01 a year for a Band 'D' property. Over the last few years the Government has reduced the funding provided for the fire and rescue service and this will continue. By 2022, Devon and Somerset Fire and Rescue Service need to reduce costs by £7.7 million. The service will need to plan a balanced budget that accommodates this while continuing to support communities."*

Respondents were asked how strongly they agree or disagree that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20.

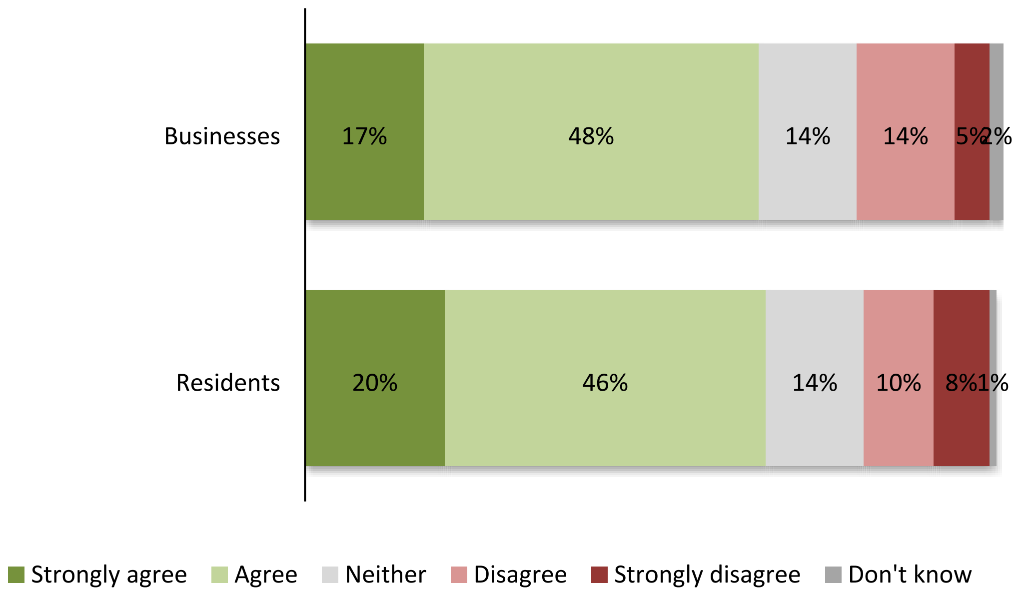
Over three in five (65%) of businesses agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement[1] of +46%.

Agreement was consistent by LAD, industry sector and gender. Respondents aged 55 or above were somewhat more positive (71% agreed it is reasonable for DSFRS to consider increasing its Council Tax charge). Perhaps unsurprisingly those respondents who had used a DSFRS service were significantly more likely to agree (70% cf. 60% who have not used a DSFRS service).

Over three in five (67%) of residents agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20, while close to a fifth (18%) disagreed, giving a net agreement of +49%.

Agreement was consistent by LAD and age. However, male residents were significantly more likely to agree (73% cf. 61% females). Those respondents who had used a DSFRS service were more likely to agree than those who had not (77% cf. 60% who have not used a DSFRS service).

Figure 1: Agreement or disagreement that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20 (All respondents)



Unweighted sample base: 400 businesses, 400 residents

[1] Net agreement = the proportion who strongly agree/agree minus the proportion who disagree/strongly disagree.

2.2 Level of increase that would be reasonable

Those respondents who agreed that it is reasonable for DSFRS to consider increasing its Council Tax Charge for 2019/20 were asked at what level the increase should be;

- 1%, this would be an increase of £0.84 per year on a Band 'D' property
  This will raise an additional £511,000 for the fire and rescue service

- 2%, this would be an increase of £1.68 per year on a Band 'D' property
  This will raise an additional £1,021,000 for the fire and rescue service

- 2.99%, this would be an increase of £2.51 a year on a Band 'D' property
  This will raise an additional £1,526,000 for the fire and rescue service

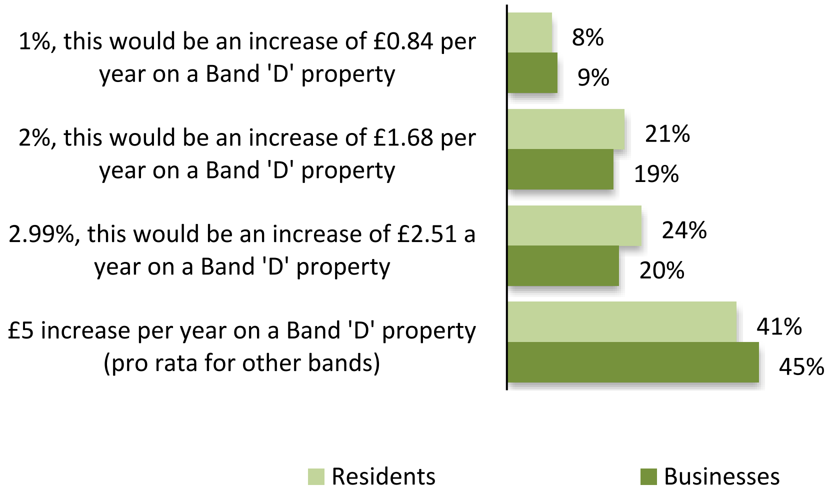
- £5 increase per year on a Band 'D' property (pro rata for other bands)
  This will raise an additional £3,040,000 for the fire and rescue service

- Some other level of increase

The largest proportion of businesses opted for a £5 increase (45%) followed by either a 2.99% increase or a 2% increase (20% and 19% respectively). Younger respondents (aged 16 to 34) were less likely to state an increase of £5 was reasonable (28%).

Consistent with businesses the largest proportion of residents opted for a £5 increase (41%) followed by a 2.99% increase (24%) and a 2% increase (21%) which was relatively consistent by LAD, gender and age.

Figure 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20)



Unweighted sample base: 259 businesses, 271 residents

2.3 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2019/20

Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2019/20 (19% of businesses and 18% of residents) were asked why they disagreed. Typical comments made by respondents are highlighted below.

2.3.1 Businesses

“We pay enough council tax.”

“Economic climate and no one can afford it.”

“We already pay enough for bills. We struggle to carry on with business. These days everything goes up and nothing comes down.”

“I am not able to pay myself any more money either. The introduction of minimum wage has not helped either. I don't see why the government wants more payment because they have created a rod for their own back, and the issues for funding with the minimum wages, while public sector wages haven't gone up in the same manner.”

“The funding should come from the government. I feel the fire service will come like the lifeboat service. Also it will become good or as good as it could be by how much you donate to it. It is scary to think there is not enough resources.”

“They have wasted billions of pounds on a building in Taunton that they have never used or moved into. We are all disgusted by this building - it is a complete waste of money.”

“They can improve systems and service and efficiency.”

“We pay an enormous amount of council tax already, why can't they cut some of their own bureaucracy instead of the fire department.”

“The challenges of protecting rural communities like Devon are complex and need more funding. It's a dispersed area as a part of the rural population and I should not be penalised. I do not undervalue the service and I disagree the local community should make up the shortfall which is on par with a populated area.”

“With the amount of money the government wastes they can save it elsewhere instead of here.”

“There is lots of people that don't pay business rates because of the size of their company. Everyone should be paying a percentage of the business rate whether they are a small company or not. It is just that medium sized businesses are paying it all and they need to charge the businesses that aren't paying anything. All the online companies don't pay anything either, so they need to pay to ensure there isn't a short fall of money.”

2.3.2 Residents

"*The can surely can get the money from somewhere else or get it from the government.*"

"The services is getting less so they should not be charging us more."

"I already pay enough and I have never had to use the service in the 20 years living here."

"I have no problem with it going to the fire service and ambulance, but the dustbins only get collected twice a week. It should be taken away from them and given to the fire service. They can't just keep putting up the council tax it should be given to the fire service as we pay enough."

"Should increase charge for people with lower bands as we are all getting the same service."

"They have wasted 9 millions on a call centre and its sitting empty. We shouldn't be paying for their mistakes."

"At the moment people like me can't afford the council tax as it is. Its about affordability, unfortunately."

"It could be budgeted better rather than increasing it."

"It keeps going up every year. I know we need them but I have never needed them and are fed up with paying through the nose. We should have something like an insurance."

"My council tax is very high and I haven't had a pay rise in ten years. The fire brigade does a great service but the money needs to be spent more wisely."

"It won't go to them, it will go to other things."

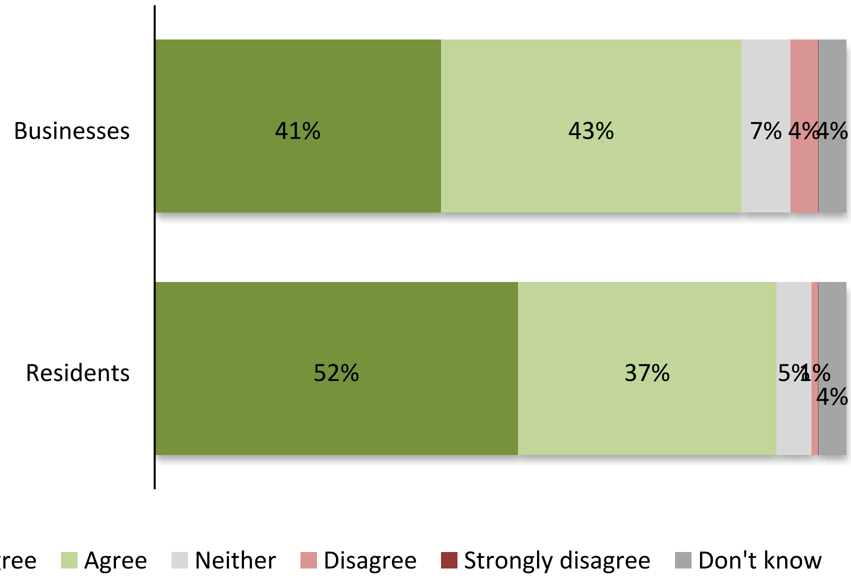
2.4 Agreement or disagreement that DSFRS provides value for money

All respondents were asked if they agree or disagree that DSFRS provides value for money.

Over four in five (84%) businesses agreed that DSFRS does provide value for money, with only 4% disagreeing, resulting in a net agreement of +80%. Views were consistent by industry sector, gender and age. Respondents from Devon were more likely to disagree than the average overall (6% cf. 4%).

Views were even more positive among residents, with 89% agreeing that DSFRS does provide value for money and only 2% disagreeing, resulting in a net agreement of +87%. Consistent with businesses, residents in Devon were more likely to disagree (3%) and less likely to agree (84%) than the average overall. Residents in Somerset were the most positive and more likely to agree (96%) as were those that had used a DSFRS service (93% cf. 86% who had not used a DSFRS service).

Figure 3: Agreement or disagreement that DSFRS provides value for money (All respondents)



Unweighted sample base: 400 businesses, 400 residents

2.5 Reasons for disagreeing that DSFRS provides value for money

The 15 businesses and 7 residents who disagreed that DSFRS provides value for money were asked why they disagreed, and, where provided, their reasons for this are listed below.

2.5.1 Businesses

“It is too much money.”

“Any large organisation is a waste of money.

“Any government direct workforce never provides value for money except private companies.”

“If money wasn't to be taken off them then not enough staff will come to my hotel if it was on fire.”

“They only do home visits.”

“Would like it to be cheaper.”

“When we had a fire we were unaware the fire service couldn't put it out because we didn't have a local water source. Our water is sourced from another source and they let it burn and we weren't informed which is why the fire service should go out and inform people that if they had a fire they couldn't put it out. They ought to have informed all the outlying places who don't have water and should tell you.”

“£42 a head seems a lot of money”

“In my area there aren't that many major fires, so obviously the value for money element is different to what it would be in the main city.”

“Money is not used wisely. I have never used them.”

“It is too high.”

“They never come on time.”

“They have sufficient funds and waste so much money - they do a great/fantastic job but they need to cut out dead wood higher up. The pension schemes are way above than most peoples, they do a good job but everything has to be taken into consideration. It's disgraceful.”

“If you ever need them, you have to wait forever. Costs are swallowed up in management.”

2.5.2 Residents

“They are tied to stupid Health and safety regulations.”

“Can't afford council tax.”

“They waste sometimes. They moan about cut backs but there is room for cut back.”

“The staff are overpaid.”

“They are still paying rent for the empty building.”

“They keep doing all things like relaying things and new management signing on trucks - it's rubbish. Just get on with the job and stop keep changing things.”

“Maybe because I cannot see any positive outcome regarding my needs.”

2.6 Services used

To contextualise the findings reported above, all respondents were asked if they had used any of nine specific services provided across Devon and Somerset.

Overall, two in five (45%) of businesses reported using at least one of the services, most commonly a fire safety audit (28%) at a business, and 40% of residents did so, most commonly via a community event (21%).

Although consistent by LAD, male residents and older residents (aged 55+) were more likely than the average overall to say they had not used a Devon and Somerset Fire and Rescue Service (66% males and 67% aged 55+).

Table 1 Services used

	Businesses	Residents
Fire safety audit / check in a business	28%	5%
Home fire safety visit / smoke alarm fitting	13%	12%
Community event	13%	21%
Emergency response - house fire	6%	9%
Community use of fire stations	6%	5%
Youth education	5%	12%
Emergency response - road traffic collision	3%	4%
Emergency response - rescue	2%	3%
Emergency response - flooding	1%	1%
Other service	1%	2%
I have not used a Devon and Somerset Fire and Rescue service	55%	60%
Unweighted sample base: 400 businesses, 400 residents		

2.7 Satisfaction with the service provided by DSFRS

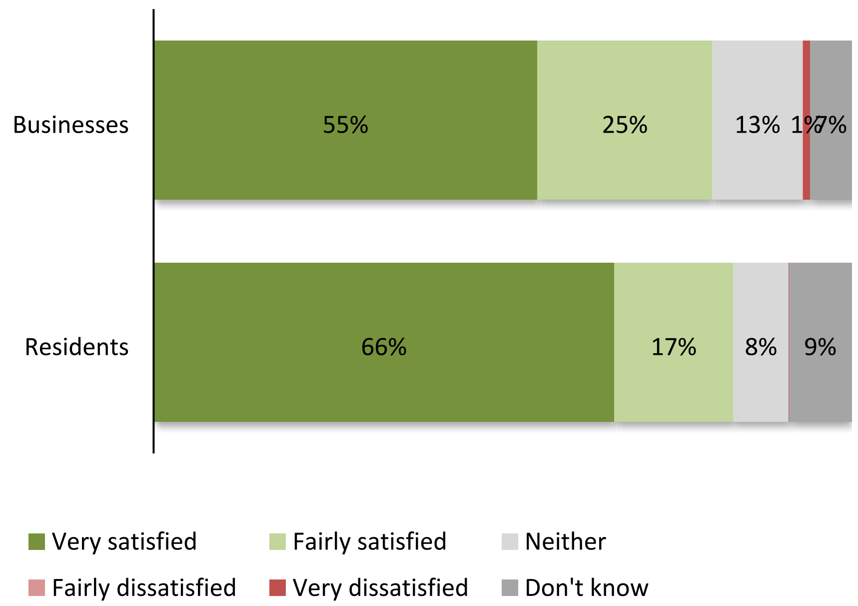
All respondents were asked how satisfied or dissatisfied they are with the service provided by DSFRS.

Four fifths (80%) of businesses were satisfied with the service provided, and only 1% expressed dissatisfaction, yielding a net level of satisfaction of +79%. Levels of satisfaction significantly increased amongst those who had used a DSFRS service from 70% amongst those who have not used a service to 92%.

Over four fifths (83%) of residents were satisfied with the service provided, and only 1% expressed dissatisfaction, yielding a net level of satisfaction of +82%.

Levels of satisfaction significantly increased amongst those who had used a DSFRS service from 74% amongst those who have not used a service to 95%.

Figure 4: Satisfaction with the service provided by DSFRS (All respondents)



Unweighted sample base: 400 businesses, 400 residents

Only 3 businesses expressed dissatisfaction, and their reasons for doing so were as follows:

"It's expensive."

"That's my personal opinion."

"Personal experience."

Only 4 residents expressed dissatisfaction, and their reason for doing so were as follows:

“We have to do everything ourselves. Clearing the roads, clearing floodwater, road and drains, vegetation on pavements and leaves because nobody does it.”

“Their politics and the way they handle business.”

“The lack of volunteer fire staff.”

“We all have to cut back and they are not doing it. It's not fair on us.”

3 Appendix 1: Profile Information

3.1 Businesses

The following tables outline the unweighted and weighted demographic profiles of the sample.

Table 2 – Local authority district

Local authority district	Unweighted		Weighted	
	%	Number	%	Number
Torbay	12	48	6	22
Plymouth	13	52	8	32
Devon	45	180	53	210
Somerset	30	120	34	136

Table 3 – Industry sector

Industry Sector	Unweighted		Weighted	
	%	Number	%	Number
A to F	25	100	26	105
G to N, R + S	75	300	74	295

NB: **A to F** includes the following sectors: A: Agriculture, Forestry and Fishing; B Mining and Quarrying; C Manufacturing; D Electricity, gas, steam and air conditioning supply; E Water supply, sewerage, waste management and remediation activities; F Construction.

G to N, R and S includes the following sectors: G Wholesale and retail trade; repair of motor vehicles and motorcycles; H Transportation and storage; I Accommodation and food service activities; J Information and communication; K Financial and insurance activities; L Real estate activities; M Professional, scientific and technical activities; N Administrative and support service activities; R Arts, entertainment and recreation; S Other service activities

Table 4 – Job title

Industry Sector	Unweighted		Weighted	
	%	Number	%	Number
Owner/proprietor/managing director	43	171	43	172
Director	16	63	15	62
Manager/assistant manager	22	88	22	87
Partner	2	9	2	9
Company Secretary	1	4	1	5
Other	15	59	15	60
Prefer not to say	2	6	1	5

Table 5 – Gender

Gender	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
Male	63	250	62	248
Female	38	150	38	152

Table 6 – Age

Age	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
16 – 24 years	3	12	3	12
25 – 34 years	11	42	9	38
35 – 44 years	18	70	18	72
45 – 54 years	28	112	27	110
55– 64 years	25	99	25	101
65+	14	56	15	58
Prefer not to say	2	9	2	9

Table 7 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
White	93	372	93	372
Asian/Asian British	1	6	1	5
Mixed/Other	1	3	1	3
Prefer not to say	5	19	5	19

3.2 Residents

The following tables outline the unweighted demographic profile of the sample of residents.

Table 8 – Local authority district

Local authority district	Unweighted		Weighted	
	%	Number	%	Number
Torbay	25	100	8	31
Plymouth	25	100	15	60
Devon	25	100	46	182
Somerset	25	100	32	127

Table 9 – Age

Age	Unweighted		Weighted	
	%	Number	%	Number
16 – 24 years	1	5	1	4
25 – 34 years	8	30	11	42
35 – 44 years	20	78	26	105
45 – 54 years	16	62	14	58
55– 64 years	17	69	18	72
65+	39	154	29	115
Prefer not to say	1	2	1	4

Table 10 – Gender

Gender	Unweighted		Weighted	
	%	Number	%	Number
Male	52	206	48	194
Female	49	194	52	206

Table 11 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White	98	390	97	389
Asian/Asian British	<0.5%	1	1	2
Mixed	1	4	1	3
Prefer not to say	1	5	2	6

4 Appendix 2: Call outcomes

The following tables show a breakdown of call outcomes.

4.1 Businesses

	Outcome	Contacts	% of total	% of in scope
In scope	**Complete**	**400**	**6%**	**15%**
	Refusal	439	6%	17%
	Respondent busy	1759	26%	68%
	Sub-total	**2598**	**38%**	**100%**
Out of scope	Unobtainable (modem, fax etc)	480	7%	11%
	Ineligible	263	4%	6%
	No contact made	3517	51%	83%
	Sub-total	**4260**	**62%**	**100%**
	Total	**6,858**		

4.2 Residents

	Outcome	Contacts	% of total	% of in scope
In scope	**Complete**	**400**	**3%**	**21%**
	Refusal	1017	8%	53%
	Respondent busy	518	4%	27%
	Sub-total	**1935**	**16%**	**100%**
Out of scope	Unobtainable (modem, fax etc)	2001	17%	20%
	Ineligible	609	5%	6%
	No contact made	7452	62%	74%
	Sub-total	**10062**	**84%**	**100%**
	Total	**11,997**		

Appendix: Statement of Terms

Compliance with International Standards

BMG complies with the International Standard for Quality Management Systems requirements (ISO 9001:2008) and the International Standard for Market, opinion and social research service requirements (ISO 20252:2012) and The International Standard for Information Security Management ISO 27001:2013.

Interpretation and publication of results

The interpretation of the results as reported in this document pertain to the research problem and are supported by the empirical findings of this research project and, where applicable, by other data. These interpretations and recommendations are based on empirical findings and are distinguishable from personal views and opinions.

BMG will not be publish any part of these results without the written and informed consent of the client.

Ethical practice

BMG promotes ethical practice in research: We conduct our work responsibly and in light of the legal and moral codes of society.

We have a responsibility to maintain high scientific standards in the methods employed in the collection and dissemination of data, in the impartial assessment and dissemination of findings and in the maintenance of standards commensurate with professional integrity.

We recognise we have a duty of care to all those undertaking and participating in research and strive to protect subjects from undue harm arising as a consequence of their participation in research. This requires that subjects' participation should be as fully informed as possible and no group should be disadvantaged by routinely being excluded from consideration. All adequate steps shall be taken by both agency and client to ensure that the identity of each respondent participating in the research is protected.

With more than 25 years' experience, BMG Research has established a strong reputation for delivering high quality research and consultancy.

BMG serves both the public and the private sector, providing market and customer insight which is vital in the development of plans, the support of campaigns and the evaluation of performance.

Innovation and development is very much at the heart of our business, and considerable attention is paid to the utilisation of the most up to date technologies and information systems to ensure that market and customer intelligence is widely shared.

2019/20 Precept consultation online surveys

1. Online Survey

1.1 The online survey was available from 31 October – 21 December 2018. The consultation period was promoted through our website, press releases, targeted adverts on Facebook and Twitter. An example of the Facebook advert can be found in Appendix A.

1.2 In that period a total of **202** responses were received. Of those 202 responses, 149 fully completed the questionnaire and 53 partially completed it. As only five of these responses represented the business sector, the results have not been separated.

1.3 This year's consultation exercise highlighted a significant increase in total number of respondents when compared with the 2018/19 survey of 51 respondents.

This report summarises the main findings from the survey.

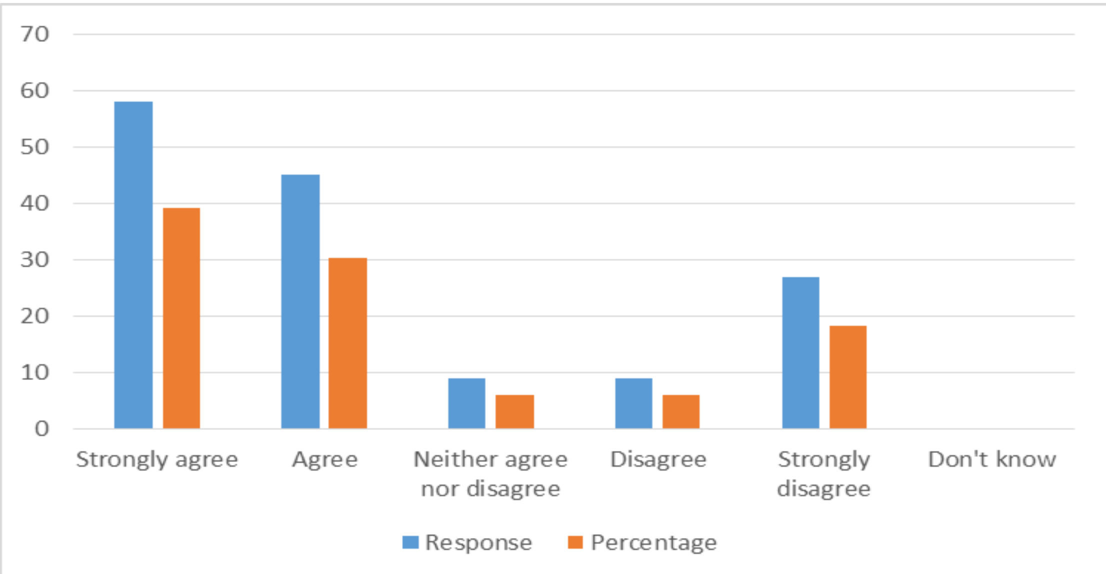
RESULTS

2 ***Q1. How much do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2019/20?***

Table 1: Responses to Question 1

Answer Option	Response #	Response %
Strongly agree	58	39.19
Agree	45	30.41
Neither agree nor disagree	9	6.08
Disagree	9	6.08
Strongly disagree	27	18.24
Don't know	0	0.00
Total	148	

Chart 1: Results of agreement to consider increasing the precept



2.1 The results indicate that almost 70% of respondents agree that the Authority should consider increasing its charges.

3 ***Q2. Of the following options, what increase would you consider is reasonable for the Authority to increase its element of the council tax charge by?***

Table 2: Responses to Question 2

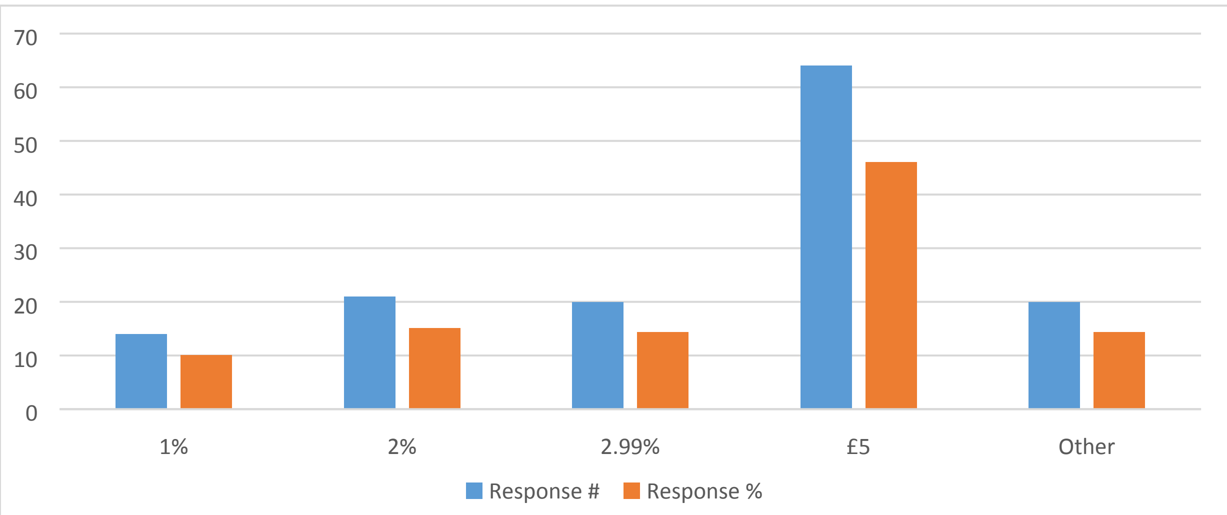
Answer Option	**Response #**	**Response %**
1% (An increase of 84p per year for a Band D property, increasing the total charge to £84.85)	14	10.07
2% (An increase of £1.68 per year for a Band D property, increasing the total charge to £85.69)	21	15.11
2.99% (An increase of £2.51 a year for a Band D property, increasing the total charge to £86.52)	20	14.39
£5 (An increase of £5.00 per year for a Band D property (pro rata for other bands), increasing the total charge to £89.01)	64	46.04
Other	20	14.39
Total	139	

3.1 Those respondents who responded 'Other' were asked to provide comments. The majority of these comments indicated that no increase should be made.

See below a sample range of comments made by respondents:

- *'No increase.'*
- *'Whatever is needed to run the services we require simple as that, we need to pay our way, nothing is for free.'*
- *'Services don't get any better so why pay more?'*
- *'£20 a year is reasonable.'*

Chart 2: Results of options to increase the precept



3.2 The results indicate that (46%) of respondents are in support of a £5 increase and that 60.43% of respondents support an increase at 2.99% or above.

4 *Q3. If you disagreed with Q1, why do you think it is not reasonable for the Authority to increase its element of the council tax charge?*

Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the council tax charge for 2019/20 were asked why they disagreed.

The common emerging themes highlighted by respondents indicated:

- Central Government should provide any additional funding for the service.
- Service should focus on delivering non statutory duties only.
- Making best use of existing funding.
- Not enough evidence of future funding requirements and service plans.
- General consensus that people feel they are already paying too much council tax.
- Current funding cuts and reduction to service delivery yet requesting more funding.
- Unknown impact of Brexit on society.

A sample range of comments made by respondents are listed below:

- *‘Because we pay enough for the service already. The council tax is crippling people financially as it, with your average wage not increasing. It is also up to the government to help fund this. We pay enough in our taxes.’*

- *‘We are already paying too much council tax, and seeing services shrink. I suggest if the fire service wants an increase, they should reform their working practices...first.’*

- *‘This should be funded by central government.’*

- *I understand fire cover has been cut! And firefighter numbers have been decreasing over a number of years. So you are asking us for more yet provide less for it!!!’*

- *‘The FRS should stop carrying out non statutory duties. This would then release funds and so negate the need for any suggested rise..’*

- *‘I don't believe you need any increase from us. You have not shown any evidence that you need more money.’*

- *‘Because you are not maximising on the money you already have.’*

- *‘You are reducing the amount of equipment available to protect the public and firefighters yet want more money for doing so? Stick to your core business and tell the government that all the nice to do peripherals will have to wait until funding permits!’*

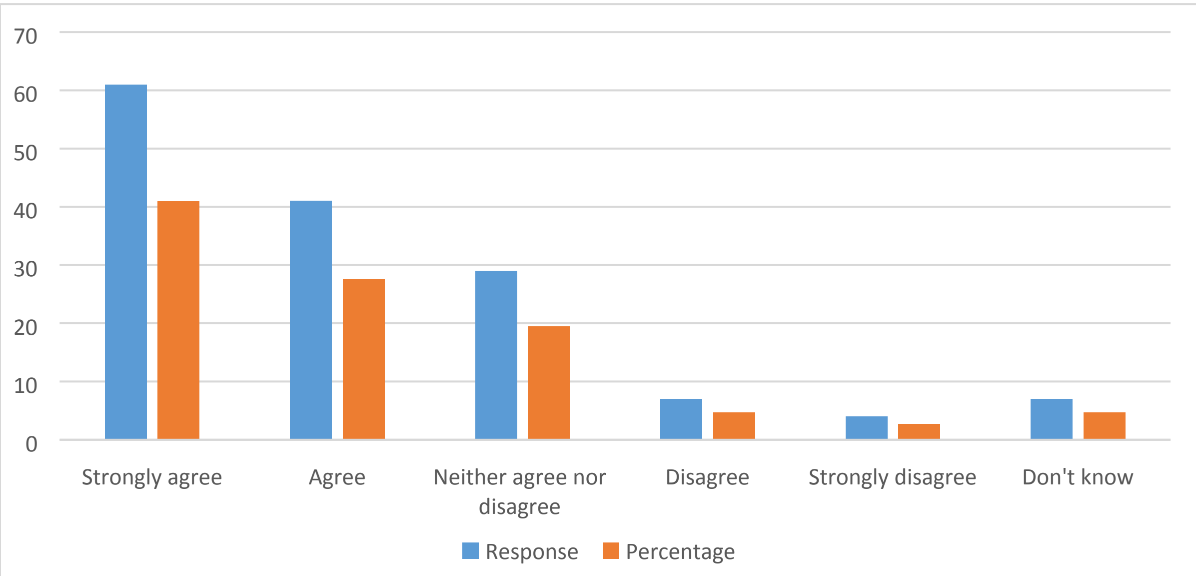
- *'With the unknown outcome of Brexit around the corner, we do not know how this will impact on society and whether after Brexit an increase will be affordable.'*

5 *Q4. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?*

Table 3: Responses to Question 4

Answer Option	Response #	Response %
Strongly agree	61	40.94
Agree	41	27.52
Neither agree nor disagree	29	19.46
Disagree	7	4.70
Strongly disagree	4	2.68
Don't know	7	4.70
Total	149	

Chart 3: Results of value for money question



5.1 The results indicate that the majority of respondents almost (69%) agree that the Service provides value for money.

6 *Q5. If you disagreed to Q4, why do you feel the Service does not provide value for money?*

6.1 Those who disagreed that DSFRS provides value for money were asked why they disagreed.

The common emerging themes from respondents highlighted:

- Need for review of current work practices, including sleeping arrangements, commitment to second jobs and work duties.
- Concerns over retained staff cover arrangements.
- Impact on quality and delivery of service with proposed budget cuts.

A sample range of comments made by respondents are listed below:

- *'The working practice of the fire brigade needs to be overhauled in line with current business practices.......bought into line. How do firefighters find all this time for a second job........'*

- *'Fire stations do not necessarily need full kitchens/sleeping arrangements. If you are on a night shift, you should be working. I have always worked for the NHS and currently for the ambulance service. Our stations have a basic kitchen (with microwave, no cooker).'*

- *'Stop sleeping, playing pool and cooking up meals on duty.'*

- *'How is possible to provide value for money when you talk about a £7.7 million cut back by government!'*

- *'Due to the lack of funding there are insufficient personnel to crew the fire engines resulting in many not being available on a daily basis. The wait for the next nearest engine could be fatal!'*

- *'All of the firefighters I know seem to spend a lot of time not working. I'm not permitted to sleep at work.'*

- *'Currently yes, however the future proposed cuts to the service will change this.'*

- *'Lack of retained cover during the day. Employs hundreds of on call fire fighters who can only provide evening and weekend cover.*

7 *Q6. Have you interacted with Devon and Somerset Fire and Rescue Service in the last 12 months?*

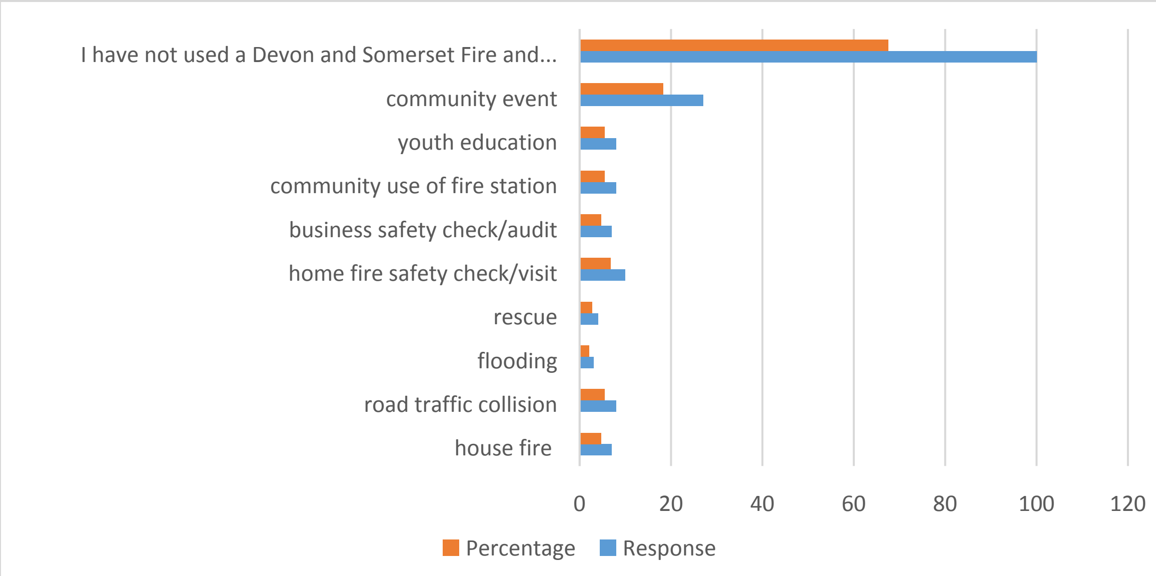
7.1 To contextualise the findings reported above, all respondents were asked if they had used any of nine specific services provided across Devon and Somerset.

Table 4: Response to Question 6

Answer Option	Response #	Response %
Yes, house fire	7	4.73
Yes, road traffic collision	8	5.41
Yes, flooding	3	2.03
Yes, rescue	4	2.70
Yes, home fire safety check/visit	10	6.76
Yes, business safety check/audit	7	4.73
Yes, community use of fire station	8	5.41
Yes, youth education	8	5.41
Yes, community event	27	18.24

No, I have not used a Devon and Somerset Fire and Rescue service	100	67.57
Total	182	

Chart 4: Results of service interaction question



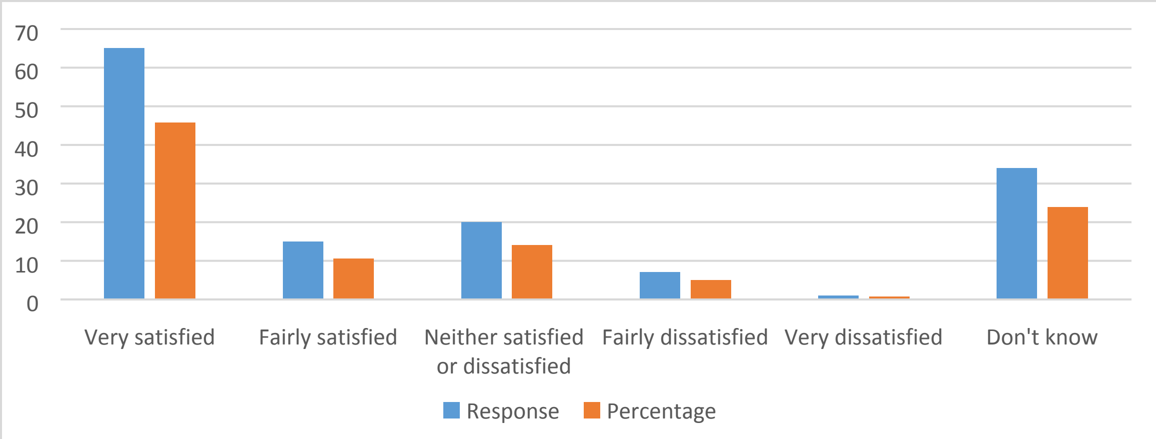
7.2 The results indicate that (67%) of respondents had not interacted with the Service in the last 12 months, however (18%) had attended Community Events and (6%) had received a home fire safety check/visit.

8 ***Q7. How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service (DSFRS)?***

Table 5: Response to Question 7.

Answer Option	**Response #**	**Response %**
Very satisfied	65	45.77
Fairly satisfied	15	10.56
Neither satisfied or dissatisfied	20	14.08
Fairly dissatisfied	7	4.93
Very dissatisfied	1	0.70
Don't know	34	23.94
Total	142	

Chart 5: Results of levels of satisfaction with the service provided by DSFRS



8.1 The results indicate that over half of respondents (56%) are satisfied with the level of service received by DSFRS.

9 ***Q8. What has influenced how you answered question 7?***

9.1 Respondents were asked to provide comments on what influenced their level of satisfaction/dissatisfaction with the service provided by DSFRS. It was evident from the comments received that the majority of respondents comprised of three distinct groups:

- Members of the general public
- Local businesses and
- Existing and previous employees of DSFRS.

There were a range of both positive and negative comments received depending on the respondent's level of satisfaction.

A sample range of comments from respondents who expressed satisfaction with the service included:

- *'Helpful friendly staff.'*
- *'A professional and valued service.'*
- *'These people risk their lives for the general public and I feel that you could not even begin to put a price on what they are worth.'*
- *'The sense of security knowing that they are there if we ever need them.'*
- *'Aware of the work they do in community safety as well as fire and rescue.'*
- *'The quality of service provided.'*
- *'I have had interaction with DSFRS on a professional level.'*
- *'My local station is very proactive.'*
- *'An amazing service from all. If we didn't have a fire service our house would have burnt down completely. This is a LIFE SAVING service and should NOT suffer any MORE cuts!'*

- *‘I respect the job that they do and I know that sometimes have to put their own lives at risk to save others. One of my ex pupils led a team at the Grenfell Tower fire. You have my respect and gratitude for the work that you do.’*

- *‘You still manage to provide your service in spite of current funding shortfalls.’*

9.2 A sample range of comments from respondents who expressed dissatisfaction with the service included:

- *‘Disappointed that our local fire engine is not always available.’*

- *‘The local retained station is unable to keep the appliances available 24 hours a day. After learning what they are paid this doesn’t surprise me. They need a fair wage that will also attract others to join them!’*

- *‘The lack of fire cover being provided, the level of crewing per fire engine that does get to an incident and the service is no longer able to support many community events for the communities it is supposed to be serving.’*

- *‘I don't think we see where all our money goes from local council funding and I feel that it's mainly covering government cuts ; where the local tax money should be funding improvements in the community and be decided by the local crews how best to use.’*

- *‘You need to modernise.’*

10 Profile of respondents

10.1 The following questions provided an opportunity to gather local intelligence from respondents and ascertain whether a cross section of people had responded to the survey.

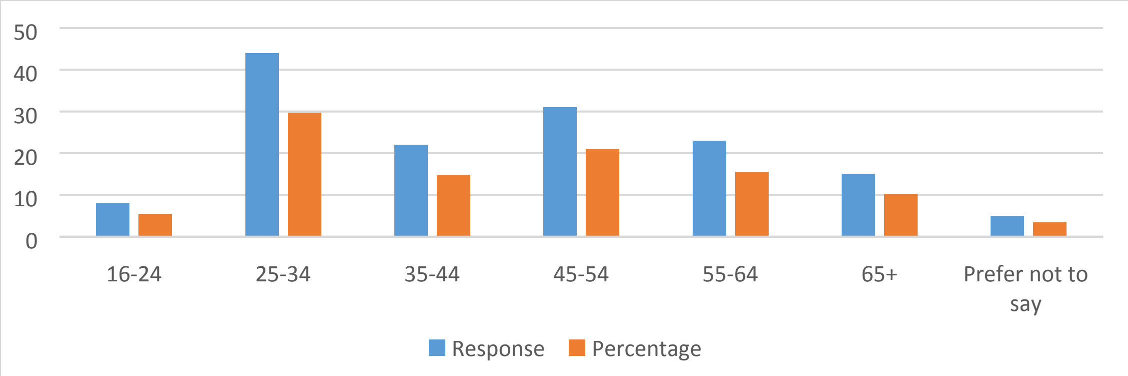
Table 6: Responses to Question 9 – Are you…?

Answer Option	Response #	Response %
A member of the public	143	96.62
Representing a business	5	3.38
Total	148	

Table 7: Responses to Question 10 - regarding age

Answer Option	Response #	Response %
16-24	8	5.41
25-34	44	29.73
35-44	22	14.86
45-54	31	20.95
55-64	23	15.54
65+	15	10.14
Prefer not to say	5	3.38
Total	148	

Chart 6: Results of question regarding age

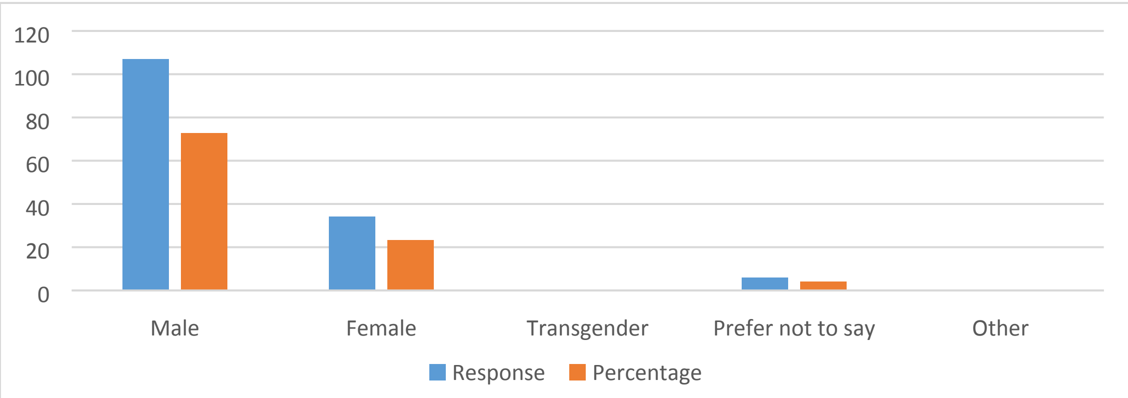


10.2 The results indicate that the majority of respondents (29%) were aged between 25-34 years.

Table 8: Responses to Question 11 - regarding gender

Answer Option	Response #	Response %
Male	107	72.79
Female	34	23.13
Transgender	0	0.00
Prefer not to say	6	4.08
Other	0	0.00
Total	147	

Chart 7: Results of question regarding gender



10.3 The results indicate that the majority of respondents were male (72%).

Table 9: Results of Question 12 - regarding ethnic origin

Answer Option	Response	Response %
White - English / Welsh / Scottish / Northern Irish / British	130	89.04
White - Irish	1	0.68
White - Gypsy or Irish Traveller	0	0.00
Black or Black British - African	0	0.00
Black or Black British - Caribbean	0	0.00
Asian or Asian British - Indian	0	0.00

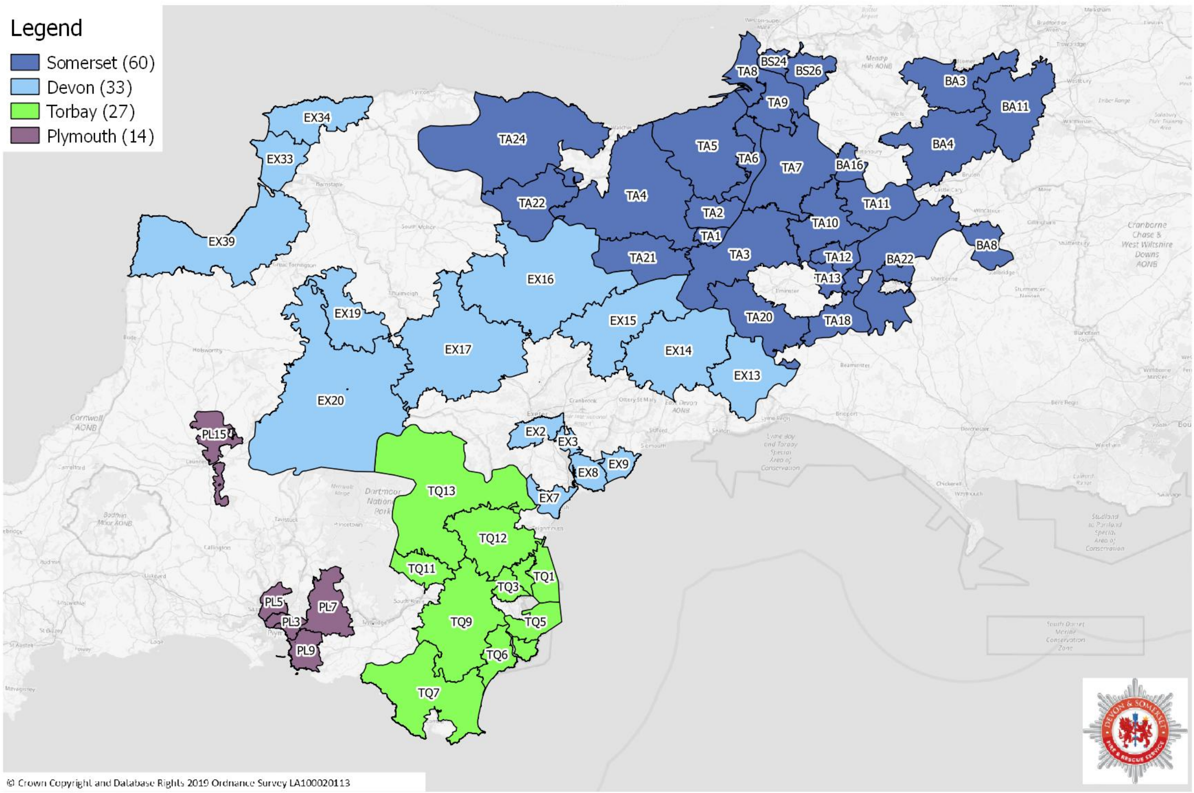
Asian or Asian British - Pakistani	0	0.00
Asian or Asian British - Bangladeshi	0	0.00
Asian or Asian British - Chinese	0	0.00
Mixed or multiple ethnic groups - White and Black Caribbean	0	0.00
Mixed or multiple ethnic groups - White and Black African	0	0.00
Mixed or multiple ethnic groups - White and Asian	0	0.00
Other ethnic group - Arab	0	0.00
Prefer not to say	14	9.59
Other	1	0.68
Total	146	

10.4 The results indicate that (89%) of respondents stated they were White - English / Welsh / Scottish / Northern Irish / British.

10.5 Respondents were asked this question to ensure we had a cross section of responses from across Devon and Somerset. Of the 202 total respondents, 134 provided a postcode and these have been displayed on the map below and grouped in the four constituent authorities.

<u>Map displaying respondents' postcode areas</u>

Postcode Areas responding to Precept Consultation (Online)



REPORT REFERENCE NO.	**RC/19/5**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2019-20 TO 2021-22**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(a) to approve the draft Capital Programme 2019-20 to 2021-22 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to this report; and*** ***(b) subject to (a) above, to note the forecast impact of the proposed Capital Programme (from 2021-22 onwards) on overall affordability and the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2019-20 to 2021-22 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget and has supported the Treasurer's recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. To inform longer term planning the Prudential Indicator has been profiled for a further two years beyond 2021-22 based upon indicative capital programme levels for the years 2022-23 to 2023-24.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2019-20 to 2021-22 (and indicative Capital Programme 2022-23 to 2023-24). B. Prudential Indicators 2019-20 to 2021-22 (and indicative Prudential Indicators 2022-23 to 2023-24).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1. Each year, the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. In constructing the programme, considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously agreed by the Devon and Somerset Fire and Rescue Authority (hereinafter referred to as "the Authority").

1.2. Up until 2015-16, the Authority was in receipt of some direct grant funding towards capital spending as a share of a government allocation of £70m per annum towards Fire Sector capital investment. In 2014-15, this allocation was £1.4m and in previous years, as much as £2m. However, as part of government austerity measures, this funding has now been withdrawn meaning that from 2015-16 onwards the Authority no longer receives any direct grant funding towards its capital investment plans.

1.3. To mitigate the impact of this withdrawal of funding to the 5% debt ratio, the Authority agreed as part of the previous year budget setting to replace this funding with a significant revenue base contribution to funding the capital programme and building a capital reserve for the medium term. Due to cost pressures and grant funding cuts, it is becoming increasingly difficult to sustain the revenue contribution to capital available in previous years.

1.4. The Fleet replacement programme continues with the smaller type appliances into the Service with 20 Rapid Intervention Vehicle planned to be in service by 2019-20 as well as other appliance replacements.

1.5. The Estates programme has been prepared using information from the Estate Review after appropriate consultation to ensure the programme meets all operational and risk considerations.

1.6. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2019-20 to 2021-22 and indicative Capital Programme 2022-23 to 2023-24 show that, if the requirement to invest in assets remains at current levels, the Authority will need to borrow up to £20m. The alternative is to restrict the amount of funding available to the Capital Programme and task the Service with rationalising its capital requirement.

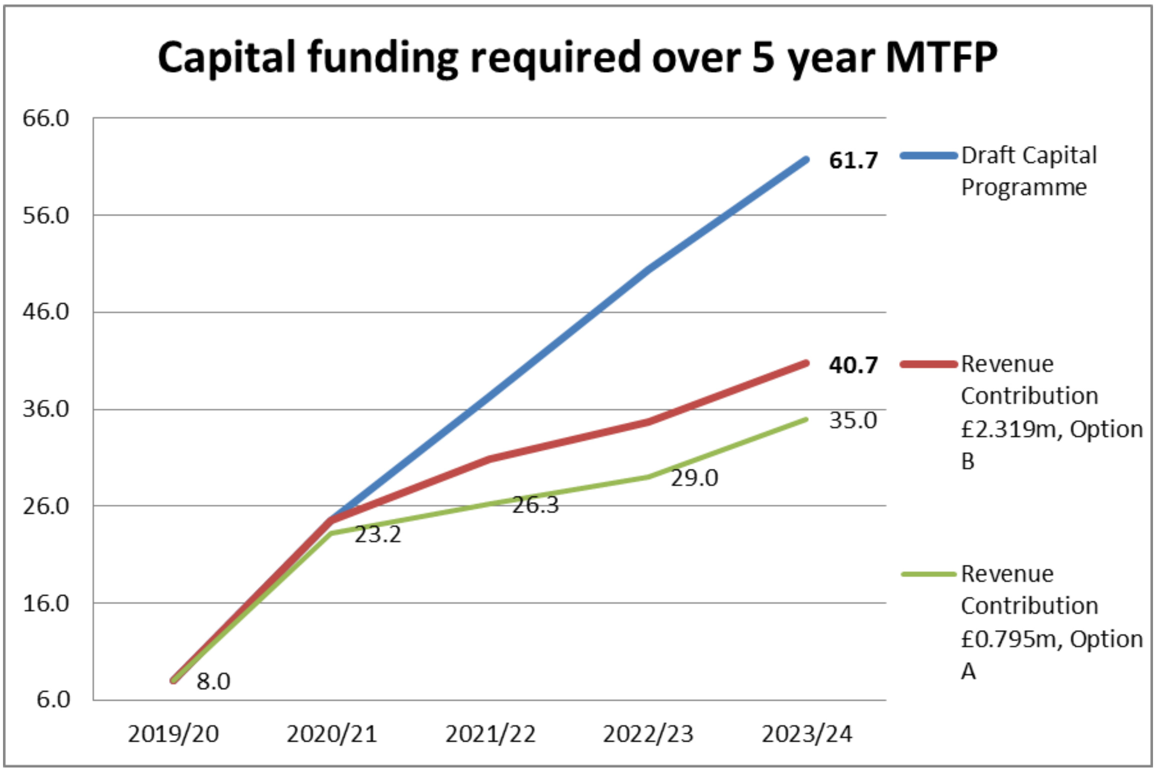
2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1. The tests of affordability of future capital spending are measured by compliance with the Chartered Institute of Public Financial Accountants (CIPFA) Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.2. The proposed programme and funding, as contained in this report, increases the external borrowing requirement to £31.3m by 2021-22 (£35.8m if Council Tax is not increased in 2019/20), and the debt ratio is pushed towards the 5% maximum limit by 2023/24 (forecast to be 4.95.% or 5.04% if council tax is not increased). This compares to a current external borrowing of £25.5m as at 31 March 2019 and a debt ratio of 3.93%.

2.3. The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.

2.4. With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that increasing the Revenue Contribution to Capital will not be possible over the MTFP period and therefore new borrowing will be undertaken. However, as the Authority has a long term strategy to reduce borrowing, the capital programme will need to be redesigned during 2019-20, alongside the project to align our Service Delivery resources to risk. The chart below shows the gap between the costs of maintaining the current asset base and an affordable capital programme based on utilisation of revenue contribution, existing borrowing and the capital reserve.



2.5. The funding gap demonstrates a clear requirement to rationalise the asset base of the Service as outlined in the Safer Together plan. Detailed plans – subject to appropriate consultation – will be developed throughout 2019-20 with a view to creating a more sustainable asset base which also reduces the impact on revenue budgets.

2.6. Due to current interest rates and the potential need to borrow in the future, it is not currently recommended that the Authority repay loans early. This means that existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed with to maximise economy of funding sources.

2.7. Elsewhere on the agenda for this meeting is a separate report “2019-20 Revenue Budget and Council Tax Levels”. The draft 2019-20 revenue budget included in that report makes provision for a revenue contribution towards capital of £2.319m if Council Tax is increased by 2.99% or £0.795m if Council Tax is not increased. The Committee has been made aware that, in order that a sustainable capital programme be prepared, then a revenue contribution to Capital will be required. This needs to be built into revenue base budget to replace the direct grant funding previously received from the government but withdrawn from 2015-16. This figure will need to be reviewed annually as part of the annual budget setting process.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2019-20 and therefore, the figures quoted as a Revenue Contribution to Capital will be subject to change. The impact of any changes will be reported at the meeting.

3. REVISED CAPITAL PROGRAMME FOR 2019-20 to 2021-22

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2019-20 to 2021-22 as contained in this report. This programme represents a net increase in overall spending of £15m over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2018-19	3.3	3.1	6.4
2019-20	3.6	4.7	8.3
2020-21 (provisional)	2.7	4.1	6.8
2021-22 (provisional)	1.8	2.9	4.7
Total 2018-19 to 2021-22	11.4	14.8	26.2
Proposed Programme			
2018-19 (forecast spending)	1.8	2.1	3.9
2019-20	4.4	3.6	8.0
2020-21 (provisional)	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
Total 2018-19 to 2021-22	24.3	16.9	41.2
Proposed change	12.9	2.1	15.0

Estates

3.2. After a period of significant investment, the Estates programme was reduced from 2013/14 to accommodate other capital programmes. As a result, there was a reduced investment in some key stations over a number of years whilst a revised Integrated Risk Management Plan (IRMP) was developed and an Estate Development Review undertaken to review potential options.

3.3. A range of options and scenarios (including modelling of new and alternative sites to any impact on emergency response times) was then reviewed with the two Assistant Chief Fire Officers to assess the value and merit of the various options within the context of the IRMP to meet current and forecast community risks.

3.4. As a result, a programme of improvement has commenced to improve or replace stations whose future strategic importance is now confirmed and where investment into the facilities and site is appropriate and viable. The current programme anticipates that this investment will increase over the next of 5 years with to meet our future operational needs. However, the affordability considerations detailed in this paper will mean that those plans may have to be revisited.

3.5. Collaboration activities with our Bluelight partners continue to seek to identify further opportunities to co-locate or other development opportunities, as each partner's operational strategy develops. To date this has been successfully achieved for little investment by any party. Consequently, no specific capital budget has been allocated for collaboration projects. Should such a requirement for capital investment emerge, it would be subject to submission of a detailed business case.

Operational Assets

Vehicle Replacements/Equipment

3.6. The Service has developed a Fleet, Equipment and Water Supply Strategy which recognises that our service delivery model is changing. A whole life costing review of the Rapid Intervention Vehicles (RIV) appliance and complete fleet of 121 pumping appliances has therefore been undertaken.

3.7. A review of the fleet profile of RIV, Light Rescue Pump and Medium Rescue Pumps is being progressed and is anticipated to be finalised in March / April 2019 to support changes to the service delivery model. The review will confirm numbers of the different size and capabilities of pumping appliances, to date 15 RIVs have been introduced.

3.8. Whilst the review is in progress the Service has also undertaken a review of the age and condition of appliances and fleet projects are in progress to replace the ageing MRP operational and training vehicles and the Aerial Ladder platforms A range of specialist vehicles are also being reviewed and replaced e.g. wildfire 4x4 and Special Rescue Team vehicles.

3.9. A 10 year vehicle replacement programme has been developed and an equipment replacement programme is in development. However, as indicated in this paper, the programme will be subject to review due to affordability of the whole capital programme.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2022-23 to 2023-24. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2 overleaf.

Figure 2 - Summary of Estimated Capital Financing Costs and future borrowing

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	25.444	24.851	31.268	39.934	43.712
Base budget for capital financing costs and debt charges	3.233	3.219	3.362	3.650	4.117
Change over previous year		(0.014)	0.144	0.288	0.468
Debt ratio	4.03%	3.97	4.11	4.42	4.95

4.2. The forecast figures for external debt and debt charges beyond 2021-22 are based upon the indicative programmes as included in Appendix A for the years 2022-23 to 2023-24. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

5.1. Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £26.5m to £44.4.m (including impact of proposed revenue contributions) by 2023-24.

5.2. The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority and the ability to baseline revenue contribution. Whilst the programme now presented maintains borrowing within 5% to 2023-24, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

6.1. This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced, and also keeping debt charges within the 5% limit.

6.2. The capital programme has been constructed on the basis that the revenue budget contribution to capital will be maintained in future years and highlights that unless capital assets are rationalised, there will be a need to borrow in 2021-22. The programme proposed in this report does not commit any spending beyond 2021-22. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval and a future affordability review will be undertaken.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/19/5

2018/19 £000 Budget	2018/19 £000 Forecast Outturn	Item	PROJECT	2019/20 £000 Budget	2020/21 £000 Budget	2021/22 £000 Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
			Estate Development					
200	100	1	Site re/new build (subject to formal authority approval)	1,100	3,100	200	0	0
3,113	1,702	2	Improvements & structural maintenance	3,307	7,100	7,700	9,300	7,000
3,313	**1,802**		**Estates Sub Total**	**4,407**	**10,200**	**7,900**	**9,300**	**7,000**
			Fleet & Equipment					
2,129	1,552	3	Appliance replacement	1,793	3,800	3,300	2,700	2,200
125	0	4	Specialist Operational Vehicles	1,134	2,300	1,400	900	1,900
583	537	5	Equipment	366	200	200	200	200
227	51	6	ICT Department	268	0	0	0	0
46	0	7	Water Rescue Boats	46				
3,110	**2,140**		**Fleet & Equipment Sub Total**	**3,607**	**6,300**	**4,900**	**3,800**	**4,300**
6,423	**3,942**		**Overall Capital Totals**	**8,014**	**16,500**	**12,800**	**13,100**	**11,300**
			Programme funding - revenue funding at 2019/20 figure					
2,128	0	8	Earmarked Reserves:	3,734	11,484	1,782	0	0
2,384	2,031	9	Revenue funds:	2,319	2,319	2,319	2,319	2,319
0	0	10	Capital receipts	0	0	0	0	520
1,911	1,911	11	Borrowing - internal	1,961	1,447	1,938	1,572	1,929
			Borrowing - external			6,511	9,159	4,271
0	0	12	Contributions	0	1,250	250	50	2,261
6,423	**3,942**		**Total Funding**	**8,014**	**16,500**	**12,800**	**13,100**	**11,300**
			Programme funding - revenue funding at 19/20 figure no Council Tax increase					
2,128	0	8	Earmarked Reserves:	5,258	11,742	0	0	0
2,384	2,031	9	Revenue funds:	795	795	795	795	795
0	0	10	Capital receipts	0	0	0	0	520
1,911	1,911	11	Borrowing - internal	1,961	1,447	1,989	1,898	2,382
			Borrowing - external		1,266	9,766	10,357	5,342
0	0	12	Contributions	0	1,250	250	50	2,261
6,423	**3,942**		**Total Funding**	**8,014**	**16,500**	**12,800**	**13,100**	**11,300**

This page is intentionally left blank

APPENDIX B TO REPORT RC/19/5

PRUDENTIAL INDICATORS

	2019/20	2020/21	2021/22	2022/23	2023/24
				INDICATIVE INDICATORS 2022/23 to 2023/24	
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	8.014	16.500	12.800	13.100	11.300
HRA (applies only to housing authorities)					
Total	8.014	16.500	12.800	13.100	11.300
Ratio of financing costs to net revenue stream					
Non - HRA	4.03%	3.97%	4.11%	4.42%	4.95%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	25,444	24,851	31,269	39,934	43,712
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	1,112	1,010	907	791	656
Total	26,556	25,861	32,176	40,725	44,368
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(191)	(694)	6,314	8,549	3,643
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(191)	(694)	6,314	8,549	3,643

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

	2019/20	2020/21	2021/22	2022/23	2023/24
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,910	26,787	33,025	42,524	46,491
Other long term liabilities	1,265	1,162	1,056	947	823
Total	28,174	27,949	34,081	43,471	47,314
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,637	25,544	31,462	40,527	44,305
Other long term liabilities	1,209	1,112	1,010	907	791
Total	26,847	26,656	32,472	41,435	45,096

This page is intentionally left blank

REPORT REFERENCE NO.	**RC/19/6**
MEETING	**RESOURCES COMMITTEE (Budget)**
DATE OF MEETING	**7 FEBRUARY 2019**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2019-20 TO 2021-22)**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***(a). That the Authority be recommended to approve the following:*** ***i. the Treasury Management Strategy and the Annual Investment Strategy;*** ***ii. the Minimum Revenue Provision (MRP) statement for 2019-20, as contained as Appendix B;*** ***iii. the amendment to Country Credit limits, outlined in paragraph 4.12, to allow for continued investments in the event that the UK sovereign rating is downgraded***
EXECUTIVE SUMMARY	As agreed at the Fire Authority meeting of 18 December 2017, there is a new requirement for Resources Committee to review the Treasury Management Strategy for recommendation to the Full Authority. This report sets out a treasury management strategy and investment strategy for 2019-20, including the Prudential Indicators associated with the capital programme for 2019-20 to 2021-22 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2019-20 is also included for approval.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2019-20 to 2021-22. B. Minimum Revenue Provision Statement 2019-20.
LIST OF BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. INTRODUCTION

Background

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

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

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

1.4. Treasury management is defined as:

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

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

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

Statutory requirements

1.7. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

1.8. The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 8 of this report); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.9. MHCLG issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised CIPFA Treasury Management Code 2017.

CIPFA requirements

1.10. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
- Receipt by the 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.
- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for this this Authority the delegated body is Resources Committee, and for the execution and administration of treasury management decisions and for this Authority the responsible officer is the Treasurer.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body. For this Authority the delegated body is Resources Committee.

Treasury Management Strategy for 2019-20

1.11. The suggested strategy for 2019-20 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Link Asset Services (Link).

1.12. The strategy for 2019-20 covers two main areas:

Capital Issues

- capital plans and prudential indicators
- the Minimum Revenue Provision (MRP) strategy

Treasury Management Issues

- treasury limits in force which will limit the treasury risk and activities of the Authority
- treasury Indicators
- the current treasury position

- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

Training

1.13. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A proportionate training plan will be developed for members of the Resources Committee.

1.14. The training needs of treasury management officers are periodically reviewed.

Treasury Management Advisors

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

1.16. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2. CAPITAL PRUDENTIAL INDICATORS FOR 2019-20 TO 2021-22

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

2.2. This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts as proposed in the Capital Programme report considered elsewhere on the agenda. Other long term liabilities such as PFI and leasing arrangements which already include borrowing instruments are excluded.

Proposed Capital Expenditure	2018-19 (forecast spending)	2019-20	2020-21 (provisional)	2021-22 (provisional)
	£m	£m	£m	£m
Estates	1.802	4.407	10.200	7.900
Fleet & Equipment	2.140	3.607	6.300	4.900
Total	3.942	8.014	16.500	12.800

2.3. The following table summarises the financing of the capital programmes shown above. Additional capital finance sources may become available during the year, for example, additional grants or external contributions. The Authority will be requested to approve increases to the capital programme to be financed from other capital resources as and when the need arises.

The Revenue Funding outlined below is conditional upon the Fire Authority decision over levels of Council Tax for 2019-20 – figures below are based on a Council Tax increase of 2.99%.

Capital Financing	2018-19 (forecast spending)	2019-20	2020-21 (provisional)	2021-22 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.000	0.000	1.250	0.250
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	0.000	3.734	11.484	1.782
Revenue	2.031	2.319	2.319	2.319
Existing and New borrowing	1.911	1.961	1.447	8.449
Total	3.942	8.014	16.500	12.800

The Authority's Borrowing Need (Capital Financing Requirement)

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

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

2.6. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £1.209m of such schemes within the CFR.

2.7. The Authority is asked to approve the CFR projections below as included in Appendix A:

Capital Financing Requirement (CFR)	2018-19 (forecast spending)	2019-20	2020-21 (provisional)	2021-22 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	25.538	25.444	24.851	31.269
Other Long Term Liabilities	1.209	1.112	1.010	0.907
Total CFR	26.747	26.556	25.861	32.176
Movement in CFR	(2.276)	(2.343)	(2.836)	4.180
Less MRP	(2.093)	(2.152)	(2.141)	(2.135)
Net movement in CFR	(0.182)	(0.191)	(0.694)	6.314

Core funds and expected investment balances

2.8. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Estimated Year end Resources	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m
Reserve Balances	32.529	26.795	13.311	9.529
Capital receipts/ contributions	0.000	0.000	1.250	0.250
Provisions	1.304	0.304	0.000	0.000
Other	8.899	10.860	12.307	20.757
Total core funds	42.732	37.959	26.868	30.535
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	43.732	38.959	27.868	31.535

*Working capital balances shown are estimated year-end; these may be higher mid-year

Minimum Revenue Provision (MRP) Strategy

2.9. The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.10. MHCLG regulations have been issued which require the full Authority to approve an **MRP Statement** in advance of each year. A variety of options are provided under which MRP could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

2.11. Although four main options are provided under the guidance, the Authority has adopted:

The Asset Life Method

2.12. Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when MRP commences and not changed after that.

2.13. MRP should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make MRP until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

2.14. As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

2.15. A draft MRP statement for 2019-20 is attached as Appendix B for Authority approval.

2.16. The financing of the approved 2019-20 capital programme, and the resultant prudential indicators have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

2.17. The previous sections of the report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.

2.18. A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2019-20 to 2021-22 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2018-19 (forecast spending)	2019-20	2020-21 (provisional)	2021-22 (provisional)
Annual cost	3.93%	4.03%	3.97%	4.11%

3. BORROWING

3.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current borrowing position

3.2. The Authority's treasury portfolio position at 31 March 2018 and current are summarised below.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.18	31.3.18	31.12.18	31.12.18
Treasury investments	£000	%	£000	%
banks	26,401	71%	31,001	80%
building societies - unrated	0	0%	0	0%
building societies - rated	2,000	5%	3,100	8%
local authorities	5,000	13%	3,500	9%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	3,906	10%	1,075	3%
certificates of deposit	0	0%	0	0%
Total managed in house	**37,307**	**100%**	**38,676**	**100%**
bond funds	0	0%	0	0%
property funds	0	0%	0	0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**37,307**	**100%**	**38,676**	**100%**
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	25,631	100%	25,584	100%
LOBOs	0	0%	0	0%
Total external borrowing	**25,631**	**100%**	**25,584**	**100%**
Net treasury investments / (borrowing)	**11,676**	**0**	**13,092**	**0**

3.3. he Authority's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	2018-19 (forecast spending)	2019-20	2020-21	2021-22
	£m	£m	£m	£m
Debt at 1 April	25.631	25.537	25.444	24.851
Expected change in Debt	(0.093)	(0.093)	(0.593)	6.418
Other long-term liabilities (OLTL)	1.299	1.209	1.112	1.010
Expected change in OLTL	(0.090)	(0.098)	(0.101)	(0.103)
Actual gross debt at 31 March	26.747	26.556	25.861	32.176
CFR	26.747	26.556	25.861	32.176
Under/ Over borrowing	0.000	0.000	0.000	0.000

3.4. Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019-20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.5. The Director of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Limits to Borrowing Activity

3.6. Two Treasury Management Indicators control the level of borrowing. They are:

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

Estimated Operational Boundary	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m
Non-HRA expenditure	25,731	25,637	25,544	31,462
Other Long Term Liabilities	1,299	1,209	1,112	1,010
Total	27,029	26,847	26,656	32,472

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

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

  The Authority is asked to approve the following authorised limit:

Estimated Authorised Limit	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m
Non-HRA expenditure	27,007	26,910	26,787	33,025
Other Long Term Liabilities	1,359	1,265	1,162	1,056
Total	28,367	28,174	27,949	34,081

Prospects for interest rates

3.7. The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table and narrative in paragraphs 3.8 and 3.9 gives their central view.

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

3.8. ECONOMIC BACKGROUND

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

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

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

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years.

They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

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

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

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

As for the **labour market** figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. *(Officers are likely to need to verbally update members as events are constantly evolving.)* However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.
Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

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

INTEREST RATE FORECASTS
The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

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

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

The balance of risks to the UK

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

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

3.9. BREXIT TIMETABLE AND PROCESS

March 2017	UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
25.11.18	EU27 leaders endorsed the withdrawal agreement
Dec 2018	vote in the UK Parliament on the agreement was postponed
21.12.18 – 8.1.19	UK parliamentary recess
15.1.19	Brexit deal defeated in the Commons vote by a large margin
By 29.3.19	second vote (?) in UK parliament
By 29.3.19	if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
By 29.3.19	if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
29.3.19	Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
29.3.19	if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
• UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.	
• The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.	
• The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.	
• If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.	
• On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.	

Borrowing strategy

3.10. As reported in the separate report on this agenda “Capital Programme 2019-20 to 2021-22”, it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next six years. To achieve this a recommendation the Authority has supported the inclusion in the base revenue budget a revenue contribution to capital investment (£2.3m in 2019-20).

3.11. This being the case there is no intention to take out any new borrowing during 2019-20. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the full Authority.

Policy on borrowing in advance of need

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

Debt rescheduling

3.13. As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the authority's maturity profile as in recent years there has been a skew towards longer dated PWLB.

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

3.15. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil the adopted borrowing strategy, and
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

3.14 All rescheduling will be reported to the Resources Committee, at the earliest meeting following its action.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1. The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.

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

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

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

Creditworthiness Policy

4.5. This Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.

4.6. The credit ratings of counterparties are supplemented with the following overlays:

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

4.7. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

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

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

4.10. All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

Approved Instruments for Investments

4.12. Investments will only be made with those bodies identified by the authority for its use through the Annual Investment Strategy.

4.12 **Country Limits** The Authority will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. At the time of writing this was AA long term and F1+ short term. If there were to be a disorderly Brexit, it is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as we have no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Council. To ensure our credit risk is not increased outside the UK, it is recommended that the sovereign rating requirement for investments is amended to "Non UK countries with a minimum sovereign rating of AA-".

Non-specified Investments

4.13. Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.

4.14. The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However from April 2015 it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the Link Asset Services credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.

4.15. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in Table 13 overleaf.

4.16. The maturity limits recommended will not be exceeded. Under the delegated powers the Section 151 Officer can set limits that are based on the latest economic conditions and credit ratings.

4.17. The following table shows those bodies with which the Authority will invest.

Specified Investments	Non Specified Investments
Deposits with the Debt Management Agency Deposit Facility	
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies. ***The total amount of non-specified investments will not be greater than £5m in value.***
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

4.18. The Authority's detailed risk management policy is outlined in the Treasury Management Policy which is reviewed and considered on an annual basis. The above criteria have been amended since last year to reflect the potential change to UK sovereign ratings.

Investment Strategy

4.19. In-house funds: The Authority's in-house managed funds are mainly cash-flow derived and investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

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

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

4.21. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

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

4.23. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 days			
£m	**2019-20**	**2020-21**	**2021-22**
Principal sums invested > 364 days	£5m	£5m	£5m

End of year investment report

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

Policy on the use of external service providers

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

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

Treasury Management Scheme of Delegation

Full Authority;

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Approving the selection of external service providers and agreeing terms of appointment.
- Reviewing the treasury management policy and procedures and making recommendations to the Authority.

Resources Committee;

- Receiving and reviewing regular monitoring reports and acting on recommendations
- Review of annual strategy prior to recommendation to full authority

Role of the Section 151 officer (Director of Finance)

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

5. SUMMARY AND RECOMMENDATIONS

5.1. The Authority is required to consider and approve the treasury management strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a minimum provision statement (MRP). Approval of the strategy for 2019-20 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

AMY WEBB
Director of Finance (Treasurer)

This page is intentionally left blank

APPENDIX A TO REPORT RC/19/6

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS 2022/23 to 2023/24	
	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Capital Expenditure					
Non - HRA	8.014	16.500	12.800	13.100	11.300
HRA (applies only to housing authorities)					
Total	8.014	16.500	12.800	13.100	11.300
Ratio of financing costs to net revenue stream					
Non - HRA	4.03%	3.97%	4.11%	4.42%	4.95%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	25,444	24,851	31,269	39,934	43,712
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	1,112	1,010	907	791	656
Total	26,556	25,861	32,176	40,725	44,368
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(191)	(694)	6,314	8,549	3,643
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(191)	(694)	6,314	8,549	3,643
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,910	26,787	33,025	42,524	46,491
Other long term liabilities	1,265	1,162	1,056	947	823
Total	28,174	27,949	34,081	43,471	47,314
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,637	25,544	31,462	40,527	44,305
Other long term liabilities	1,209	1,112	1,010	907	791
Total	26,847	26,656	32,472	41,435	45,096
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000

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

MINIMUM REVENUE STATEMENT (MRP) 2019-20

Supported Borrowing

The MRP will be calculated using the regulatory method (option 1). MRP will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1 April 2008)

The MRP in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The MRP will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

Finance Lease and PFI

In the case of Finance Leases and on balance sheet PFI schemes, the MRP requirement is regarded as met by a charge equal to the element of the annual charge that goes to write down the balance sheet liability. Where a lease of PFI scheme is brought, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion of the charge, for the year in which the restatement occurs, of an amount equal to the write-down for the year plus retrospective writing down of the balance sheet liability that arises from the restatement. This approach produces an MRP charge that is comparable to that of the Option 3 approach in that it will run over the life of the lease or PFI scheme and will have a profile similar to that of the annuity method.

MRP will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make MRP until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £nil.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank