



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority

# **MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22 AND BUDGET GUIDELINES 2019/20**

Joint Report of the Chief Fire Officer and the Treasurer

**Date:** 14 December 2018

**Purpose of Report:**

To present an update to the Medium Term Financial Strategy to the Fire Authority for approval.

To inform Members of the likely budget position for 2019/20 and to request that the Fire Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2019/20.

## **CONTACT OFFICER**

**Name :** Becky Smeathers  
Head of Finance

**Tel :** 0115 967 0880

**Email :** [becky.smeathers@notts-fire.gov.uk](mailto:becky.smeathers@notts-fire.gov.uk)

**Media Enquiries  
Contact :** Therese Easom  
(0115) 967 0880 [therese.easom@notts-fire.gov.uk](mailto:therese.easom@notts-fire.gov.uk)

## **1. BACKGROUND**

- 1.1 The Fire Authority has a number of strategies in place to support good financial management and governance of the Authority.
- 1.2 The Medium Term Financial Strategy provides an overarching view of the way in which the Authority's finances will be managed and it brings together various related financial strategies in one cohesive document. It also explains how the financial strategy supports the Authority's other key strategies and plans.
- 1.3 The updated Medium Term Financial Strategy builds on the strategy approved by the Fire Authority in December 2017 and covers the four-year period from 2018/19 through to 2021/22.
- 1.4 As part of the 2016/17 budget process, the Authority accepted the government's offer of a four-year settlement, covering the four years from 2016/2017 through to 2019/20. This has provided more certainty about the value of Revenue Support Grant and Non-Domestic Rates income during this period. However, there is much less certainty about funding from 2020/21 onwards which makes future year planning considerably more difficult.
- 1.5 In addition to funding, there are many other areas of uncertainty inherent in budget planning and the budget requirement figures contained within this report will be estimates. Nevertheless, the Authority must consider its budgetary position going forward and provide the Finance and Resources Committee with guidance as to the parameters within which to develop a budget proposal for 2019/20 and beyond, before final budget proposals are considered by the Fire Authority in February 2019.

## **2. REPORT**

### **FINANCIAL POSITION**

- 2.1 The Medium Term Financial Strategy is attached in full to this covering report. It considers the current financial position of the Authority and looks at the estimated budgetary position over the next 3 years against a backdrop of both the national and local financial position, including the levels of reserves that the Authority holds.
- 2.2 The current financial position of the Authority remains stable, even after several years of financial restraint. Wherever possible, budget reductions identified for future years have been implemented as soon as possible and this has contributed towards some underspends in prior years which have enabled balances to be maintained at a healthy level. This in turn has allowed a measured approach to be taken to budget reductions over the past few years.

- 2.3 The level of general reserves is estimated to be £5.5m at 31 March 2019, with a risk-assessed minimum level of general reserves proposed at £3.9m for consideration as a separate report on the agenda for this meeting.
- 2.4 This makes available general reserves up to a value of £1.6m to support the revenue budget over the next three years.

## **EXTERNAL FUNDING**

- 2.5 The funding offer remains provisional at present for 2019/20 and will be confirmed in December. It is anticipated that funding levels for 2021/22 will remain flat into 2021/22 for the purpose of planning.
- 2.6 The Country's growth forecasts remain at 1.5% for 2018 and with the economic outlook being heavily dependent on the outcome of Brexit negotiations, it is expected that public spending will continue to be restrained.
- 2.7 The Referendum limit currently stands at 3% for 2019/20 and 2% for thereafter i.e. a council tax increase above these rates will trigger a local referendum on the level of council tax.

## **REVENUE BUDGETS**

- 2.8 The budget process this year has continued to focus on the need to find savings and efficiencies wherever possible. The Chair of the Finance and Resources Committee has again worked closely with Officers to gain assurances as to the robustness of budget estimates. This year, the Chair of the Finance and Resources Committee worked with the Head of Finance to critically review budgets where there had been historic underspends and to help rationalise Reserves.
- 2.9 Work on the budget requirement, which is the amount the Authority is required to spend to deliver its services, is nearing completion and covers the next three years. However, there are still some variables that may affect the overall budgetary position, and these will not be notified to the Authority by the Billing Authorities until the end of January. In summary, these unknown elements are:
- The level of the Council Tax Base;
  - Council Tax and Business Rates surpluses and/or deficits from prior years.
- 2.10 Inflation will also have an impact going forward. Current inflation stands at 2.4% although it is difficult to predict for the future as it is dependent on the outcome of the Brexit negotiations. Any increases in inflation will create additional pressure during this medium-term period with an increased level of risk relating to economic factors outside of the Authority's control. The increased level of financial risk caused by Brexit has been built into the financial risk register which forms the basis for calculating the General Fund minimum level.

2.11 The MTFS provides an estimate of the budgetary shortfall based on expenditure figures provided to Fire Authority in February 2018 and assuming a 2.95% increase in Council Tax in 2019/20 and 1.95% thereafter as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Total Grant Yield	16,546	16,112	16,112	16,112
Budget Requirement	(42,227)	(42,148)	(43,057)	(43,757)
Balance to be met locally	25,680	26,036	26,945	27,645
Strategic use of Reserves	1,444			
Council Tax Yield*	24,236	25,288	26,131	27,002
<b>Budget Deficit</b>	<b>0</b>	<b>(747)</b>	<b>(813)</b>	<b>(643)</b>

\*Assumes a rise in tax base and a 2.95% rise in Council Tax in 2019/20 and 1.95% thereafter.

2.12 If Council Tax were to remain at current levels (Band D at £77.51), with no increase, the deficit position becomes £2.414m by 2021/22 as shown in the table below:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Total Grant Yield	16,546	16,112	16,112	16,112
Budget Requirement	(42,227)	(42,148)	(43,057)	(43,757)
Balance to be met locally	25,680	26,036	26,945	27,645
Strategic use of Reserves	1,444			
Council Tax Yield*	24,236	24,536	24,894	24,894
<b>Budget Deficit</b>	<b>0</b>	<b>(1,473)</b>	<b>(2,050)</b>	<b>(2,414)</b>

\*Assumes a rise in tax base but no rise in Council Tax levels each year.

## PROPOSED GUIDELINES

- 2.13 The meeting of the Finance and Resources Committee in January 2019 will be presented with the latest budgetary position. Although the variables referred to in paragraph 2.9 will not have been finalised by then, the Authority should have received confirmation of the 2019/20 finance settlement and related matters. Therefore, the Committee will have sufficient information about the overall three-year budgetary plan to provide guidance to the Combined Fire Authority meeting in February.
- 2.14 The Authority's total funding for the revenue budget comprises the external funding elements as set out in paragraph 2.11, as well as Council Tax precept. Whilst the amount of external funding cannot be directly influenced by the Fire Authority, the amount of the council tax precept will be set by the Fire Authority in February. It would seem appropriate therefore for the Finance and Resources Committee to focus on two areas:
- a. The options for Council Tax to be recommended to the Fire Authority in February.
  - b. The options for eliminating any budget deficit to enable the Fire Authority to approve a balanced budget, as required by law.
- 2.15 The Authority has a number of options for Council Tax:
- a. Reduce Council Tax.
  - b. Maintain Council Tax at the 2018/19 level
  - c. Increase Council Tax by an amount lower than the referendum limit (assumed to be 3%, but may be changed as part of the finance settlement).
  - d. Increase Council Tax by an amount higher than the referendum limit.
- 2.16 The option to reduce Council Tax would present the Authority with an increased budgetary deficit to manage, as would the option to increase Council Tax by an amount higher than the referendum limit. For the latter option this is because a referendum would be triggered which would result in increased costs to the Authority. In the current financial environment, the options in paragraphs 2.15 b) and c) are considered to be the most appropriate parameters within which the Finance and Resources Committee should work.
- 2.17 If a budgetary position which shows a funding deficit is presented to the Finance and Resources Committee then this will require consideration of suitable options to eliminate this deficit. The options would depend upon the size of any deficit but may include:
- Tasking the Chief Fire Officer with proposing further savings for consideration by the Fire Authority.

- Planning the use of General Reserves to support the budget whilst further budgetary savings are planned and implemented.

### **3. FINANCIAL IMPLICATIONS**

Financial implications are set out in full within the body of the report.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising from this report.

### **5. EQUALITIES IMPLICATIONS**

An initial equality impact assessment has not been prepared in relation to this matter.

### **6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising from this report.

### **7. LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

### **8. RISK MANAGEMENT IMPLICATIONS**

The primary corporate risk is that sufficient financial resources are not available to the Authority. An early guide for the Finance and Resources Committee in terms of the development of the budget will help to manage this risk.

### **9. COLLABORATION**

There are no collaboration implications arising from this report

### **10. RECOMMENDATIONS**

It is recommended that Members:

10.1 Approve the Medium Term Financial Strategy as set out in Appendix A.

10.2 Task the Finance and Resources Committee with providing guidance to the Fire Authority in February in respect of:

- The options for Council Tax limited to either a Council Tax freeze or an increase in Council Tax within the referendum limit;
- The options for addressing any budget deficit to enable the Fire Authority to approve a balanced budget, as required by law.

**11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Charlotte Radford  
**TREASURER TO THE FIRE AUTHORITY**

John Buckley  
**CHIEF FIRE OFFICER**



**NOTTINGHAMSHIRE**  
Fire & Rescue Service

# **MEDIUM TERM FINANCIAL STRATEGY**

**2018/19 to 2021/22**

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**SECTION 1: PURPOSE AND OBJECTIVES OF THE STRATEGY**

**PURPOSE OF THE STRATEGY**

- 1.1 The Purpose of the Authority’s financial strategy is to provide clear and understandable information on actions that are needed to ensure the long term financial sustainability of the Authority. It supports affordable, sustainable service delivery through the planned use of revenue budgets, capital budgets and reserves.
- 1.2 A Medium Term Financial Strategy sets out how finances are to be managed in such a way as to manage levels of Council Tax, Reserves and Balances. In simple terms it will set out how a stable and robust financial platform can be created such that developments and improvements in services set out in the Strategic Plan can both be achieved and sustained over time.
- 1.3 The Strategy should link together with all other strategies of the organisation such as the, Capital Strategy, Treasury Management Strategy, Sustainability Strategy, Reserves Strategy and Revenue Budget Strategy.



- 1.4 The objectives of the Authority’s financial strategy are as follows:
  - 1. To provide a stable financial foundation to assist the decision making process.
  - 2. To be fully cognisant of other supporting plans and strategies such as the workforce plan, equalities objectives and ICT strategies in order to provide a cohesive framework.

3. To enable the Authority to be proactive rather than reactive in terms of financing.
  4. To support the continuance of the Authority's core service strategies.
  5. To support sustainable service delivery by the use of revenue budgets and reserves.
  6. To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.
  7. To hold a working balance of cash and reserves sufficient to respond to unexpected events and/or opportunities.
  8. To be flexible and responsive to changes in needs and legislation.
  9. To take account of the wider economic climate and local influences.
  10. To ensure that the capital base of the Authority can be maintained within affordable and sustainable limits.
  11. To provide forward looking indications of Council Tax levels.
- 1.5 Within this overall set of objectives the strategy must seek to find creative ways of using resources to minimise the impact of reducing funding from Central Government.
- 1.6 A number of principles have been developed to underpin these objectives:
- 1) Resources will be prioritised to meet the core aims of the Service as set out in the Integrated Risk Management Plan and its updates.
  - 2) Priorities will be reviewed in the light of available resources and financial performance.
  - 3) Capital Receipts will mainly be applied to the redemption of debt or the financing of additional capital assets subject to the Flexible Use of Capital Receipts Strategy (Appendix D).
  - 4) Capital will be financed using the most advantageous method prevailing at the time finance is required within the requirements of the Prudential Code. Full options appraisal will be carried out before financing decisions are taken.
  - 5) Capital development will only be carried out where there is a synergy with existing plans and where clear benefits can be identified.
  - 6) The return on investments will take account of the advice received from the Authority's external advisors.
  - 7) Investment decisions will be based on a balance of risk and return, remain biased towards low risk activity and follow the CIPFA principles of Security, Liquidity, and Yield in that order.

- 8) Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by balances unless this is part of a long term sustainable strategy and approved by Members.
- 9) Charging for services will remain sensitive to the needs of communities and their expectations of the service.
- 10) Sponsorship funding will not be sought to underpin front line or core service delivery unless a long term plan for sustainability has been developed.
- 11) The Authority will continue to direct resources to the areas of greatest need in our communities and seek to address the wider safety agenda.
- 12) The Authority will actively seek to collaborate with partner organisations in both setting and delivering priorities.
- 13) The Authority will apply any year end surpluses to balances and/or reserves.
- 14) Longer term financial planning will take account of the possible use of reserves and balances to minimise the effect of reductions in funding as a means of transition but not of permanent support.

1.7 There are a number of key outputs which will help to both assure and monitor the effectiveness of this strategy and the underlying principles. The following list is not exhaustive but provides a flavour of the outputs that may be expected:

- Production of three year revenue budgets, including associated briefing papers, consultations and seminars.
- The production of a 10 year capital budget to reflect the Capital Strategy and long term strategies for ICT, Transport, Property and Equipment such that financial planning can be carried out both within and beyond the window of the medium term financial strategy.
- Production of quarterly monitoring statements for both Capital and Revenue including project based performance as appropriate.
- Supporting information provided to all Council Taxpayers via the internet.
- Treasury Management Strategy.
- Prudential Code Monitoring Reports produced quarterly.
- Flexible Use of Capital Receipts Strategy.
- Sustainability Plan (Efficiency Plan).
- External Audit reports.
- Risk based approach to the maintenance of Balances and Reserves in the Reserves Strategy.

- Internal Audit reports reviewed by the Finance and Resources Committee.
- Grant Claims etc. submitted on time.

## **SECTION 2: ECONOMIC CONTEXT OF THE STRATEGY**

- 2.1 Economic growth in the UK delivered a modest performance in the first half of 2018, although there are signs that growth levels have fallen back since July. Growth for 2018 as a whole looks set to outturn at around 1.5%. This is slightly lower than economic growth across the Eurozone which stands at 1.7% and the US where economic growth came in at 3.5%, boosted by tax cuts and government stimulus. Continued uncertainty around the Brexit negotiations means that economic growth forecasts for the UK for 2019 are difficult to predict, but central forecasts based on an orderly withdrawal from the European Union put growth forecasts for 2019 marginally higher at 1.8%.
- 2.2 Unemployment in the UK has continued to fall and currently stands at 4.1%. Potential skills shortages within the UK economy has seen wage growth pick up modestly throughout the last year and currently stands at 3.2%, the highest in over three years. Inflation continues to abate from its peak in the latter part of 2017 and now stands at 2.4%. Expectations are for inflation pressures to continue to ease towards the Bank of England's 2% target over the next two years, but this will be dependent upon movements in the value of Sterling in the run up to Brexit.
- 2.3 The combined outlook above gave the Bank of England the confidence to increase bank rate in August 2018 from 0.50% to 0.75%. Based on current forecasts, a further rise of 0.25% is forecast in May 2019 (after the Brexit date at the end of March 2019), followed by a further 0.25% increase a year later. A smooth transition and exit from the EU may lead to stronger growth than forecast, which could potentially fuel higher inflation and an earlier increase in bank rates than currently predicted.
- 2.4 Aside of the UK, the economic outlook will also be dependent upon wider factors including growth across the Eurozone, US-China trade negotiations and potential geo-political risks across the global economy.

## **SECTION 3: UNPREDICTABILITY OF FUTURE YEARS PUBLIC FUNDING**

- 3.1 The funding for 2019/20 is known with a reasonable degree of certainty at this point due to it being the final year of the 4 year Comprehensive Spending Review (CSR). However, from 2020/21 funding levels become much less certain.
- 3.2 There will be a new CSR for 2020/21 onwards but details of likely funding covering these years will not be announced until the autumn of 2019. The uncertainty of Brexit and the possibility of a general election will affect the CSR. It also remains to be seen how the move to the Home Office (HO) from the Ministry of Housing, Communities and Local Government (MHCLG) will affect future years CSR arrangements.

- 3.3 A reformed business rates retention scheme is due to be introduced in April 2020. The final details of the scheme are still to be determined but it is anticipated that the level of business rates being retained by local government will increase from the current 50% to the equivalent of 75% in April 2020. As part of the review, the government has announced that Revenue Support Grant will be withdrawn. It is still to be determined whether Fire will continue to receive funding from business rates or whether this will be replaced with a Fire Grant in a similar way to the police.
- 3.4 Ten pilot business rate retention schemes are currently running in 2018/19. In July another round of pilot schemes were announced for 2019/20. The Nottinghamshire precepting authorities, Nottinghamshire County Council and the Fire Authority submitted a joint bid for the 2019/20 pilot scheme. If successful the Authority would lose Revenue Support Grant (RSG) but this should be more than offset by increased Business Rates income. The outcome of the bidding process is expected to be announced as part of the provisional finance settlement in December. If the Nottinghamshire bid is successful the associated changes in funding will be built into the budget reports in January and February.
- 3.5 The impact of the potential changes outlined above will be significant given that the Authority is expecting to receive in excess of £16m from RSG and Business rates in 2019/20, which represents 41% of the Authority's total funding. A breakdown is provided in the table below.

	<b>2018/19 £</b>	<b>2019/20 £</b>
Revenue Support Grant	5,961,472	5,335,308
Business Rates	3,585,468	3,621,323
Top Up Grant	6,999,939	7,155,193
<b>Total External Funding</b>	<b>16,546,879</b>	<b>16,111,824</b>

- 3.6 Finally, the fire funding formula which determines the breakdown of government funding between Fire Authorities is currently under review with a view to implement a revised formula for 2020/21 going forward. Temporary arrangements will be put in place to protect Fire Authorities from significant changes in their funding levels.
- 3.7 Clearly there are many uncertainties around funding projections for 2020/21 onwards. For the purposes of forecasting, the MTFS has assumed that funding levels from central government will remain flat from 2020/21 onwards. When more information becomes available in the autumn of 2020 the strategy will be revised.

## **SECTION 4: LOCAL ISSUES IMPACTING ON THE MTFS**

### **PAY AWARD**

- 4.1 The budgets will assume a 2% pay award for both uniformed and non-uniformed staff for 2019/20 to 2021/22. Should pay awards be agreed higher than this level the additional cost will be in the region of £300k for every 1% increase in pay.

### **RECRUIT INTAKE**

- 4.2 It is anticipated that there will be 1 further full-time recruit intake during 2019/20 and up to 5 retained intakes. There will be additional costs involved in training new recruits as ridership numbers will be increased while newly qualified firefighters gain their competent status. Additional costs will also be incurred on uniform and PPE.

### **PENSIONS**

- 4.3 The Government Actuary Department's valuation of fire pension schemes has resulted in a reduction to the discount rate applied to future payments into the pension scheme. Whilst consultation is still ongoing between the government and the LGA it is anticipated that this will lead to significant increases in the employers' contribution rates. The Home Office have agreed to cover the majority of the costs by way of additional grant for 2019/20. However, there remains an anticipated cost to the authority in the region of £200k. 2020/21 costs onwards will form part of the negotiations for the CSR and more information will be known in autumn 2019.
- 4.4 Another risk area is that of Ill Health retirements. All the costs from such retirements now fall directly on to Authority budgets and costs per early retiree could be as high as £120,000. With firefighters now expected to work longer before retirement there may be an increase in ill health retirements if staff are unable to meet fitness standards. The Authority continues to maintain a budget for ill health retirements based on historical data and also has set aside a specific reserve to ensure that the volatility of these payments is "smoothed" through to the revenue account in a manageable fashion.

### **EMERGENCY SERVICES MOBILE COMMUNICATION PROGRAMME (ESMCP)**

- 4.5 Set up by the Home Office, ESMCP will replace the current communication service provided by Airwave. The new service will be called the Emergency Services Network (ESN). Utilising the latest mobile technology in 4G and LTE, ESN aims that the functionality, coverage, security and availability needs of the UK's emergency services are fully met.
- 4.6 A Regional Strategic Board has been established and a Regional Coordinator has been appointed to work with Service leads and to enable collaboration across the regions.
- 4.7 There have been significant delays to the programme and funding has been similarly been subject to delay. ESN continues to place increasing demands upon most support departments and this has resulted in many fixed term

arrangements being put in place, specifically across the Procurement, Corporate and ICT functions. These costs will only be partially funded from the government and costs continue to be closely monitored.

## **HMICFRS INSPECTION**

- 4.8 The service is due to be inspected by Her Majesty's Inspectorate of Constabulary and fire and Rescue Services (HMICFRS) early in 2019. Whilst costs for the inspection are included within current budgets, the associated costs of any recommendations will need to be considered going forward. The inspection process has required a significant amount of data collection and it is expected that some additional expenditure will be required to ensure the Authority is adequately equipped for providing this data for future inspections.

## **ICT RESTRUCTURE**

- 4.9 On 9 November 2018 the Human Resources Committee made a recommendation to Fire Authority to approve a proposed restructure of the ICT department at a cost of £253k. If approved by Fire Authority at its meeting on 14 December 2018 the additional costs will be built into the 2019/20 expenditure for the budget reports being considered in January and February.

## **SECTION 5: MEDIUM TERM RISKS**

- 5.1 The Authority's Strategic Risk register has identified that there are a number of risks over and above budget reductions which can affect this strategy in the medium term, some of which are beyond the direct control of the Authority. The rapidly changing economic climate at the present time, for example, brings with it a number of risks any one of which could significantly impact upon this strategy.

## **INVESTMENT INTEREST RATES**

- 5.2 The Authority has accumulated reserves of cash both in respect of working balances and other reserves. These cash balances are invested to generate income from interest. The outlook for rates is still very low which means that vetting and the choice of investment counterparty is becoming more important. The process for managing these funds is set out in the Treasury Management Strategy document which is approved by the Fire Authority in February of each year.

## **LOAN INTEREST RATES**

- 5.3 The Authority predominantly funds its capital investments through borrowing. A general policy of using fixed interest rate vehicles is included in the Treasury Management Strategy in order to minimise this risk to interest rate increases. However, in the longer term there is still an exposure from the loan charges on new capital being greater than anticipated.
- 5.4 It is common in the Public Sector to use maturity loans as the most appropriate vehicle for capital financing. These loans do not repay any capital until maturity but interest charges only, and they therefore present a refinancing risk at the end of their term. They are currently the most cost

effective way of borrowing but it is considered essential that the Authority has sufficient accumulated cash to repay principal at term. This ensures that the authority retains control of overall debt levels.

- 5.5 The authority will also take opportunities to make voluntary Minimum Revenue Provision (MRP) contributions as they arise.
- 5.6 The Authority has adopted a medium term strategy to hold long term debt at low rates but reschedule this at a later date if rates are more advantageous. The overall strategy for borrowing is set out in the Treasury Management Strategy document and in the Prudential Code Report (Appendices 1 and 2). This strategy needs to “follow through” in terms of eventually seeking to mirror the debt outstanding profile with the profile of asset lives. This will be possible by rescheduling debt again if shorter term interest rates fall in relation to long rates however there is no sign of this at present.
- 5.7 The Authority will remain at risk of breaching its own prudential code targets for loan maturity if borrowing is deferred and internal cash resources are used to finance capital expenditure due to an adverse cost of carry (the difference between borrowing and investment interest rates). Such breaches will not pose a significant risk to the Authority and can be resolved when borrowing is eventually taken.

## **COUNCIL TAX SUPPORT**

- 5.8 Since 2014/15, Council Tax Benefit has been paid from the collection fund administered by the billing authorities. Costs therefore are shared between the billing authorities and the precepting authorities of which Fire is one. In return for this Government made a grant which is the equivalent of 90% of 2012/2013 spending on council tax benefit to help authorities fund this change. Whilst the system is now well embedded, any change in the economic prosperity of the region may have an impact on levels of Council Tax Benefit being claimed. This will fall as a cost to the Authority.

## **LONG TERM CAPITAL SUSTAINABILITY**

- 5.9 The Capital Strategy for each year is approved by Fire Authority alongside the MTFS. The Capital Strategy sets out how the Authority intends to optimise the use of available capital resources to help achieve its objectives in such a way that it ensures that the programme is affordable, prudent and sustainable.
- 5.10 The Authority has set a limit for the ratio of debt costs to revenue budget of 8%. This “credit ceiling” for affordable borrowing, which is covered within the principles of the Prudential Code, will be more closely matched to the profile of the asset base going forward. This strategy is to ensure that the credit ceiling is not reached before the requirement to undertake major capital schemes is exhausted. The Authority has considered the sustainability of its capital plans in terms of the ICT Strategy, the Fleet Strategy and the Property Strategy and these have been mapped out over future years to assist in the revenue budget planning process.
- 5.11 These individual plans have been brought together to form a 10 year capital programme to assist financial planning and monitoring of debt costs. This is

attached at Appendix C. The programme assumes investment in a new headquarter provision and investment into 2 new fire stations over the 10 year period. This will see the estimated debt cost ratio increase to 7.9% by the end of the 10 years which is close to the maximum ratio of 8% identified in 5.10. The programme will need to be kept under close review as it has been built on assumptions around build costs, service needs and future interest rates. If these were to change, then the programme may need to be adjusted. The 8% ceiling will be further threatened if the revenue budget decreases.

## **SECTION 6: FINANCIAL MANAGEMENT**

- 6.1 The External Auditors of the Authority have consistently issued unqualified audit reports and positive management letters to the Fire Authority in respect of their audit of accounts and their conclusion on the effective arrangements in place to achieve value for money.
- 6.2 The Authority's external auditor was KPMG up to and including the audit of accounts for 2018/19. From 2019/20 Ernst & Young will take over as the Authority's auditors. Work has already commenced in assuring a smooth transition between auditors.
- 6.3 The prevailing economic climate has caused increased financial pressures to be placed upon all public sector bodies and the Fire Service is no exception. There have been a number of significant changes to the funding mechanism and it is clear that the overall funding position is very uncertain over the next three years.
- 6.4 The challenge to the organisation however is not how to survive in this period of uncertainty but how to continue to both provide and develop high quality services for the communities it serves. Finance is a clear enabler in this context and sound financial management is essential to ensure that maximum value can be achieved with the resources available.
- 6.5 The organisation will continue to manage its financial resources to the highest professional standards and back this up with a strong governance framework which will include scrutiny by the Finance and Resources Committee (both generally and as an Audit Committee), regular reporting to elected members and the Strategic Leadership Team. In addition, an independent Internal Audit function is maintained to give additional assurances to both Members and Senior Officers.
- 6.6 The post of Head of Finance is responsible for developing and maintaining the Medium Term Financial Strategy and this post reports directly to the Chief Fire Officer.
- 6.7 The Authority continues to have the support and advice of an independent Treasurer who will work closely with the Head of Finance to advise the Fire Authority on financial matters and provide an independent source of advice when required. The Treasurer plays a key role in financial strategy and this again strengthens the financial management role.

6.8 These changes have allowed budget holders, service managers, Finance, HR and other support functions to work together to develop plans which consider interdependencies, pressure on both financial and non-financial resources, and relative priority of proposed developments and their relevance to the plan. This process has also made a positive contribution to medium term revenue and capital planning.

6.9 Developments in the Service will be resourced from several sources including:

- Recycling resources released by efficiency savings
- Re-assessment of service priorities
- Additional revenue budget allocation where appropriate
- Government Grant Funding
- From efficiency savings arising from collaborative working
- Sponsorship (where resources are temporary or not core activity)

## **SECTION 7: COMPONENTS OF THE MEDIUM TERM STRATEGY**

7.1 This section briefly explains some of the processes and key components that underpin the medium term financial strategy.

### **REVENUE AND CAPITAL BUDGETS**

7.2 The process for the preparation of revenue and capital budgets is now mature but continues to develop each year to accommodate the changing financial environment. There is now positive involvement of business plan owners in the development of the budgets which have been drawn up side by side with business plans. The Finance and Resources Committee has full involvement in the process and the Chair of the Finance and Resources Committee plays an active part in interviewing budget managers to fully understand the underlying detail within the budgets. The Finance and Resources Committee makes recommendations to the Fire Authority.

7.3 The maturity of other plans and strategies has also proven useful in this process as retirement and recruitment profiles from the workforce plan have informed the revenue budget process and the strategies for ICT, Fleet and Property have enabled a cohesive Capital Programme to be developed. It is important to understand that the process of constructing a revenue and capital budget is an iterative one which is driven entirely by organisational priorities. The service's plans and strategies directly drive the budget and not the other way around. Of course, affordability is a key consideration hence the iterative nature of the process but it is important that when financial constraints are imposed the impacts on service development and/or delivery are fully transparent. Therefore there is a direct relationship between, for example, the Fleet Strategy and the Capital Programme because the Capital Programme was developed from that strategy and the two are in complete alignment. The same is true for other strategies also.

7.4 The Capital Programme is a three year programme of longer term projects which cross over the financial year end boundaries. This means that projects may overspend or underspend within a single year, and historically the position has been one of underspending. It is not acceptable that revenue funds are earmarked to finance the capital programme and then not used,

particularly when savings have had to be found from elsewhere within the revenue budget. In order to alleviate this issue it has been accepted that there will be an element of “over programming” but that revenue to support the capital programme will take this into account.

## **COUNCIL TAX**

- 7.5 As part of the budget setting for 2018/19 to 2021/22 the Authority agreed a budget for 2018/19 of £42,227,350. This required a rise in Council Tax of 2.95% to £77.51 at Band D.

## **FEES AND CHARGES**

- 7.6 The Authority is permitted to make charges for the provision of a range of services to the public and to commerce. It has however been the practice of the Authority to avoid making charges for services which the public have a reasonable expectation of receiving free of charge. Revised scales for Fees and Charges are approved by Fire Authority as part of the Budget Setting report in February of each year. An example of where a charge would be made is for the containment and clearance of debris, spillages, discharges or leaks from a vehicle or storage tank where the owner can be readily identified. Charges are made on the basis of recovering costs only i.e. with no profit element and no charges are made in situations where there is a risk to life or property, nor where vulnerable persons are involved. The amount of income which can be raised from these charges is relatively low.

## **TREASURY STRATEGY**

- 7.7 The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 16 February 2018 and is attached at Appendix 1. This strategy complies fully with the Chartered Institute of Public Finance and Accountancy code of practice on Treasury Management which the Authority has adopted. The strategy relies for its success on the appointment of financial advisors who enable the Authority to lend and borrow as prudently as possible. Efforts will continue to be made to ensure a sufficient spread of investment counterparties to minimise risk exposures. The Authority’s Prudential Strategy, which sets out the prudential indicators approved for 2018/19 is attached at Appendix 2.

## **EXTERNAL FUNDING**

- 7.8 Efforts will continue to be made to secure as much external funding as possible either from Government Grant or from sponsorship and partnerships. These are managed carefully to ensure that the sudden withdrawal of funding does not have a negative impact on revenue budget nor cause the Authority embarrassment from having to close down successful projects due to lack of external funding.
- 7.9 There are no plans at the present time to enter into any Private Finance Initiative (PFI) funding for capital projects unless there is a strong indication that such a vehicle might prove cost effective.

## **RESERVES AND PROVISIONS**

- 7.10 The Local Government Act 2003 requires that Authorities maintain adequate reserves and provisions to help ensure that the medium term policy programme is sustainable and that it can be delivered. In accordance with good accounting and financial practice, reserves and provisions will always be made in the accounts where appropriate. In simple terms, the difference between a reserve and a provision is that a provision is made for a known liability arising from a legal obligation whereas a reserve is created for a discretionary purpose. The Authority's Reserves Strategy will be approved by Fire Authority alongside the MTFS.
- 7.11 The reserves position is further considered in Section 11.

## **THE PRUDENTIAL CODE**

- 7.12 The freedoms provided by the Prudential Code for Capital Accounting are to be fully used to make the best possible investment decisions in relation to capital spending in order that meaningful choices can be made between borrowing, leasing and the use of capital receipts. Nevertheless it is still considered important that the Authority should not expose itself to unduly high levels of debt and it is necessary for a view to be taken as to how much debt is sustainable in the longer term. This position has been reviewed and it is clear that given the strategies in place for Fleet and Property over the next 20 years levels of debt should be able to be maintained to a level where the revenue effects of borrowing do not exceed 8% of overall revenue resources available. The risk to this is that as revenue budgets fall this underlying percentage will begin to rise.

## **VALUE FOR MONEY**

- 7.13 The Authority continues to show its commitment to achieving Value for Money through continual budget scrutiny, good project management and improved procurement processes.

## **SECTION 8: COLLABORATIVE WORKING**

- 8.1 The Policing and Crime Bill has introduced a duty to collaborate with the three emergency services where it is in the interest of efficiency and effectiveness. To this end, a Collaboration Strategy was approved by Fire Authority on 22 September 2017. This will not preclude collaboration with other types of organisation where there are benefits to be achieved.
- 8.2 Collaboration is not something new to the organisation. The authority has taken advantage of many opportunities to reduce costs and increase resilience and effectiveness through joint procurement, joint use of estates and shared specialist vehicles.
- 8.3 The Authority remains committed to supporting joint and collaborative working with fire and other emergency service sector colleagues across the region, including on the Tri Control and Emergency services Network projects.

## **SECTION 9: SAVINGS STRATEGY**

- 9.1 The government made an offer to local authorities that settlement figures for the four year period to 2020/21 will be honoured if authorities confirmed acceptance of this offer and publish an efficiency plan. This Authority's efficiency plan is called the Sustainability Plan 2016/17 to 2020/21 and was approved by Fire Authority in February. It is attached to this strategy as Appendix E.
- 9.2 The Sustainability Plan set out the requirement to balance the budget each year alongside possible areas of service delivery and ways of working which could be considered for re-design in order to achieve budgetary savings whilst still maintaining a high quality service for the community.
- 9.3 16 posts have been removed from establishment following the realignment of operational resources to take account of a reduction in the number of Fire Appliances and reintegration of the standalone Specialist Rescue Teams. This resulted in the saving of £590k.
- 9.4 The Mixed Crewing model at Ashfield and Retford Fire Stations has been approved and is in the delivery stage. Total savings are expected to be £800k per year after investing some of the savings into the on call system. The majority of these savings will be achieved from 2019/20 onwards.
- 9.5 Significant savings, potentially in the region of £200k, have been identified following careful scrutiny of existing budgets in areas such as vehicle rationalisation and more accurate estimation of slippage in the capital programme which will lead to delayed borrowing and therefore reduced debt costs.
- 9.6 The Collaboration Strategy was approved By Fire Authority on 22 September 2017. There have already been considerable savings from collaborating with our partners in areas such as Estates and joint procurement of vehicles and IT systems. Further collaboration projects are being actively considered with potential ongoing savings in the region of £300k.
- 9.7 The objective of the strategy was to ensure that the proposed budget for 2019/20 could be met from the resources available and that a balanced budget could be set. Providing schemes currently under development are approved this will have been achieved. However, as always, new cost pressures have been identified which will place further pressures on the budget for 2019/20 onwards. If the CSR in the autumn of 2019 (see section 3) results in further funding cuts then a new savings strategy will need to be considered by Fire Authority as part of the MTFS for 2020/21.
- 9.8 When looking for budget reductions the overall spend profile of the Authority must be considered. Approximately 79% of the revenue budget is spent on pay. This has increased from 75% in recent years. Around 6.3% is spent on capital financing costs and the remaining 14.3% on non-pay items. Since 2010/2011 savings of over £11m have been made prior to 2018/19, with just under £7m of these from pay budgets.

## SECTION 10: OUTLOOK FOR 2019/20, 2020/21 AND BEYOND

- 10.1 The Authority set a budget in February 2018 which for 2018/19, is balanced by way of a contribution from reserves of £1.4m. The estimate for 2019/20 was indicating a shortfall of the order of £1.3m, assuming a Council Tax increase of 2.95%.
- 10.2 After updating the February 2018 expenditure projections for the £800k Mixed Crewing savings approved as part of the savings strategy in Section 9 and additional costs of £200k already identified around pensions, an initial estimate of budget requirements going forward are:

Year	£'000
2018/19	42,227
2019/20	42,148
2020/21	43,057
2021/22	43,757

- 10.3 Comparing these against the funding projections identified in Section 3.5 and assuming a flat level of funding thereafter given the uncertainties discussed in Section 3, and Council tax increases of 2.95% in 2019/20 and 1.95% thereafter, the budgetary shortfall is calculated as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Total Grant Yield	16,546	16,112	16,112	16,112
Budget Requirement	(42,227)	(42,148)	(43,057)	(43,757)
Balance to be met locally	25,680	26,036	26,945	27,645
Strategic use of Reserves	1,444			
Council Tax Yield*	24,236	25,288	26,131	27,002
<b>Budget Deficit</b>	<b>0</b>	<b>(747)</b>	<b>(813)</b>	<b>(643)</b>

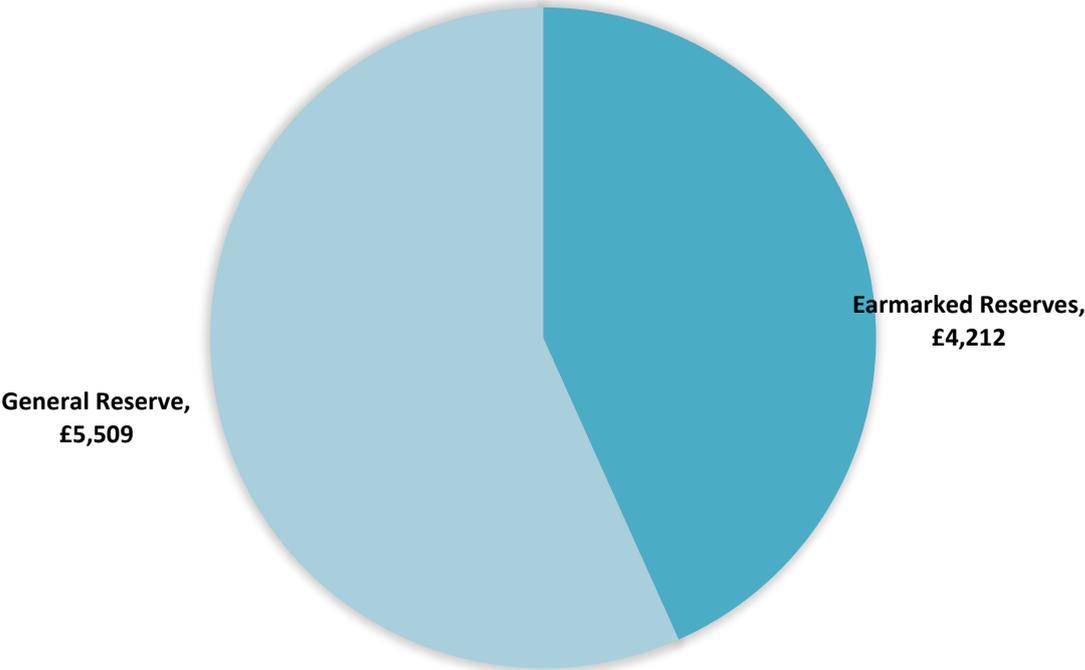
\*Assumes a rise in tax base and a 2.95% increase in 2019/20 and 1.95% rise in Council Tax thereafter.

- 10.4 If council tax increases are not approved in each of the years 2019/20, 2020/21 and 2021/22 then the forecast cumulative deficit by 2020/22 increases to £2.75m.
- 10.5 The budget requirement for 2021/22 cannot be accurately estimated at this point but has been amended for known estimated future pressures. More detailed figures will be provided as part of the budget setting process.

**SECTION 11: RESERVES**

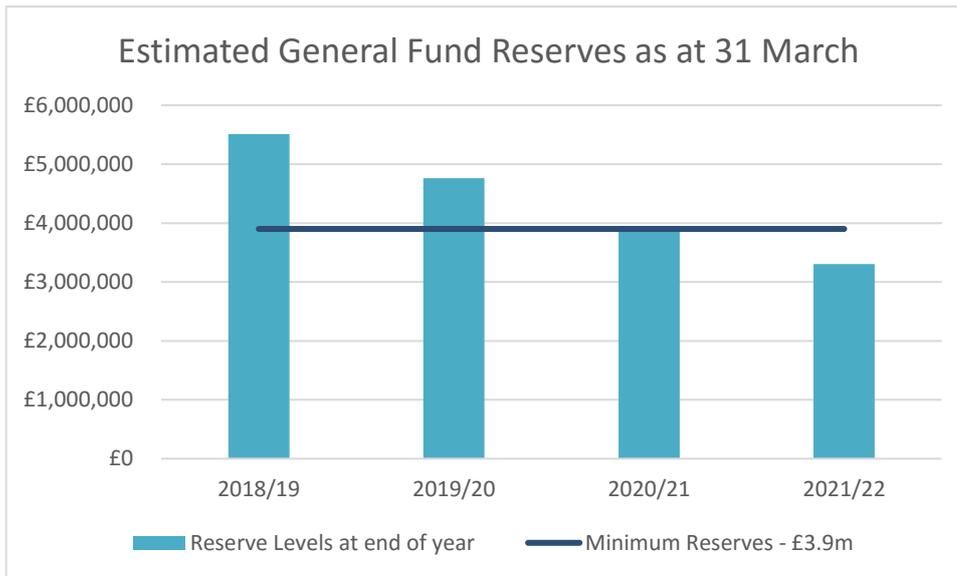
11.1 The Authority's Reserves Strategy is included on the agenda for this meeting. Estimated Reserve levels as at 31 March 2019 are £9.7m, as shown in the diagram below.

**RESERVES ESTIMATES AS AT 31 MARCH 2019 £'000**



11.2 The authority reviews the levels of reserves and working balances it requires as part of the Reserves Strategy. A minimum level of £3.9m has been proposed for 2019/20. This is based on assessing the risks to the Authority and calculating the potential financial impact of those risks.

11.3 If expenditure continues in line with expectations outlined in section 10.3 and assuming that only those saving plans currently authorised materialise, then General Reserves will reduce to below the minimum level at the end of 2020/21, as illustrated in the graph below below:



11.4 The information shown in the above graph does not take account of any unplanned expenditure that may need to be met from the General Reserve or existing Earmarked Reserves. With the current pressures on budgets it is not anticipated that there will be underspends which could be used to top up reserves in the coming years.

## **SECTION 12: COUNCIL TAX**

- 12.1 As part of the 2018/19 finance settlement, the government set a maximum limit for the amount Council Tax can be increased before invoking a referendum of 3% for 2019/20 and 2% thereafter.
- 12.2 If Council Tax levels remain at current levels with no increases from 2019/20 onwards, then the Authority will have insufficient funds to maintain expenditure levels. The deficit will have risen to £2.75m for 2021/22 (section 10.4) and the General Fund Reserve would have been entirely used before the end of 2021/22.
- 12.3 As outlined in section 11, if Council Tax is increased by 2.95% in 2019/20 and 1.95% thereafter, the deficit is estimated to be in the region of £643k but reserves would still fall below the £3.9m threshold by March 2021.
- 12.4 The average 2018/19 Council Tax precept for Shire Fire Authorities is £74.78. The current Council Tax precept for Nottinghamshire Fire Authority is £77.51 – 3.6% above the average but well within the mid range of Fire Authorities.
- 12.5 The deficit and reserve figures identified above do not take account of the many other influences outlined in this report, and it is acknowledged that the whilst potential savings discussed will reduce the shortfall there are also additional pressures that will increase the budget requirement. Budget profiles will continue to be updated as more information becomes available.
- 12.6 At its meeting on 15 February 2019 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2019/20.

## **SECTION 13: SUMMARY**

- 13.1 Whilst there remain clear challenges ahead, the Authority starts this journey in a relatively positive position whereby it has sufficient reserves to underpin the changes required in the coming years.
- 13.2 With careful budgetary planning and resource maximisation it is anticipated that the Authority will be able to forge a future path that will enable it to meet priorities and balance the budget.

## TREASURY MANAGEMENT STRATEGY FOR 2018/19

- 1.1 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.
- 1.2 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy: this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 The suggested strategy for 2018/19 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Link Asset Services.
- 1.4 The strategy covers:
- Prudential and treasury indicators;
  - 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;
  - The Minimum Revenue Provision policy;
  - Training of Officers and Members.
- 1.5 The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

### BALANCED BUDGET REQUIREMENT

- 1.6 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This includes a statutory requirement to make a prudent provision for an annual contribution from its revenue budget towards the reduction in its overall borrowing requirement. This charge is known as the Minimum Revenue Provision (MRP). This therefore means that increases in

capital expenditure must be limited to a level whereby increases in the following charges to revenue are limited to a level which is affordable within the projected income of the Authority for the foreseeable future:

- Increases in interest charges caused by increased borrowing to finance additional capital expenditure;
- Any increases in running costs from new capital projects, and
- Any increases in the Minimum Revenue Provision.

## **ECONOMIC BACKGROUND**

- 1.7 After the UK's relatively strong economic growth in 2016, growth in 2017 has been somewhat weaker with annual growth in the region of 1.5%. This can mainly be attributed to the sharp increase in inflation caused by the devaluation of sterling after the EU referendum.
- 1.8 In response to rising inflation, the Monetary Policy Committee (MPC) increased bank rate from 0.25% to 0.5% at its meeting in November 2017. It also gave forward guidance that it expects to increase bank rate only twice more in the next three years to reach 1.0% by 2020.
- 1.9 A more in depth analysis of the economic backdrop to this report can be found at Appendix B.
- 1.10 Link Asset Services has provided a forecast on the bank interest rate, which draws on current City forecasts:

<b>Link Asset Services Bank Rate Forecasts</b>	
As at 31 March 2018	0.50%
As at 31 March 2019	0.75%
As at 31 March 2020	1.00%
As at 31 March 2021	1.25%

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

## **MANAGEMENT OF CASH RESOURCES**

- 2.12 The Authority uses a main current account, an investment account and a number of local petty cash accounts. All of these accounts are held with Barclays Bank PLC and are managed online. This system allows the Authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained at a minimum level. All surplus funds are

held either in the investment account for short periods or are lent to institutional borrowers over longer periods.

- 2.13 The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The Prudential Code report included an overdraft limit of £500,000 within the authorised limit to allow for such instances. It is proposed that the day to day overdraft facility remains at a level of £200,000.
- 2.14 Part of the treasury management operation is to ensure that cash flows are adequately planned, with cash being available when it is needed. A 3-year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3-month forecast is updated regularly and this process reveals when cash surpluses or shortages are likely to arise.
- 2.15 Cash management processes have been examined by internal auditors and have been shown to be robust.

## **BORROWING STRATEGY**

- 2.16 The prudential indicators for borrowing are set out in Appendix C. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2018/19 report which is elsewhere on this agenda.
- 2.17 The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2018/19, this figure is estimated at £27,306,000. This figure is comprised of capital expenditure incurred historically by the Authority that has yet to be financed by capital receipts, grants, or contributions from revenue including MRP charges, plus estimated capital expenditure and capital financing for 2017/18 and 2018/19.
- 2.18 The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (PWLB). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. Its interest rates are generally favourable compared to those applicable to borrowings from other sources within the marketplace. Following a period of consultation, the government has announced that it intends to abolish the PWLB and transfer its functions for lending to local authorities to the Treasury, with operational responsibility delegated to the Debt Management Office. However, this is not expected to have a tangible impact on the Authority's ability to borrow from the government at preferential rates and, as this change has yet to be implemented, this report will continue to refer to "the PWLB". In 2007/08, a £4m loan was borrowed from a bank, with a fixed interest rate which was lower than the equivalent PWLB rate. It is therefore proposed that the Authority continues to borrow primarily from the PWLB, but considers fixed rate market borrowing when market rates are lower than PWLB rates. In addition to this, the Authority may also consider loans from the UK's Municipal Bond Agency, which is likely to be offering loans to local authorities in the near future.

2.19 The loan of £4m referred to in paragraph 2.18 is structured as a “Lender Option Borrower Option (LOBO)” loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long term debt at a lower rate depending on which is the most advantageous option for the Authority. As the interest rate was not changed on 7 March 2013, the next opportunity for a revision is 7 March 2018. Given the current interest rate environment, it is unlikely that the LOBO rate will be revised at this time.

2.20 Over the next three years, it is anticipated that the Authority will need to borrow up to £8m to finance the capital programme and to replace up to £4m of maturing loans.

2.21 Link Asset Services’ view on future PWLB interest rates is:

	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Mar 20	Mar 21
5 yr PWLB	1.60%	1.60%	1.70%	1.80%	1.80%	2.10%	2.30%
10 yr PWLB	2.20%	2.30%	2.40%	2.40%	2.50%	2.70%	3.00%
25 yr PWLB	2.90%	3.00%	3.00%	3.10%	3.10%	3.40%	3.60%
50 yr PWLB	2.60%	2.70%	2.80%	2.90%	2.90%	3.20%	3.40%

The table above has been adjusted for the PWLB certainty rate, which is a 20 basis points reduction in the interest rate for Authorities such as this one which have applied for it.

2.22 As stated in paragraph 2.11, economic forecasting is particularly difficult at this time. Gilt yields, and therefore PWLB rates, are influenced by geopolitical developments as well as developments in financial markets. These include:

- Timings of Bank of England base rate changes which could impact on the economy if incorrect;
- Inflation levels;
- Brexit negotiations;
- Geopolitical risks such as North Korea, Europe and the Middle East;
- European politics, in Germany for example;
- A resurgence of the Eurozone debt crisis;
- Rising US protectionism under President Trump.

2.23 In view of the above forecast the Authority’s borrowing strategy will be based upon the following information.

- A combination of capital receipts, internal funds and borrowing will be used to finance capital expenditure in 2018/19 and beyond.
- Three PWLB loans will mature in the medium term (£1m and £1.5m in 2018/19 and £1.5m in 2020/21). These will need to be replaced with new borrowing and it is estimated that new borrowing in the period 2018/19 to 2020/21 will be in the region of £8m.

- Link Asset Services' view is that PWLB rates are likely to rise over the next three years. It may therefore be advantageous to take out new loans earlier in the period, as this will have a lesser impact on the revenue budget for the periods of the loans. However, if this is in advance of the need to spend, there will be a cost of capital impact as referred to in paragraph 2.27 below.
- PWLB rates on loans of less than ten years' duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority will also be taken into account when decisions are made regarding the duration of new borrowing. The Authority will strive to seek a balance between securing the most advantageous rate whilst ensuring that it is not unduly exposed to re-financing risk.
- Consideration will also be given to borrowing fixed rate market loans at 0.25% – 0.50% below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB Maturity loans will continue to be taken if the overall cost of such loans is less than the equivalent Annuity loans. If this strategy results in a short term breach of the Gross Borrowing and Capital Financing Requirement indicator, then the reasons for this will be explained to members of the Authority.

2.24 The Authority is currently maintaining an under-borrowed position. This means that the capital financing requirement has not been fully funded with loan debt; instead the cash supporting the Authority's reserves and balances is being used as a temporary measure. The use of cash balances in this way is known as "internal borrowing", and this strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. However, the Authority recognises that internal borrowing itself poses a different kind of risk, as there is a chance that balances may need to be replenished at a time when interest rates are higher. In this respect, internal borrowing is effectively variable rate debt. The Authority will therefore aim to build cash levels up again in the future in order to ensure that reserves and balances are "cash-backed" to an appropriate level, however the timing of this will very much depend on the prevailing economic conditions and the Authority's ability to ensure the security of funds.

2.25 Officers, in conjunction with treasury advisors, will continually monitor both the prevailing interest rates and market forecasts, adopting the following responses to a change in position:

- if it were felt that there was a significant risk of a sharp **fall** in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it were felt that there was a significant risk of a much sharper **rise** in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the

USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.26 The Authority's gross debt position is projected to be £23.2m by the end of 2017/18, but investments of approximately £7m are expected to be in place at 31 March 2018, giving a net debt position of around £16.2m. Currently, investment interest rates are substantially lower than debt interest rates so the use of reserves rather than borrowing to finance capital expenditure over the past three years has resulted in better value for money in the short term (see paragraph 2.24 for more details). However, the Authority recognises that there will be requirement to borrow in the medium term when the cash from surplus reserves has been exhausted. Interest rates are forecast to rise slowly over the next three years, and the Authority will monitor rate changes closely when determining when the time is right to borrow.

2.27 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, although this scenario is unlikely anyway given that current borrowing rates are higher than current investment interest rates, creating a cost of capital impact. 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 funds invested. In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy;
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

2.28 Where the Authority has made a decision to defer long term borrowing either in order to benefit from a forecasted reduction in interest rates or to avoid unnecessary carrying costs, it may undertake short term borrowing to alleviate temporary cash shortages caused by internally borrowing cash balances to support capital expenditure.

2.29 The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. As short term borrowing rates will be cheaper than longer term fixed interest rates, this would indicate a potential to generate savings by switching from long to short term debt. However, a premium would be payable which may negate the savings, and the loan maturity profile of the Authority indicates that this would increase exposure to interest rate risk. It is therefore unlikely that rescheduling of debt will take place in 2018/19 although this will be kept under review should circumstances change. Rescheduling will be considered for the following reasons:

- The generation of cash savings and / or discounted cash flow savings;
- Enhancing the balance of the portfolio by amending the maturity profile.

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

## **INVESTMENT STRATEGY**

2.30 The Authority will have regard to the CLG's Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority's investment priorities are:

- (a) the security of capital and
- (b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

2.31 Investment opportunities will arise when there are temporary cash surpluses. In accordance with guidance from CIPFA, and in order to minimise the risk to investments, the Authority sets a minimum acceptable credit quality of counterparties for investment. To determine the institutions with which investments may be placed, the Authority uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. It is recognised that ratings should not be the sole determinant of the quality of an institution, and Capita's creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

2.32 The modelling approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and enable diversification in investments. These colour codes are used by the Authority to determine both the credit-worthiness of institutions and the duration for

investments. It is regarded as an essential tool, which the Authority would not be able to replicate using in house resources.

2.33 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Capita's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

Institutions within the "purple band" (24 months), the "yellow band" (5 years) or with no colour band will not be used.

2.34 The Authority has previously determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to or deducted from by Officers should ratings change in accordance with this policy. The UK currently has a sovereign rating of AA and has been placed on "negative outlook" which raises the potential for it to be downgraded further within the next eighteen months if the economic outlook for the UK deteriorates. If the UK were to be downgraded to AA- this would remove the option of investing with the Authority's existing bankers and all other UK institutions. It is therefore proposed that the strategy be changed for 2018/19 to continue to use counterparties from the UK should its sovereign credit rating be downgraded to AA-. Investments with UK counterparties will remain subject to creditworthiness criteria outlined in 2.33.

2.35 The credit list provided by Link as at 26 January is attached at Appendix E. This will be updated for changes on a daily basis.

2.36 The Markets in Financial Instruments Directive ("MIFID I") came into force in 2007. "MIFID II" is a revision of the Directive which is effective from 3 January 2018. Under the revised regulations, Local Authorities are categorised as "retail clients". This categorisation limits both the financial instruments and providers available to authorities for treasury management purposes. However, authorities can opt up to become "elective professional clients" if certain criteria are satisfied. This Authority was able to satisfy the criteria, and so has opted up to elective professional status, and has therefore retained its access to a wider range of financial products.

2.37 In accordance with its low risk appetite, the Authority may undertake the following types of "specified" investments:

- Deposits with the Debt Management Office (Government);
- Term deposits with Banks and Building Societies;
- Call deposits with Banks and Building Societies;

- Term Deposits with uncapped English and Welsh local authority bodies;
- Triple-A rated Money Market Funds (CNAV, LVNAV and VNAV);
- UK Treasury Bills;
- Certificates of Deposit.

- 2.38 The risks associated with investing will be reduced if investments are spread e.g. over counterparties or over countries. The Authority will therefore aim to limit its investment with any single counterparty to £2m. It is, however, difficult to impose any further spreading requirement due to the relatively small size of the Authority's investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.
- 2.39 The majority of past investments have been for periods of 3 months or less. In the current financial climate, no term deposit investments with other counterparties, such as UK semi-nationalised banks and local authorities, will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The Authority will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.
- 2.40 All credit ratings will be monitored via a weekly update from Link Asset Services. The Authority is alerted to changes to ratings of all three agencies as and when they occur 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.
- 2.41 Investments will normally be made for durations which accord with Link's credit quality list so, for example, an investment would be made for no more than 100 days (3 months) with a "Green" rated counterparty. This policy works well with fixed term deposits but where the Authority invests in a "call" account in a bank there is no fixed duration for the deposit. In such instances, officers will monitor intelligence about the bank and give notice to withdraw funds immediately if there is any indication of a substantially increased risk to the security of the deposit. Where call accounts are used, deposits will only be made where the minimum notice period is no longer than the Link suggested duration for that institution, and it is therefore recognised that the total period of the investment may be longer than the Link suggested duration in some cases.
- 2.42 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.

## **MINIMUM REVENUE PROVISION POLICY 2018/19**

- 2.43 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were provisions dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.
- 2.44 Under the regulations, Authorities must make a “prudent provision” for MRP and guidance is given on the interpretation of this: “provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service”. This guidance translates into the asset life method. Authorities are permitted to continue charging MRP calculated using the old method for borrowing and credit arrangements which funded capital expenditure incurred before 1 April 2007. This method calculates a charge of 4% of the capital financing requirement each year to revenue.
- 2.45 The following policy on MRP is therefore recommended to members and budgetary provision for MRP has been made on this basis:
- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2018/19 will continue to be calculated on the basis of the 4% CFR (capital financing requirement) method. This method will continue to be used in future years for capital expenditure incurred during or before 2006/07.
  - For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2018/19 will be calculated on the basis of the Asset Life method.
- 2.46 The regulations also allow for Voluntary Revenue Provision (VRP) charges to be made. A VRP charge would be in addition to the MRP charge, and would have the effect of reducing MRP charges in future years, resulting in revenue budget savings. If the situation arises in the year whereby Officers feel that a VRP charge would be advantageous (e.g. if there are revenue budget underspends), then a recommendation will be made to Finance and Resources Committee to approve a VRP charge during the year.

## **TRAINING OF OFFICERS AND MEMBERS**

- 2.47 Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely

attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes

- 2.48 It is also suggested that those tasked with treasury management scrutiny responsibilities also have access to suitable training. A treasury management training seminar was last held for Members of the Fire Authority in January 2017, and further training is planned for April 2018.

## PRUDENTIAL AND TREASURY INDICATORS FOR 2018/19

Estimate of Ratio of Financing Costs to Net Revenue Stream	5.7%
Estimate of Total Capital Expenditure to be Incurred	£3,191,000
Estimate of Capital Financing Requirement	£27,306,000
Operational Boundary	£29,723,000
Authorised Limit	£32,695,000
Upper limit for fixed rate interest exposures	100%
Upper limit for variable rate interest exposures	30%
Loan Maturity:	<u>Limits:</u>
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 30% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 0%
Over 20 years	Upper 100% Lower 30%
Upper Limit for Principal Sums Invested for Periods Longer than 365 Days	£2,000,000

## PRUDENTIAL INDICATORS AND TARGETS

### PRUDENTIAL INDICATORS FOR AFFORDABILITY

#### 1.1 Estimates of the Ratio of Financing Costs to Net Revenue Stream for 2017/18, 2018/19, 2019/20 and 2020/21 and Actual Ratio of Financing Costs for 2016/17

2016/17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Ratio of Financing Costs to Net Revenue Stream				
5.2%	5.4%	5.7%	6.5%	7.0%

On 24 October 2008 the Finance and Resources set a maximum limit for this ratio in order to meet the Prudential Code requirements of affordability and sustainability (as part of the Sustainable Capital Plans report). This is periodically reviewed by Treasury staff and it is still felt to be appropriate. This ratio is set to increase from 5.4% in 2017/18 to 7% in 2020/21. This is largely due to an increase in the minimum revenue provision as a result of significant capital expenditure in 2019/20 on a fire station and 2020/21 on replacement fire appliances as detailed in the budget report.

The estimated ratios for 2018/19 onwards assume an annual council tax increase of 2.95% for 2018/19 – 2019/20 and 1.95% for 2020/21. The ratio increases between 2017/18 and 2020/21 as the financing costs increase year on year whilst the revenue stream is initially reduced due to funding cuts. If no increase in council tax is assumed, the ratio increases to 7.3% by 2020/21. The projected ratio is still within the 8% limit.

### PRUDENTIAL INDICATORS FOR PRUDENCE

#### 1.2 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term gross debt will only be for capital purposes, this indicator requires that external debt does not, except in the short term, exceed the total of the capital financing requirement estimated up to the end of 2020/21. Performance against this indicator will be monitored throughout the year. For information, at 31 March 2017 (2016/17 financial year), the Capital Financing Requirement was £23,885k, Net Debt (total debt less investments) was £13,755k and Gross Debt was £23,262. The estimate of the Capital Financing Requirement at the end of 2020/21 is £29,785k, thereby demonstrating that the indicator has not been breached. At the end of 2020/21, Gross Debt is expected to be in the region of £27.0m, with the Capital Financing Requirement estimated at £29.8m showing that this is realistic.

## PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT

### 1.3 Estimate of Total Capital Expenditure to be Incurred in 2017/18, 2018/19, 2019/20 and 2020/21, and Actual Capital Expenditure for 2016/17

	2016/17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
<b>Capital Expenditure</b>	<b>2,048</b>	<b>4,162</b>	<b>3,191</b>	<b>3,401</b>	<b>3,223</b>
<b>Funded by:</b>					
Borrowing	0	2,052	1,369	1,293	1,186
Revenue	0	0	0	0	0
MRP re-investment	0	1,490	1,506	1,808	2,037
Capital Grant	6	0	41	0	0
Capital Receipts	2,042	620	275	300	0
<b>Total</b>	<b>2,048</b>	<b>4,162</b>	<b>3,191</b>	<b>3,401</b>	<b>3,223</b>

The estimates for 2018/19 to 2020/21 form part of the budget report on this agenda. However, the total for 2018/19 shown in the above table includes assumed slippage in addition to new capital expenditure and is therefore higher than the estimate included in the budget report. Various financing methods have been assumed for the future years but in reality, decisions relating to financing methods will be taken as part of options analyses which will consider the best long term options for the Authority. These options need to be assessed at the time of financing. "MRP re-investment" in the above table refers to the use of the minimum revenue provision which is used to reduce the borrowing need rather than repayment of debt due to the Authority's loans being payable on maturity.

### 1.4 Estimate of Capital Financing Requirement as at the end of 2017/18, 2018/19, 2019/20 and 2020/21, and Actual Capital Financing Requirement as at 31/03/17

2016/ 17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Capital Financing Requirement				
23,885	25,937	27,306	28,599	29,785

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure, and represents the Authority's underlying need to borrow for capital purposes. It will therefore be the

aggregate of all capital expenditure, less any revenue contributions, capital grants or capital receipts. The above table shows that the Capital Financing Requirement increases year on year between 2016/17 and 2020/21 as annual capital expenditure exceeds the funding available from capital receipts, government grants and revenue sources.

The Sustainable Capital Plans report referred to in paragraph 2.1 also concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the capital financing requirement in future years should not exceed £40m.

### **Operational Boundary and Authorised Limit for External Debt**

- 1.5 The Operational Boundary is the Authority's estimate of its total external debt, including other long-term liabilities (such as finance leases) which are separately identified. This is to reflect the most likely scenario and not the worst case. It is possible for the operational boundary to be temporarily breached to take account of unusual movements in cash flow but this should not be a regular occurrence. A variation from the operational boundary is permissible, but will be reported to the Fire Authority.
- 1.6 The operational boundary includes allowances to borrow to fund the capital programme, replace maturing debt and to allow for any short term borrowing that may be needed to cover the cashflow of the authority.
- 1.7 The Authorised Limit is essentially the same as the Operational Boundary but allows headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Authority is exposed to at any given time. Any proposed variation from the Authorised Limit must be authorised by the Fire Authority.

	<b>2017/18 £'000s</b>	<b>2018/19 £000s</b>	<b>2019/20 £000s</b>	<b>2020/21 £000s</b>
<b>Operational Boundary</b>				
Borrowing	27,762	29,723	28,640	31,052
Other long term liabilities	0	0	0	0
<b>Total External Debt</b>	<b>27,762</b>	<b>29,723</b>	<b>28,640</b>	<b>31,052</b>
<b>Authorised Limit</b>				
Borrowing	30,538	32,695	31,504	34,157
Other long term liabilities	0	0	0	0
<b>Total External Debt</b>	<b>30,538</b>	<b>32,695</b>	<b>31,504</b>	<b>34,157</b>

## 1.8 Actual External Debt as at 31/03/17

	<b>2016/17</b> <b>£000s</b>
Actual borrowing	23,262
Actual other long term liabilities	0
<b>Total – Actual External Debt</b>	<b>23,262</b>
Operational Boundary	28,026
Authorised Limit	30,829

## INDICATORS FOR TREASURY MANAGEMENT

- 1.9 The Service carries out its own treasury management in accordance with the CIPFA Code of Practice for Treasury Management, which was revised in 2017. The Authority has adopted a low risk approach to treasury management, which seeks to ensure that investments are secure and that there is sufficient liquidity of funds to enable the Authority to carry out its business.

### Gross and Net Debt

- 1.10 The actual amount of external long term borrowing as at 31/03/17 was £21,183k, with short term borrowing totalling £2,079k. There were no other long term liabilities at the same date. At the same date, the amount of investments was £9,507k, giving a net debt position of £13,755k as at 31/03/17.
- 1.11 The Treasury Management Strategy 2017/18 report, also on this agenda, outlines the proposal to borrow over the next three years to finance the capital programme and to replace maturing loans, and the decision about when to borrow will depend upon interest rate forecasts. For the purposes of setting indicators, assumptions have been made about when borrowing may take place – the reality of this will be determined by Officers in conjunction with the Authority’s treasury advisers.
- 1.12 The proportion of net debt to gross debt can highlight where an Authority is borrowing in advance of need, as it shows the extent to which funds have been borrowed and then invested. Whilst the Authority is permitted to borrow in advance to finance the capital programme approved within the Medium Term Financial Strategy, where borrowing rates are higher than investment rates this creates a “cost of carry”. Therefore when investment interest rates are low, as they currently are, this cost is reduced by keeping the proportion of net debt to gross debt as high as is practicable. For information, the proportion of net debt to gross debt as at 31 March 2017 was 59%, and it is forecast to be 70% at the end of the current financial year. It is proposed that the Authority sets the following limits for the proportion of net debt to gross debt:

	2018/19	2019/20	2020/21
Lower limit for proportion of net debt to gross debt	50%	50%	50%
Upper limit for proportion of net debt to gross debt	85%	85%	85%

## Interest Rate Risk Exposure

- 1.13 In terms of borrowing, it has been considered prudent to use Public Works Loans Board (PWLB) fixed interest loans on most occasions. This is because the PWLB generally offers rates which cannot be obtained elsewhere in the marketplace. However, the Authority did take out a market loan in 2007/08, benefiting from an advantageous rate. Unlike lending, borrowing is a low risk activity so future borrowing arrangements will be entered into on the basis of what is most advantageous for the Authority at the time. Any proposals to borrow from alternative sources to the PWLB will be discussed and agreed with the Treasurer.
- 1.14 Borrowing in the past has been at fixed interest rates although variable rates are not ruled out. It is therefore considered that up to 30% of borrowing might come from variable rate sources if these are considered financially advantageous at the time of financing. For policy changes beyond this, however, it is suggested that Fire Authority approval should be sought.
- 1.15 The total value of lending is not expected to exceed £14m, which is likely to peak around July 2018 however it is difficult to assess what the likely investment profile might be as this depends upon capital expenditure timings as well as the level of pension top up grant received from the Government, and the timing of borrowing. All investments are made in line with the Treasury Management Strategy.
- 1.16 It is proposed that the Authority sets the following limits for interest rate exposures:

	Benchmark %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
<b>Interest Rate Exposures</b>					
Upper Limit for fixed rate exposures	100%	100%	100%	100%	100%
Upper Limit for variable rate exposures	30%	30%	30%	30%	30%

## Loan Maturity

- 1.17 The code of practice and CIPFA guidelines state that there should be no direct linkage between the assets financed and the term of loans taken out. Upper limits in terms of loan maturity are set to ensure that the Authority is not exposed to the risk of having to repay loans and then re-borrow in the short term when interest rates might be high.

- 1.18 It is recommended that the maturity structure limits remain unchanged for 2018/19. The Authority holds a loan of £4m which is structured as a “Lender Option Borrower Option” (LOBO) loan. Whilst the end date of the loan is March 2078 there are options every five years for the lender to revise the interest rate. The Authority may choose to repay the loan without penalty if the amended rate is not advantageous. The next opportunities for the revision of interest rates is 7 March 2018 and 7 March 2023. The limits for these years will be kept under review to reflect that the investment may mature on these dates. However, as the risk of the LOBO rate increasing during the medium term is low due to downward pressures on interest rates, the re-financing risk arising from the loan maturing within 5 years is currently considered to be low.

<b>Limits on the Maturity Structure of Borrowing</b>		
	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
Over 20 years	100%	30%

#### 1.19 **Principal Sums Invested for Periods Longer than 365 Days**

Investments arising from borrowing to support the capital programme are unlikely to exceed one year in duration, however for surplus cash which supports reserves it may be desirable to invest monies for a slightly longer period to achieve a level of certainty around interest receipts and perhaps beneficial interest rates. Such decisions will be influenced by market conditions at the time and the liquidity of funds will be of paramount importance. It is proposed that Officers should be able to invest monies for longer than a year if this appears to be an advantageous strategy, but that a maximum limit of £2m be applied to any such investments. This will contain the Authority’s exposure to the possibility of loss arising from having to seek early repayment of investments.

<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Prudential Limits for Principal Sums Invested for Periods Longer than 365 Days		
2,000	2,000	2,000

APPENDIX C

Proposed 10 year Capital Programme

10 YEAR CAPITAL PROGRAMME	Estimated Slippage 2018	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29
<b>TRANSPORT</b>											
Special Appliances	-			115	625	175	568	90			255
Light Vehicle Replacement	222	235	80	310	617	54	287	267	497	245	200
E1 Fleet - telematic		90					90				
Pumping Appliances			0			0		1,855			1,325
	<b>222</b>	<b>325</b>	<b>80</b>	<b>425</b>	<b>1,242</b>	<b>229</b>	<b>945</b>	<b>2,212</b>	<b>497</b>	<b>245</b>	<b>1,780</b>
<b>EQUIPMENT</b>											
BA Sets	110								500		
Conversion of hose reel equipment	200										
CCTV - vehicles	200	40									
Lightweight Fire Coat	180										
Structural PPE		850								1,000	
Fire Helmets			170								
Gas Tight Suits						50					
Radios							300				
Halmatro							800				
Gas Monitoring									35		
	<b>690</b>	<b>890</b>	<b>170</b>			<b>50</b>	<b>1,100</b>		<b>535</b>	<b>1,000</b>	
<b>ESTATES</b>											
Refurbishment and Rebuilding Fire Stations	126						4,000			2,000	2,000
Newark Fire Station		75									
Hucknall Fire Station	495	200	120								
Workshop Fire Station	126	2,486	1,038								
Retention Hucknall			50								
Sale of Hucknall			-300								
Sale of Workshop			-350								
Headquarters		250	2,500	1,250							
	<b>747</b>	<b>3,011</b>	<b>3,058</b>	<b>1,250</b>			<b>4,000</b>			<b>2,000</b>	<b>2,000</b>
<b>I.T. &amp; COMMUNICATIONS</b>											
ICT Capital Programme - Replacement Equipment		100	100	100	100	110	110	110	110	120	120
Mobile Computing		50	20	20	20	20	20	20	20	20	20
Business Process Automation		50	50	30	30	30	20	20	20	20	20
HQ - Link, itc Replacement			100	100							
Cyber security		20	20	20	20	20	20	20	20	20	20
One off projects					50				50		
Hq Project ( Enabling works)		50									
		<b>270</b>	<b>290</b>	<b>270</b>	<b>220</b>	<b>180</b>	<b>170</b>	<b>170</b>	<b>220</b>	<b>180</b>	<b>180</b>
<b>FINANCE</b>											
Payroll System Upgrades			15		15		15		15		15
Finance Agresso Upgrade		50	5	30	5	30	5	30	5	30	5
		<b>50</b>	<b>20</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>20</b>
<b>Grand Total</b>	<b>1,659</b>	<b>4,546</b>	<b>3,618</b>	<b>1,975</b>	<b>1,482</b>	<b>489</b>	<b>6,235</b>	<b>2,412</b>	<b>1,272</b>	<b>3,455</b>	<b>3,980</b>

## Capital Programme Financing

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
<b>To Be Financed By :</b>										
Capital Receipts - Property	0	650	1,000	0	0	0	0	0	0	0
New Borrowing	4,546	2,968	975	1,482	489	6,235	2,412	1,272	3,455	3,980
Revenue contributions to capital	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>4,546</b>	<b>3,618</b>	<b>1,975</b>	<b>1,482</b>	<b>489</b>	<b>6,235</b>	<b>2,412</b>	<b>1,272</b>	<b>3,455</b>	<b>3,980</b>
<b>Debt Cost Ratio</b>	<b>6.16%</b>	<b>7.11%</b>	<b>7.04%</b>	<b>7.13%</b>	<b>7.07%</b>	<b>6.85%</b>	<b>7.56%</b>	<b>7.50%</b>	<b>7.74%</b>	<b>7.90%</b>

## Flexible Use of Capital Receipts Strategy

### Introduction

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their capital receipts from the sale of fixed assets on the revenue cost of reform projects. This gives local authorities the power to treat as capital expenditure, expenditure which is incurred in generating on-going revenue savings in the delivery of public services either by way of reducing the cost of or reducing demand for services in future years. This impact of cost or demand reduction can be realised by any public sector delivery partners but must be properly incurred by authorities for the financial years that begin on 1 April 2016, 1 April 2017 and 1 April 2018. Capital receipts used in this way must have been received in these same three years.

This new power and its guidance is issued under Section 15(1) of the Local Government Act 2003, which requires local authorities to have regard to guidance that the Secretary of State may specify.

### Application

The guidance specifies that authorities may not borrow to finance the revenue costs of service reform, nor may they use capital receipts accumulated from prior years. The key criteria to be used when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate on-going savings to an authority's or several authorities' and / or to another public sector body's net service expenditure.

### Accountability and Transparency

The guidance specifies that authorities must disclose the individual projects that will be funded or part funded through capital receipts flexibility to the full Fire Authority. This requirement can be satisfied as part of the annual budget setting process or through the Medium Term Financial Strategy. It is recommended that the disclosure of projects to be funded in this way should be made prior to the start of each financial year, however if the strategy is updated part way through the year it must be approved by the Fire Authority and notified to central government. A revised strategy must also include the impact on Prudential Indicators. Both the initial strategy and any revised strategy must be made available online to the public.

The strategy must list each project to be funded through capital receipts flexibility, with details of the expected savings and service transformation. With effect from the 2017/18 strategy details must be included of projects approved in previous years and progress against achievement of the benefits outlines in the original strategy.

### Strategy for 2018/19

For the financial year 2018/19 there are no projects to be funded through capital receipts flexibility. The government's guidance on this was issued after the Fire Authority had approved the budget in February 2016 and this budget included plans to use future capital receipts either to finance future capital expenditure or to repay borrowings. If it is felt in the future that the use of capital receipts flexibility would be beneficial to the Authority then a revised strategy will be reported to the Fire Authority for approval. The strategy for 2019/20 will be included within the budget report to the Fire Authority.

## SUSTAINABILITY PLAN 2016/17 TO 2019/20

### 1. Introduction

- 1.1 This Sustainability Plan sets out how Nottinghamshire Fire and Rescue Authority (the Authority) plans to reduce its cost base over the period from 2018/19 to 2021/22 in order to balance its revenue budget in the context of an expected reduction in external funding. This plan is designed to meet the Home Office requirement for Fire and Rescue Authorities to publish an Efficiency Plan in return for a four year funding settlement.
- 1.2 This Sustainability Plan is appended to the Medium Term Financial Strategy (MTFS) and should be read within the context of the strategy. In particular, this plan seeks to fulfil the core objective (see Section 1.1 of the MTFS) of “to support the continuance of the Authority’s core services and strategies”, and has been prepared in accordance with the principles set out in Section 1.2 of the MTFS.
- 1.3 The principal aim of the Authority is “Creating Safer Communities” and underpinning this aim are three principles, which are:
- to deliver high quality services,
  - with an engaged and motivated workforce,
  - within a framework of strong governance and financial stability.

The Authority will be creating and managing a programme of significant change, and will do so in line with its Shaping the Future Strategy with the aim of ensuring that the three principles outlined above underpin the delivery of objectives through to the year 2020. It is recognised that there are often significant barriers to change and the Authority aims to involve employees fully in the transformation process as a way of overcoming these barriers.

- 1.4 The amount by which the base revenue budget must reduce by 2019/20 is between £2.5m and £3.8m. This range is approximate and the cost reduction required could be more than £3.8m or less than £2.5m. The reason for this variation is that the calculation of the budget requirement in future years depends on a number of uncertain factors which will only crystallise into certainties as time progresses. Examples of these factors are:
- the level of pay awards over the four year period
  - wider economic factors such as inflation and interest rates
  - actuarial valuation of pension schemes and resulting employer contribution rates
  - government fiscal policies such as National Insurance rates or new levies
  - the impact of reforms to funding such as business rates retention, potential fire grant, the fair funding review, referendum limits, other grants
  - council taxbase levels
  - decisions on council tax by those charged with governance

Currently almost half of the revenue budget is supported by external funding as opposed to by council tax, and around three quarters of the revenue budget relates to employee pay. This means that the budget is particularly sensitive to changes in any factors relating to pay, pensions or external funding. It is noted that savings in the region of £11m have already been achieved over the last six years.

## 2. Timetable

- 2.1 The reduction in budgets required of up to £3.8m by 2021/22 will need to be achieved through cashable savings. Where efficiencies can be found which do not release cashable savings, the non-cashable benefits will be used to resource other priority areas. The table below sets out the timescale for achieving savings in each of the four years:

	<u>By 1<sup>st</sup> April</u> <u>2016</u>	<u>By 1<sup>st</sup> April</u> <u>2017</u>	<u>By 1<sup>st</sup> April</u> <u>2018</u>	<u>By 1<sup>st</sup> April</u> <u>2019</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Amount of Budget Reduction Required <u>per year</u>	0.10*	1.99 to 2.43	0.45 to 0.92	0.01 to 0.50
Amount of Budget Reduction Required <u>cumulative</u>	0.10*	1.99 to 2.43	2.44 to 3.34	2.45 to 3.84

\* reduction not yet achieved

- 2.2 Consultation with employees, representative bodies and the public will be undertaken where appropriate, with the results feeding into the change programme.
- 2.3 Where planned savings cannot be achieved in line with the above timetable e.g. due to the requirement for consultation, then the Authority's general reserves can be used to support the budget temporarily in line with principle no. 14 in Section 1.2 of the MTFS. The minimum level of reserves required to be held was risk-assessed in February 2016 and the amount of available reserves which could be used to support the budget is therefore £3.5m as at 1<sup>st</sup> April 2016.

## 3 Areas for Change: Sustainability Strategy 2020

### 3.1 Seek collaborative opportunities to deliver cost savings and / or improved outcomes – Savings target: £850k

- 3.1.1 Continue with existing collaborative arrangements and seek to increase the coverage of these where possible and practicable. Examples of existing collaboration arrangements are:
- The sharing of fire stations with the East Midlands Ambulance Service (EMAS). As at 1<sup>st</sup> April 2016 facilities at a number of fire stations were being used by EMAS employees and these arrangements are generating rental income.
  - The sharing of premises with other partners e.g. the use of Fire Authority buildings by both the Police and St Johns Ambulance. These arrangements are also generating rental income.
  - The First Responder scheme which supports EMAS is being undertaken by crews at two fire stations as at 1<sup>st</sup> April 2016 and is funded by EMAS. The Co-responding scheme has been in place for a number of years.
  - The use of certain training facilities provided by regional fire and rescue services, which has avoided the need to build our own facilities.
  - A finance and procurement system purchased and developed with two other fire and rescue services, which has achieved economies of scale.

- A mobilising system purchased and developed with two other fire and rescue services, which has achieved economies of scale, reduced staffing costs and has improved resilience.
- Certain aspects of fire investigation are carried out with regional resources, generating cost savings. The national Primary Key Authority concept for fire protection has generated efficiencies and this Authority carries out that role for Boots PLC.

3.1.2 Proactively seek new collaborative arrangements with Police, Health, other Fire and Local Authority partners, where these will achieve cost savings and / or improved outcomes

### 3.2 Procurement – Savings target: £350k

3.2.1 Continue to focus on effective procurement to drive down non-pay costs. This will involve the use of procurement frameworks for major purchases (a recent example of this is the Wide Area Network contract) and maintaining a strong governance framework which seeks to achieve best value through all procurement activity.

3.2.2 Continue to proactively seek collaborative procurement opportunities wherever possible to reduce costs. This will involve the exploration of opportunities by working with professional networks, and the use of benchmarking tools to identify innovative procurement initiatives.

### 3.3 Maximising the Benefit and Value of our Assets - Savings target: £150k

3.3.1 Continue to rationalise property assets with the aim of increasing collaboration, improving sustainability and reducing costs.

3.3.2 Develop a new fleet strategy with the aim of rationalising numbers of vehicles and ensuring that on-going fleet is fully utilised at a lower cost.

3.3.3 Continue to refurbish and reuse assets and equipment to extend their useful life where it is safe to do so, thereby reducing costs.

### 3.4 Redesign of Service Delivery - Savings target: £1,100k

3.4.1 Develop alternative crewing models and use of emerging technologies to maximise appliance availability.

3.4.2 Develop a mixed crewing model where feasible to maintain appliance availability and reduce costs.

3.4.3 Revision of current crewing collective agreement to release surplus capacity within the ridership.

3.4.4 Voluntary secondary contracts to support retained appliances at peak demand and to support the transformation process.

3.4.5 Focus on recruitment and retention of retained firefighters to maximise appliance availability.

#### **4 Transparency and Reporting**

- 4.1 Options will be presented to those charged with governance, for consideration and decision, taking account of consultation responses where appropriate.
- 4.2 Annual reports monitoring progress against this plan will be published within the Statement of Assurance.
- 4.3 Reports to those charged with governance, and minutes of meetings, will continue to be published so that interested parties can see how the Service is being transformed.

#### **5 Conclusion**

- 5.1 The period ahead will be one of immense change, which will require significant effort from employees and input from a range of stakeholders in order to achieve the Service's core aims and objectives whilst managing within a smaller budget.
- 5.2 The expectation is that the resulting organisation in 2020 will still deliver high quality services which will continue to address the risks identified in the Integrated Risk Management Plan and meet the needs of the community. Working practices within the Service will be modern and efficient and the cost base will be reduced to a sustainable level.