



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

IMPACT OF THE FALL IN THE VALUE OF STERLING

Report of the Chief Fire Officer

Date: 20 January 2017

Purpose of Report:

To set out the risks to the Authority arising from the fall in the value of currency following the European Union referendum, and potential risk control measures.

CONTACT OFFICER

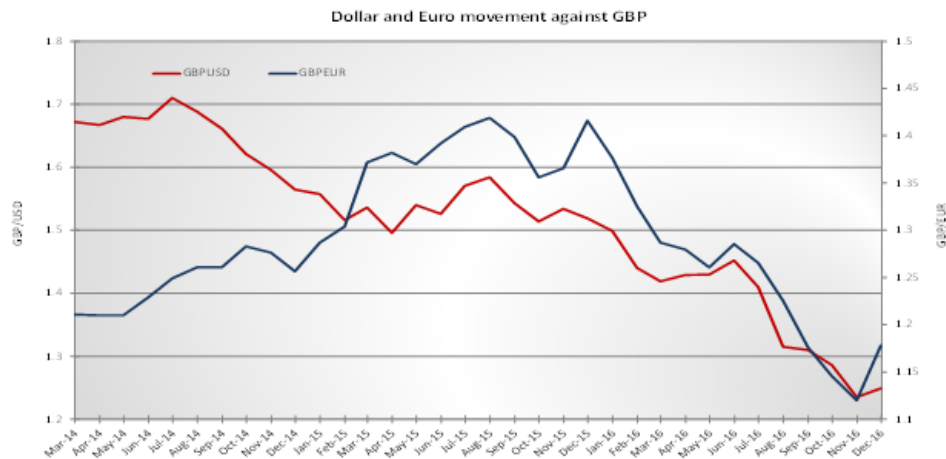
Name :	Sue Maycock Head of Finance
Tel :	(0115) 967 0880
Email :	sue.maycock@notts-fire.gov.uk
Media Enquiries Contact :	Therese Easom (0115) 967 0880 therese.easom@notts-fire.gov.uk

1. BACKGROUND

- 1.1 At its meeting on 14 October 2016, the Finance and Resources Committee considered a report on Corporate Risk Management which included reference to the result of the European Union (EU) referendum in June 2016. Following a discussion on this item, Members of the Committee requested a future report on the implications of the falling pound for the Fire Authority.
- 1.2 The result of the EU referendum was that the United Kingdom will invoke Article 50 of the Lisbon Treaty on European Union, which will eventually result in the United Kingdom leaving the EU (this process has become commonly known as “Brexit”). This significant event prompted a high degree of economic uncertainty and a sharp fall in the value of the UK’s currency, Sterling.
- 1.3 The United Kingdom operates in a global economy which means that it trades with many other nations. Trade between two currency zones i.e. between two nations with different currencies, requires the use of an exchange rate which is the price at which the two currencies can be exchanged with each other.

2. REPORT

- 2.1 The chart below illustrates the movement in Sterling against both the Euro and the Dollar since 2014.



Sterling against the Euro has fallen from around 1.40 Euros prior to the referendum announcement early in 2016, to around 1.17 Euros at the time of writing this report. This equates to a fall of around 16% but is above the low point it reached in October 2016 of 1.10 Euros. Similarly against the US Dollar the rate has fallen from around \$1.45 to the current level of \$1.23, which equates to a fall of around 14.5%.

- 2.2 It is very rare for Nottinghamshire Fire and Rescue Service to purchase goods or services in any currency other than Sterling. This is because even where items are supplied by overseas companies, procurement of such items is usually through a third party UK supplier and all transactions are in Sterling. The risk of a devalued Sterling currency therefore lies not in direct foreign exchange transactions but more in transactions with suppliers who themselves purchase items in a foreign currency at some point in their supply chain. It is not possible to assess how many of the Authority's suppliers might fall into this category although it is felt that it is likely to be a widespread issue given the extent of global trading generally. Such companies will themselves suffer a sharp increase in the cost of purchasing items in non-Sterling currencies and they may pass this cost increase on to the end consumer i.e. the Fire Authority.
- 2.3 The scenario outlined above is not a certainty, as companies could choose to absorb some of the impact on their costs rather than passing on the increases, however this would probably only apply where there is competition in the market. Another factor to consider is that a difficult Brexit negotiation could potentially be bad for Europe and the value of the Euro, and this could keep the Sterling and Euro currencies in balance.
- 2.4 An assessment of the impact of the fall in the value of Sterling is therefore subject to a high degree of uncertainty however the Authority has already seen a significant price increase relating to one contract, which has been avoided by renewing the contract earlier than originally planned at a lower price level (this action has saved the Authority £30k per annum). It was indicated that the price increase was due to the equalisation of UK and European contract values so this does seem to be directly connected to the falling value of Sterling.
- 2.5 The Authority's non-pay budget is currently £7.7m, around 19% of the total revenue budget. This is a relatively high level of potential exposure to the value of Sterling, however a recent exercise to identify suppliers of critical fire and rescue goods and services with foreign head offices revealed 39 such companies, mainly supplying vehicles, operational equipment and ICT systems to the Authority therefore any impact may be difficult to avoid. The total value of expenditure with these suppliers in the most recent full financial year 2015/16 was £596k so, if it is assumed that a 15% decrease in the value of Sterling against the US Dollar and against the Euro might translate into a 15% price increase, this would equate to a total price increase for these suppliers of £89k if the expenditure in 2015/16 represents a typical year. It must be emphasised that this is a theoretical figure though, with a high degree of uncertainty around how much this issue would actually impact on the Fire Authority due to the factors outlined in paragraph 2.3.
- 2.6 The following risk management controls have been considered in relation to this issue:

- 2.6.1 The budget process for 2017/18 to 2019/20 could have allowed for the creation of a generic contingency to cover potential price increases in non-pay items. This option was rejected because it would have required further savings to be found to cover this increased cost, which may not be required.
- 2.6.2 A Euro bank account could be set up and used to pay some suppliers in Euros which would eliminate the risk of exchange rate fluctuations at the point of payment. This option was rejected because almost all of the Authority's suppliers are paid in Sterling, and any balance held in the Euro account would itself be subject to losses arising from further potential falls in the value of Sterling, which could more than offset the gain from mitigating price increases by using such an account.
- 2.6.3 The continued application of strong procurement policies is supported because this will result in best value for the Authority in the long term. Examples of good practice include the use of tendering to promote market competition and achieve overall value for money; seeking collaborative procurement opportunities to achieve savings through economies of scale; fixing contract prices by reference to a more stable index such as the Retail Price Index.
- 2.6.4 The annual risk assessment of the minimum level of General Reserves is currently underway and this will reflect the increased risk outlined in this report. If significant price increases do materialise in 2017/18 then General Reserves can be used to cover the resulting overspend and the on-going impacts can be built into the revenue budget from 2018/19 onwards as part of next year's budget process.
- 2.7 In terms of potential wider impacts it is acknowledged that the United Kingdom's manufacturing sector has seen a contraction over the past two to three decades and is therefore not in a position to take advantage of the falling Sterling value by increasing exports. This is likely to result in a general increase in prices within the home economy which will in turn raise the rate of inflation. This may put pressure on wage inflation which could then potentially affect almost the whole of the remainder of the revenue budget.
- 2.8 As this report explains, it is difficult to assess the potential impact on the Fire Authority of the fall in the value of Sterling due to a number of uncertain factors. Officers will remain aware of this issue and, if price increases or pay awards do start to materialise, then any overspends will be highlighted to this Committee through the usual budget monitoring report. The Committee will then be able to make a decision about how to deal with the issue both within the year and in the future budget setting process.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An Equality Impact Assessment (EIA) has not been undertaken because this report has no direct human resources or people implications.

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 directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in the body of the report.

9. RECOMMENDATIONS

That Members note the contents of this report.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER