NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2023/24 AND BUDGET GUIDELINES 2020/21

Joint Report of the Chief Fire Officer and the Treasurer

Date: 20 December 2019

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 2020/21 and to request that the Fire Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2020/21.

Recommendations:

It is recommended that Members:

- Approve the Medium Term Financial Strategy (MTFS) as set out in Appendix A.
- Approve the Capital Strategy and Flexible Use of Capital Receipts Strategy contained within the MTFS.
- 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.

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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 (MTFS) 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 demonstrates how the Authority's resources are used to support the Authority's Strategic Plan and other key strategies and plans.

1.3 The updated MTFS builds on the strategy approved by the Fire Authority in December 2018 and covers the four-year period from 2020/21 through to 2023/24.

1.4 Government funding for the four-year period is uncertain at present. The 2020/21 spending review announced in September 2019 was very high level. A more detailed funding announcement would normally have been made at this point in the year providing estimated grant levels for the forthcoming year. This is now not expected until after the general election, and will probably be announced in January. For this reason, the Strategy considers several funding scenarios. The outcome of the general election on 12 December 2019 will also determine the length and content of any future year spending reviews.

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 2020/21 and beyond, before final budget proposals are considered by the Fire Authority in February 2020.

2. REPORT

FINANCIAL POSITION

2.1 The MTFS 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 four years against a backdrop of both the national and local financial position, including the levels of reserves that the Authority holds.

2.2 When the Authority set the budget in February 2019, there remained a deficit position for 2020/21 onwards in the region of £800k. The Service has worked hard during the year to identify savings to bridge this gap. Carefully scrutinising areas of consistent underspends in the budget along with

procurement savings, have allowed the deficit to be cut without impacting on front line services.

2.3 The level of general reserves is estimated to be £5.5m at 31 March 2020, 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 The general fund currently exceeds the minimal level by £1.6m.

EXTERNAL FUNDING

2.5 There is no detailed funding announcement at present, and this is not expected until January 2020 due to the General Election. The high level 2020/21 spending review announced in September indicated that government funding would be protected in real terms. It has been assumed that government grant will include inflation for 2020/21, but that anticipated funding levels for 2021/22 onwards will remain flat for the purpose of planning. The Strategy also provides for several alternative funding scenarios given the current level of uncertainty.

2.6 The referendum limit currently stands at 2% for the four years covered by the Strategy. A Council Tax increase above 2% will trigger a local referendum on the level of Council Tax.

REVENUE BUDGETS

2.7 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 is working closely with Officers to gain assurances as to the robustness of budget estimates.

2.8 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 four years. However, there are still some variables which 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 base line funding from Central Government (revenue support grant and business rates top up grant);
- The level of the Council Tax base;
- Council Tax and business rates surpluses and/or deficits from prior years.

2.9 Current inflation stands at 1.8%. The Bank of England has revised inflation rates downwards to between 1.25% and 2% over the next four years, 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.

2.10 A number of scenarios have been considered in the MTFS due to the uncertainty of funding over the forthcoming years.

SCENARIO 1 – 2% RISE IN GRANT FUNDING FOR 2020/21 ONLY

2.11 The first scenario considers a 2% rise in grant funding for 2020/21 only. This includes:

- Base line funding (revenue support grant) and business rates top up grant) receive an inflationary increase for 2020/21 as indicated in the spending review announced in September;
- Base line funding remains flat for 2021/22 to 2023/24;
- Pension grant remains flat at £2.3m throughout;
- Council Tax is increased at 1.95% for each year.

2.12 This will result in a break even position as shown in the table below:

2% Increase in Base Line Funding for 2020/21, No Increase Thereafter

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24
Government Funding	18,504	18,790	18,790	18,846	18,903
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be Met Locally	26,534	26,136	27,012	27,859	28,736
Strategic Use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus / (Deficit)	**0**	**0**	**(5)**	**46**	**98**

2.13 If no Council Tax increases are approved in each of the years above, then the forecast cumulative deficit by 2023/24 increases to £2.0m.

2.14 The Authority would be in a similar break even position if base line funding were to be increased by inflation for each year, but the pension grant were to be cut by 10% per year, given that indications have been that this was a temporary support and would not be guaranteed in future years.

2.15 This scenario enables the £200k increase in support staff superannuation costs to be funded (Section 4.5 of the MTFS).

2.16 The budget requirement for future years cannot be accurately estimated at this point, as the full budget is still to be determined. It has been amended for known major pressures, but figures are likely to change. More detailed figures will be provided for Finance and Resources Committee in January 2020 and Fire Authority in February 2020.

SCENARIO 2 – ZERO RISE IN GRANT FUNDING FOR ALL YEARS

2.17 This scenario assumes that:

- Base line funding remains flat for 2020/21 to 2023/24;
- Pension grant remains flat at £2.3m throughout;
- Council Tax is increased at 1.95% for each year.

2.18 This scenario would result in a deficit position for the Authority as detailed in the table below:

Zero Increase in Base Line Funding for 2020/21 to 2023/24

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24**
Government Funding	18,504	18,540	18,540	18,596	18,653
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be Met Locally	26,534	26,386	27,262	28,109	28,986
Strategic Use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus / (Deficit)	**0**	**(250)**	**(260)**	**(204)**	**(152)**

2.19 If no Council Tax increases are approved in each of the years above, then the forecast cumulative deficit by 2023/24 increases to £2.3m.

2.20 If there is no increase in base line funding then there will be a deficit in the region of £250k, largely attributable the £200k additional support staff superannuation costs (Section 4.5 of the MTFS).

5% increase or decrease in Base Line Funding

2.21 Two further scenarios have been considered (Appendix 4 of MTFS) – a 5% increase or decrease in base line funding.

2.22 A 5% increase in funding would result in a surplus of £375k in 2020/21 which could be reinvested in services.

2.23 A 5% decrease in funding would result in a deficit of £874k in 2020/21 which could be reinvested in services.

PROPOSED GUIDELINES

2.24 The meeting of the Finance and Resources Committee in January 2020 will be presented with the latest budgetary position. Although funding levels, Council Tax base and business rate estimations will not have been finalised by then, the Authority should have more detailed expenditure estimates. Therefore, the Committee will have some information about the overall three-year budgetary plan to provide guidance to the Fire Authority meeting in February.

2.25 The Authority's total funding for the revenue budget comprises the external funding elements, 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.

2.26 The Authority has a number of options for Council Tax:

a. Reduce Council Tax;

b. Maintain Council Tax at the 2019/20 level;

c. Increase Council Tax by an amount lower than the referendum limit (assumed to be 2%, but may be changed as part of the finance settlement – see Section 12 of the MTFS);

d. Increase Council Tax by an amount higher than the referendum limit.

2.27 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 2.26 b) and c) are considered to be the most appropriate parameters within which the Finance and Resources Committee should work.

2.28 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

The 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 equality impact assessment has not been undertaken because there are no equality 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 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 IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members:

10.1 Approve the MTFS as set out in Appendix A.

10.2 Approve the Capital Strategy and Flexible Use of Capital Receipts Strategy contained within the MTFS.

10.3 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

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APPENDIX A

NOTTINGHAMSHIRE
Fire & Rescue Service

MEDIUM TERM FINANCIAL STRATEGY

2020/21 to 2023/24

CONTENTS

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 which 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 (MTFS) 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 reflect the priorities outlined in the Strategic Plan and link together with all other strategies of the organisation such as the Capital Strategy, Treasury Management Strategy and Reserves Strategy.

1.4 The objectives of the Authority's financial strategy are as follows:

a) To provide a stable financial foundation to assist in decision making.

b) To be fully cognisant of other supporting plans and strategies such as the Strategic Plan, Workforce Plan, equalities objectives and ICT strategies to provide a cohesive framework.

c) To enable the Authority to be proactive rather than reactive in terms of financing.

d) To support the continuance of the Authority's core service strategies.

e) To support sustainable service delivery using revenue budgets and reserves.

f) To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.

g) To hold a working balance of cash and reserves sufficient to respond to unexpected events and/or opportunities.

h) To be flexible and responsive to changes in needs and legislation.

i) To take account of the wider economic climate and local influences.

j) To ensure that the capital base of the Authority can be maintained within affordable and sustainable limits.

k) 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:

a) Resources will be prioritised to meet the core aims of the Service as set out in the Strategic Plan and other strategies which flow from this overarching document. This will include departmental business plans and the Corporate Risk Register.

b) Priorities will be reviewed in the light of available resources and financial performance.

c) 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 2).

d) Capital will be financed using the most advantageous method prevailing at the time finance is required within the requirements of the Prudential Code. A full options appraisal will be carried out before financing decisions are taken.

e) Capital development will only be carried out where there is a synergy with corporate strategies and where clear benefits can be identified.

f) The return on investments will take account of the advice received from the Authority's external advisors.

g) 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.

h) Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by reserves unless this is part of a long-term sustainable strategy and approved by Members.

i) Charging for services will remain sensitive to the needs of communities and their expectations of the Service.

j) Sponsorship funding will not be sought to underpin front line or core service delivery unless a long-term plan for sustainability has been developed.

k) The Authority will continue to direct resources to the areas of greatest need within communities and seek to address the wider safety agenda. This will be influenced by the Fire Cover Review which will be updated in 2020/21 and reviewed in its entirety in 2021/22.

l) The Authority will actively seek to collaborate with partner organisations in both setting and delivering priorities, as set out in the Collaboration Strategy.

m) The Authority will apply any year end surpluses to general fund reserves.

n) Longer term financial planning will take account of the possible use of reserves 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:

a) Production of four-year revenue budgets.

b) 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.

c) Production of quarterly monitoring statements for both capital and revenue, including project based performance as appropriate.

d) Supporting information provided to all Council Tax payers via the Internet.

e) Capital Strategy.

f) Treasury Management Strategy.

g) Prudential Code monitoring reports produced quarterly.

h) External audit reports.

i) Risk based approach to the maintenance of reserves in the Reserves Strategy.

j) Internal audit reports reviewed by the Finance and Resources Committee.

SECTION 2: ECONOMIC CONTEXT OF THE STRATEGY

2.1 2019 has been year of political upheaval, as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. However, even if a Conservative Government gains an overall majority in the general election on 12 December, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020.

2.2 The first half of 2019/20 has seen economic growth fall as Brexit uncertainty took its toll. In its inflation report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The Monetary Policy Committee (MPC) meeting of 19 September re-emphasised their concern about the downturn in world growth and expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in

the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world, which are now expecting a significant downturn or possibly even a recession in some major developed economies. The MPC has so far left Bank Rate unchanged at 0.75% throughout 2019 and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

2.3 The consumer price index (CPI) rate of inflation has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so does not pose any immediate concern to the MPC at this time. However, if there were to be a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation due to a weakened pound.

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

SECTION 3: UNPREDICTABILITY OF FUTURE YEARS PUBLIC FUNDING

3.1 The funding for 2020/21 is still uncertain pending the outcome of the General Election. The September spending review was very high level, but indicated that Fire Sector funding would be protected in real terms for 2020/21. Baseline funding, which determines grant levels, was expected to include inflation. The £2.3m pension grant that the Authority received in 2019/20 to part cover the increases in firefighter superannuation costs was expected to continue into 2020/21, but the level may be reduced in future years. A more detailed finance settlement will not be announced until after the General Election on 12 December 2019. The settlement will need to be approved by Parliament which means the settlement is most likely to be announced in January. This could be delayed further in the case of a hung parliament.

3.2 A new three-year spending review is expected for 2021/22 however, this will be determined by the incoming Government.

3.3 The reforms to the business rates retention scheme have been further delayed until 2021/22. 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%. As part of the review, it is expected 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 The fire funding formula, which determines the breakdown of Government funding between fire authorities, is currently under review with a view to implementing a revised formula for 2021/22 onwards. Temporary arrangements will be put in place to protect fire authorities from significant changes in their funding levels.

3.5 The firefighter pension scheme employer superannuation rates increased significantly in 2019/20 following the scheme valuation exercise. This had the impact of increasing superannuation costs for the service in excess of £2.5m. In response, the Treasury issued an additional Section 31 grant of £2.3m to part cover the costs. Initial indications were that this would continue into 2020/21, but this may be reviewed depending on the outcome of the election. In 2021/22 onwards it is expected that this grant will either decrease or be moved into the Basic Needs Assessment and will be funded by the Business Rates top up grant.

3.6 The impact of the potential changes outlined above will be significant given that the Authority is expecting to receive in excess of £18m from RSG and Business rates in 2020/21 (assuming flat level funding), which represents 40% of the Authority's total funding. A breakdown is provided in the table below.

Estimates of Government Funding Levels for 2020/21

Government Funding Estimates	**2020/21 £**
Revenue Support Grant	5,335,308
Business Rates	3,704,627
Business Rates Top Up Grant	7,160,355
Pension Top Up Grant	2,339,932
Total External Funding	**18,540,223**

3.7 Clearly there are many uncertainties around funding projections for 2020/21 onwards. For the purposes of forecasting, the MTFS will consider various funding scenarios in section 10 of this report.

3.8 A 5% change in government funding levels would be in the region of £625k. Likely scenarios that would lead to a change in the order of this level would be a 27% cut in the pension grant or a flat pension grant and a change in Revenue Support Grant of 12%.

SECTION 4: LOCAL ISSUES IMPACTING ON THE MTFS

STRATEGIC PLAN – YEAR 2 ACTION PLAN

4.1 The Strategic Plan 2019 to 2022 was adopted by the Authority on 15 February 2019. The Year 1 Action Plan for 2019/20 is attached at Appendix 1 and the 2020/21 Action Plan is in the process of being agreed.

4.2 All new investment proposals are evaluated against the Strategic Plan objectives and the Action Plans.

PAY AWARD

4.3 The budgets will assume a 2% pay award for both uniformed and non-uniformed staff for 2020/21 to 2022/23. Should pay awards be agreed higher than this level the additional cost will be in the region of £350k for every 1% increase in pay.

FIREFIGHTER RECRUITMENT

4.4 It is anticipated that there will be 1 further full-time recruit intake during 2020/21 and up to 3 on-call intakes. There will be additional costs involved in training firefighters as ridership numbers will be increased while newly qualified firefighters gain their competent status. Additional costs will also be incurred on uniform and Personal Protective Equipment. These will be reflected in the budgets presented to Fire Authority in February 2020.

PENSIONS

4.5 The service has received draft revised Local Government Pension Scheme (LGPS) superannuation rates following the revaluation of the fund. These have increased from 14.8% to 18.4%. This will increase costs by approximately £200k per year from 2020/21.

4.6 The Employment Tribunal are still considering the remedy following the McCloud case, where the transition arrangements into the 2015 firefighters' pension scheme were found to be discriminatory. There are likely to be significant increase in the cost of the firefighters' pension scheme as a result of the case. These are expected to be largely funded by Central Government but additional costs falling to the Fire Authority cannot be ruled out. This has been added to the General Fund reserves risk register.

4.7 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 but any spikes in payment levels will need to be met from the General Reserve if no other funding can be identified.

EMERGENCY SERVICES MOBILE COMMUNICATION PROGRAMME (ESMCP)

4.8 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). ESN aims that the functionality, coverage, security and availability needs of the UK's emergency services are fully met.

4.9 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.

4.10 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

4.11 The Service was inspected by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in January 2019. The inspection report judged the service to be requiring improvement and identified 24 areas for improvement. An improvement plan was approved by Fire Authority on 27 September 2019. Many of the areas covered in the plan were already in the year 1 Action Plan (Appendix 1) which forms part of the service's Strategic Plan and others have been captured in the year 2 action plan. Some associated costs were built into the 2019/20 budgets but there will be additional costs needing to be built into 2020/21.

4.12 The inspection process required a significant amount of data collection and additional investment in this area will also be included in the 2020/21 budget.

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 political and 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. 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.

COUNCIL TAX SUPPORT

5.7 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 2012/13 spending on council tax benefit to help authorities fund this change. Whist 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. This is recognised as a financial risk and is included in the General Fund Risk Register.

LONG TERM CAPITAL SUSTAINABILITY

5.8 The Capital Strategy for each year is approved by Fire Authority alongside the MTFS. The updated Capital Strategy for 2020/21 is attached at Appendix 2 for approval. It 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. It also includes the flexible use of capital receipts strategy.

5.9 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.

5.10 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 3. 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 7.5% by the end of the 10 years which is close to the maximum ratio of 8% identified in 5.9. 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.

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 Ernst & Young took over from KPMG as the Authority's external auditor for the 2019/20 Accounts. Work has been ongoing in developing good working relationships with the new 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 remains 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 The financial planning process allows budget holders, service managers, Finance, Human Resources 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 strategic 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;
- The use of reserves, 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 Both the Strategic Plan and other plans and strategies are used to drive the budget. The strategic objectives have been used to prioritise requests for additional funding. 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 by organisational priorities. 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 10-year capital plan is considered to ensure long term affordability and is attached at Appendix 3. The first 4 years of this programme will be approved alongside revenue by Fire Authority on 28 February 2020. The programme consists 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 which has an impact on debt repayment costs in 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 2019/20 to 2021/22 the Authority agreed a budget for 2019/20 of £42.697m. This required a rise in Council Tax of 2.95% to £79.80 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 15 February 2019. 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, sets out the prudential indicators approved for 2019/20.

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 Act 2017 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 Authority has had in place a Sustainability Strategy covering the four-year period from 2016/17 to 2019/20. The Strategy aimed to deliver savings in the region of £2.5m over the four-year period. This was necessary due to the reduced level of Central Government funding that the Authority was expecting to receive.

9.2 Gross savings of £2.2m has been generated. This allowed in excess of £250k to be reinvested into the service, leaving net savings of £1.935m. A report on the outcome of the Sustainability Strategy was considered by Fire Authority on 27 September 2019.

9.3 14 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 Day Shift Crewing model at Ashfield and Retford Fire Stations has been delivered. This resulted in the reduction of 28 wholetime operational posts which were partially offset by an increase in the number of On-Call units by 12. This has delivered savings in the region of £1.2m per annum.

9.5 Multiple avenues of collaboration have commenced. The largest of these to date is the Joint Command and Control Centre now operational in Derbyshire. This joint venture has led to the closure of Nottinghamshire control room delivering savings of approximately £300k for each Service.

9.6 The Authority approved a new Joint Head Quarters project with Nottinghamshire Police on 15 February 2019. Whilst savings were not the original objectives of this project, this investment should see some reductions to ongoing estates related expenditure. The opportunity for increased levels of collaborative working may enable further savings to be delivered in the medium term.

9.7 When the Authority set the budget in February 2019, there remained a deficit position for 2020/21 onwards in the region of £800k. The service has worked hard during the year to identify savings to bridge this gap. Carefully scrutinising areas of consistent underspends in the budget have allowed savings to be made without impacting on front line services.

9.8 Several improvement areas have been identified for 2020/21 which contribute towards meeting targets set in the Strategic Plan and other key corporate documents. Any further savings identified within the budget process for 2020/21 will be re-invested in these areas.

9.9 A Transformation and Efficiency Strategy will be presented to Fire Authority in February 2020. This will outline areas of change in the organisation required to deliver the key objectives of the Strategic Plan and HMICFRS Action Plan. It will also address the outcomes of the Grenfell Tower Enquiry and the Hackitt Enquiry (Review of Building Regulations). Any additional funding required is likely to be project based and will be met from earmarked reserves.

SECTION 10: OUTLOOK FOR 2020/21, 2021/22 AND BEYOND

10.1 The Authority set a budget in February 2019 which for 2019/20, is balanced by way of a contribution from reserves of £1.2m. The estimate for 2020/21 was indicating a shortfall of the order of £800, assuming a Council Tax increase of 1.95%.

10.2 After updating the February 2019 expenditure projections for savings already identified in the 2020/21 budget process, including £200k additional superannuation for support staff in the Local Government Pension Scheme (section 4.5), an initial estimate of budget requirements going forward are:

Year	**£'000**
2019/20	45,037
2020/21	44,926
2021/22	45,802
2022/23	46,705
2023/24	47,639

10.3 Section 3 of this report discussed the uncertainty of funding for the Authority over the forthcoming years. For this reason, a number of scenarios have been considered.

Scenario 1 - 2% rise in grant funding for 2020/21 only

10.4 The first scenario assumes that:

- Base Line funding (Revenue Support Grant (RSG) and Business Rates top up grant) receive an inflationary increased for 2020/21 as indicated in the spending review announced in September (see 3.1);
- Base Line funding remains flat for 2021/22 to 2023/24;
- Pension grant remains flat at £2.3m throughout;
- Council Tax is increased at 1.95% for each year.

10.5 This scenario would result in a break-even position for the Authority as detailed in the table below:

2% Increase in Base Line Funding for 2020/21, No Increase Thereafter

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24
Government Funding	18,504	18,790	18,790	18,846	18,903
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be met locally	26,534	26,136	27,012	27,859	28,736
Strategic use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus /(Deficit)	**0**	**0**	**(5)**	**46**	**98**

10.6 If no council tax increases are approved in each of the years above, then the forecast cumulative deficit by 2023/24 increases to £2.0m.

10.7 The Authority would be in a similar break even position if Base Line funding were to be increased by inflation for each year but the pension grant were to be cut by 10% per year, given that indications have been that this was a temporary support and would not be guaranteed in future years.

10.8 This scenario enables the £200k increase in support staff superannuation costs to be funded (section 4.5).

10.9 The budget requirement for future years cannot be accurately estimated at this point as the full budget is still to be determined. It has been amended for known major pressures, but figures are likely to change. More detailed figures will be provided for Finance and Resources Committee in January 2020 and Fire Authority in February 2020.

Scenario 2 - Zero rise in grant funding for all years.

10.10 This scenario assumes that:

- Base Line funding remains flat for 2020/21 to 2023/24;
- Pension grant remains flat at £2.3m throughout;
- Council Tax is increased at 1.95% for each year.

10.11 This scenario would result in a deficit position for the Authority as detailed in the table below:

Zero Increase in Base Line Funding for 2020/21 to 2023/24

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24
Government Funding	18,504	18,540	18,540	18,596	18,653
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be met locally	26,534	26,386	27,262	28,109	28,986
Strategic use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus /(Deficit)	**0**	**(250)**	**(260)**	**(204)**	**(152)**

10.12 If no council tax increases are approved in each of the years above, then the forecast cumulative deficit by 2023/24 increases to £2.3m.

10.13 If there is no increase in base line funding then there will be a deficit in the region of £250k, largely attributable the £200k additional support staff superannuation costs (section 4.5).

5% increase or decrease in Base Line Funding

10.14 Two further scenarios are considered in Appendix 4 – a 5% increase or decrease in base line funding.

10.15 A 5% increase in funding would result in a surplus of £375k in 2020/21 which could be reinvested in services.

10.16 A 5% decrease in funding would result in a deficit of £874k in 2020/21 which could be reinvested in services.

SECTION 11: RESERVES

11.1 The Authority's Reserves Strategy is included on the agenda for this meeting. Total estimated Reserve levels as at 31 March 2020 are £10.0m, consisting of £5.5m General Reserve and £4.4m Earmarked Reserves.

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 2020/21. This is based on assessing the risks to the Authority and calculating the potential financial impact of those risks.

11.3 Any unplanned expenditure or overspends 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 Local Government Finance Settlement Consultation for 2020/21, the government has proposed a maximum limit for the amount Council Tax can be increased before invoking a referendum of 2%. As part of the consultation, the Fire sector have requested a £5 increase in Council Tax be considered. If approved, this would provide an additional £1.1m which could be invested in services.

12.2 If Council Tax levels remain at current levels with no increases from 2020/21 onwards, then the Authority will have insufficient funds to maintain expenditure levels. Assuming a 2% increase in funding for 2020/21 only and no Council Tax increases, there would be a deficit of £2.0m for 2023/24 (section 10.4). This would reduce the General Fund Reserve to below its minimum level of £3.9m.

12.3 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.

12.4 At its meeting on 28 February 2020 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2020/21.

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.

2019/20 ACTION PLAN

APPENDIX 1

Programme	Link to Risk Register (mitigation and impacts)	Strategic Aims	Lead SLT Member
Develop joint headquarters collaboration programme	1, 3, 15, 4, 13, 9	HQS, GGFS	Head of Procurement and Resources
Implement Joint Fire Control with Derbyshire Fire & Rescue Service	1, 2, 3, 15, 4, 6	HQS, GGFS	Head of Corporate Support
Implement outcomes of Equipment Review	1, 7, 9, 15, 4, 10	HQS, EMW, GGFS	Head of Procurement and Resources
Respond to the outcomes of HMICFRS inspection	14, 3, 9	HQS, EMW, GGFS	Head of Corporate Support
Implement the Performance Management Framework	14, 3, 4, 6, 10	HQS, EMW, GGFS	Head of Corporate Support
Embed National Operational Guidance Products	10, 3, 6, 2, 15	HQS, EMW, GGFS	Head of Organisational Assurance & Training
Implement the Emergency Services Network in line with the National Plan	2, 8, 1, 7, 9	GGFS	Head of Corporate Support
Review and test Service Wide Business Continuity arrangements	9	GGFS	Head of Organisational Assurance & Training
Commence alignment of all information management processes to ISO 27001 (Cyber Security)	9, 14, 8, 1	GGFS	Head of ICT
Complete the SharePoint strategy and delivery programme	9, 14, 3	GGFS	Head of ICT

APPENDIX 2

CAPITAL STRATEGY 2020/21

Date Considered by Fire Authority: December 2019

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1 INTRODUCTION AND BACKGROUND

1.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated and prioritised.

1.2 This document sets out the framework for planning and financing capital in order to ensure the broad requirements set out above can be consistently met by the Authority. The Strategy sits alongside the Medium Term Financial Strategy (MTFS) and the proposed 10-year capital programme is included in the MTFS. The strategy is supported by the Authority's property strategy, asset management plans and the Capital Programme which, in combination, lay out how the Authority will use its assets and its capital investments in pursuit of the key goals set out in the Strategic Plan 2019-2022.

1.3 There are several influences which feed into the capital investment process, the main ones being:

- Strategic Plan
- Treasury Management Strategy
- Medium Term Financial Strategy
- Property Strategy
- Corporate Asset Management Plans (buildings, vehicles and equipment)
- Procurement Strategy
- ICT Strategy
- Transport Strategy
- Community Safety Strategy
- Human Resources Strategy
- Learning & Development Strategy
- Risk Register

2 GOVERNANCE

2.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code.

2.2 CIPFA released an updated version of the Prudential Code in December 2017. The revised code is in a similar format to the previous 2011 edition, but included a new requirement for authorities to produce a Capital Strategy with effect from 2019/20.

2.3 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable. This is achieved through the use of a number of prudential indicators covering affordability,

prudence, capital expenditure, debt levels and treasury management. These indicators are included in the Prudential Code for Capital Finance which is approved by the Fire Authority each year and monitored throughout the year by the Finance and Resources Committee. A 10-year Capital Programme is included in the MTFS which includes a projection of future year debt costs to ensure that they are affordable in the long term.

FIRE AUTHORITY

2.4 The Capital Programme is an aggregation of the approved schemes which will help ensure that the Authority can deliver on its strategic objectives. The Capital Programme approved by Fire Authority as part of the annual budget process covers a 4-year period in line with revenue budget forecasting. Estimating expenditure beyond 4 years is more difficult, although still important in determining the affordability of capital expenditure in future years. For this reason, a proposed 10-year Capital Programme is included in the Medium Term Financial Strategy for planning and cost projection purposes.

2.5 The full revenue implications of the Capital Programme are presented to members prior to each financial year within the Revenue Budget. Fire Authority is also responsible for approving the Treasury Management Strategy and Prudential Code prior to the start of each year to ensure that the Capital Programme is affordable, prudent and sustainable.

FINANCE AND RESOURCES COMMITTEE

2.6 The Finance and Resources Committee are responsible for receiving quarterly monitoring reports on the Capital Programme and Prudential Code.

CORPORATE GOVERNANCE

2.7 Corporate Governance is ensured throughout the process through the Authority's:

- Internal Audit;
- Service Plans;
- Performance Management;
- Service Procedures;
- Financial Regulations and Procedures;
- Standing Orders.

STRATEGIC LEADERSHIP TEAM (SLT)

2.8 SLT have oversight of and make appropriate decisions relating to the revenue and capital budgets set by the Fire and Rescue Authority in order to operate within the delegated financial authority agreed by the Authority to deliver a balanced budget position.

EXECUTIVE DELIVERY TEAM (EDT)

2.9 EDT have responsibility for managing project performance and receive regular monitoring updates. EDT also receives project closure reports to ensure that any lessons learned are shared across the organisation.

TREASURER

2.10 Under section 25 of the Local Government Act 2003, the Treasurer is specifically required to report to the Authority regarding the estimates for the purposes of calculations in order that Fire Authority can make informed decisions about future years' budgets. The Treasurer also has responsibility to ensure compliance with regulatory frameworks and to report on unlawful expenditure or on an unbalanced budget.

FINANCE EMPLOYEES

2.11 The Authority ensures that the Finance team contains staff who are appropriately trained in Capital Accounting and Treasury Management. In addition, the service employs external treasury management advisors who provide specialist advice and resources.

3 THE CAPITAL PROGRAMME

3.1 The capital expenditure recommendations are determined from an assessment of the Authority's Asset Management plans for buildings, equipment and vehicles. As the impact of capital expenditure, and associated borrowing, is spread over years, it is important to consider the effects of any proposals in both the forthcoming and future financial years.

3.2 The Authority's approach to developing capital investment is to evaluate projects against criteria such as:

- Fire Authority objectives;
- Funding requirements;
- Statutory obligations;
- Reserve savings and implications;
- Any surplus assets for which a receipt will subsequently be available;
- Any special considerations;
- Affordability;
- Sustainability (by considering whole life costs);
- Evaluation of condition, suitability, and sufficiency information from the Asset Management system;
- Collaborative Opportunities.

3.3 Where there is a possibility to take a collaborative approach to purchasing or using assets it will be pursued providing that the partnership or sharing arrangements are financially viable and in the best interests of Nottinghamshire Fire & Rescue Service.

3.4 Where collaborative projects are undertaken consideration will be given to the most appropriate delivery vehicle, whether it be leasing arrangements or the setting up partnership arrangements such as a Limited Liability Partnership (LLP).

3.5 The purpose of the capital investment programme is to support the strategic plan which at present does not include investment in commercial activities due to the Authority not wishing to undertake undue risk.

3.6 Establishing the level and type of investment available, which is currently projected for up to ten years in advance enables the revenue implications of the capital programme to be considered in detail including repair and maintenance costs, energy efficiencies and economies for scale. The debt charges (Minimum Revenue Provision and interest charges) are built into the revenue budget and monitored to ensure that they remain affordable.

3.7 The Finance and Resources Committee recommend a draft Capital Programme to Fire Authority who approve the final programme at its budget setting meeting in February of each year. Additional approval is sought from Finance and Resources Committee before major building projects are commenced.

3.8 Projects utilise the principles of Prince 2 methodology, where appropriate, and are subject to a review following completion where clients, occupiers and consultants establish how far the project has achieved objectives and outcomes against targets (as detailed in the original investment appraisal) and evaluate areas of good practice/areas for improvement of suitability for purpose, quality, design, sufficiency and flexibility.

4 CAPITAL FINANCING

4.1 The Capital Programme is currently constrained by the availability of finance, which continues at present to be provided by traditional methods including:

- Borrowing under the Prudential Code;
- Revenue Funding;
- Capital Receipts;
- Capital Grant;
- Leasing.

4.2 Funding is expected to be limited in the medium term and the Comprehensive Spending Review (CSR) expected in autumn 2019 will set the funding limits in future years. The capital programme will be updated accordingly as part of a revised Medium Term Financial Strategy.

4.3 Surplus Assets are disposed of and all receipts are treated as a corporate resource and used to underpin and support the Capital Strategy in line with the Flexible Use of Capital Receipts Strategy which will be approved alongside the Capital Strategy (see Appendix A).

4.4 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government.

4.5 Capital financing charges now represent 5.5% (2019/20) of the Authority's revenue budget which is considered within prudent limits. On 24 October 2008, the Finance and Resources Committee set a maximum limit for this ratio of 8% in order to meet the prudential code requirements of affordability and sustainability (as part of the Sustainable Capital Plans Report). This ratio forms one of the Prudential Indicators approved by Fire Authority as part of the

Prudential Code for Capital Finance report considered in February of each year. It is not proposed to change the 8% cap on this ratio. The 10-year proposed capital programme included in the MTFS is monitored to ensure it does not exceed this limit.

5 SUMMARY

5.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated, prioritised and authorised.

5.2 Due to the long-term impact of the Capital Programme and the high levels of expenditure involved, strong and effective governance arrangements have been put in place to manage any associated risks.

5.3 The Authority continues to plan for its Capital Expenditure in such a way that ensures that it is affordable, prudent and sustainable.

APPENDIX A

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. As part of the provisional funding settlement made on 19 December 2018, this was extended to cover a further 3 years up until 2021/22.

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.

To date there have been no such projects funded through the use of capital receipts.

Capital Receipts Strategy for 2020/21

For the financial year 2020/21 it is not proposed to fund any reform projects through the capital receipts flexibility. There are currently sufficient funds held in reserves for this purpose and it is felt that capital receipts would be better used to finance capital expenditure. This will enable the Authority to minimise the use of borrowing which needs to be kept within the affordable limits as set out in the Prudential Code for Capital Finance.

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.

APPENDIX 3

PROPOSED TEN YEAR CAPITAL PLAN 2020/21 TO 2029/30

	Estimated Slippage From 19/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Budget 2029/30 £'000
Transport											
Special Appliances	150		115	625	100	560	90		150	105	
Light Vehicle Replacement	258	226	184	478	228	164	237	305	357	172	237
Fleet telematic						90					
Trailer Boat Engine						10					
Pumping Appliance		95	700	1,060	1,325	1,325	1,325	1,060			1,060
Sub Total	**408**	**321**	**999**	**2,163**	**1,653**	**2,149**	**1,652**	**1,365**	**507**	**277**	**1,297**
Equipment											
BA Sets				250				250			
CCTV Vehicles	160										
Lightweight fire coats										180	
Structural PPE									1,000		
Fire Helmets											200
Gas Tight Suits					50						
Radios						300					
Halmatro						800					
Gas Monitoring								35			
Air Bag Replacements		70								70	
Water Rescue Kit			100								
Sub Total	**160**	**70**	**100**	**250**	**50**	**1,100**	**0**	**285**	**1,000**	**250**	**200**

	Estimated Slippage From 19/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Budget 2029/30 £'000
Estates											
Hucknall Fire Station	146	11									
Worksop Fire Station	2,607	500	2,638	62							
New Head Quarters	250	2,500	1,500								
Eastwood Fire Station			750	713	38						
Ashford Fire Station refurbishment					488	13					
Arnold Fire Station					25		1,750	888	63		
Stockhill Fire Station							150	2,200	1,200	80	
Bingham Fire Station										731	19
Mansfield Fire Station Refurbishment	110										
Newark Fire Station	178										
Sub Total	**3,291**	**3,011**	**4,888**	**775**	**551**	**13**	**1,900**	**3,088**	**1,263**	**811**	**19**
IT & Communications											
HQ Enabling Works	25										
ICT Capital Programme Replacement	50	250	150	100	110	110	110	110	120	120	120
Mobile Computing		75	50	30	30	30	20	20	20	20	20
HQ Link ICT Replacement		100	100								
Business Process Automation		50	30	30	30	20	20	20	20	20	20
Cyber Security	10	20	20	20	20	20	20	20	20	20	20
HQ Core Switch upgrade	30										
One Off Projects				50				50			
Sub Total	**115**	**495**	**350**	**230**	**190**	**180**	**170**	**220**	**180**	**180**	**180**

	Estimated Slippage From 19/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Budget 2029/30 £'000
Control											
Emergency Service Mobile Communications	41										
Tri Service Control & Mobilising System	171										
Sub Total	**212**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Finance											
HR Upgrade		51				51					
Payroll System Replacement											
Finance Agresso Upgrade	35		30		30		30		30	0	30
Sub Total	**35**	**51**	**30**	**0**	**30**	**51**	**30**	**0**	**30**	**0**	**30**
Total	**4,221**	**3,948**	**6,367**	**3,418**	**2,474**	**3,493**	**3,752**	**4,958**	**2,980**	**1,518**	**1,726**

Capital Programme Financing

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
To Be Financed By:										
Capital Receipts - Property	550		300	1,750			250		350	
New Borrowing	3,398	6,367	3,118	723	3,493	3,752	4,708	2,980	1,168	1,726
Revenue contributions to capital										
Total	**3,948**	**6,367**	**3,418**	**2,473**	**3,493**	**3,752**	**4,958**	**2,980**	**1,518**	**1,726**
Debt Cost Ratio	**5.86%**	**5.67%**	**6.10%**	**6.38%**	**6.46%**	**6.59%**	**7.03%**	**7.28%**	**7.47%**	**7.02%**

APPENDIX 4

5% INCREASE OR DECREASE IN BASE LINE FUNDING

5% Increase in Base Line Funding for 2020/21 to 2023/24

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24
Government Funding	18,504	19,165	19,462	19,926	20,411
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be met locally	26,534	25,761	26,310	26,779	27,228
Strategic use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus /(Deficit)	**0**	**375**	**696**	**1,126**	**1,606**

5% Decrease in Base Line Funding for 2020/21 to 2023/24

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24
Government Funding	18,504	17,915	17,183	16,556	15,973
Budget Requirement	(45,037)	(44,926)	(45,802)	(46,705)	(47,639)
Balance to be met locally	26,534	27,011	28,619	30,149	31,666
Strategic use of Reserves	1,240	0	0	0	0
Council Tax Yield	25,293	26,136	27,007	27,905	28,834
Budget Surplus /(Deficit)	**0**	**(875)**	**(1,613)**	**(2,244)**	**(2,832)**