Bedfordshire
Fire and Rescue Service

2023/24 BUDGET BOOK

AND

MEDIUM-TERM FINANCIAL STRATEGY

2023/24 to 2026/27

CONTENTS

INTRODUCTION AND BACKGROUND

Welcome to the Budget Book for 2023/24 that includes key strategic financial information and documents such as the Medium-Term Financial Strategy (MTFS).

The Fire and Rescue Authority set the 2023/24 budget on 2 February 2023. It is a budget that takes into account the aims and objectives of the Service and prioritises the resources available for frontline services.

There has been a considerable amount of work towards the 2023/24 budget setting undertaken during 2022/23. This included a robust review and scrutiny of budgets by the Head of Finance/Treasurer and Principal Officers, review and challenge meetings by the Corporate Management Team and two Member budget workshops. This work has covered both the revenue budget and the Capital Programme.

Outcome of Comprehensive Spending Review (CSR) and Formula Funding

The final settlement for 2023/24 is shown below. There is a 10% increase from 2022/23 to 2023/24 of the settlement funding assessment. The attached MTFS uses prudent assumptions and estimates for the years 2024/25 to 2026/27.

Table 1: Formula Funding Settlement

	2022/23 £m	**2023/24 £m**	**£m Variance**
Revenue Support Grant (RSG)	2.405	2.649	0.244
Business Rates baseline funding	5.942	6.164	0.222
Settlement Funding Assessment	**8.347**	**8.813**	**0.466**

Budget and Precept for 2023/24 and the Medium-Term Revenue Plan

In setting the budget for 2023/24, the Authority took into account the implications for the following year's financial strategy, namely 2024/25 to 2026/27. There are significant efficiency savings over the coming years, which will require action in the short-term if they are to be secured within the planned timescales.

The MTFS sets out the budget projections for 2023/24 to 2026/27 and the key features of the projections, including assumptions of the level of formula funding and council tax funding.

The Medium-Term Plan assumes that the Authority will achieve year-on-year cashable efficiencies.

The final 3 financial years of the MTFS will be reconsidered annually in future budget setting rounds.

Based on the assumptions and proposals noted, Table 2 below details the key budget information. The budget requirement for 2023/24 was set at £33.393m.

Table 2: Key Budget Information

	2022/23 £m	2023/24 £m	Change £m
Budget Requirement (£m)	**33.819**	**34.748**	**0.929**
Funded by:			
Precept Requirement (£m)	23.401	25.043	1.642
Central and Local Government Funding (£m)	8.747	8.813	0.066
Section 31 Business Rates grant (est)	0.382	0.392	0.010
S31 Multiplier Cap grant (est)	0.488	0.658	0.170
Collection Fund surplus/(deficit) incl spreading of prior year	0.345	(0.389)	(0.688)
Use of Collection Fund Deficit Reserve	0.046	0	(0.046)
Services Grant (new from 2022/23)	0.410	0.231	(179)
Funding Total (£m)	**£33.819**	**£34.748**	
Tax Base (Band D equiv. properties)	224,040	228,807	4,495
Band 'D' Council Tax	£104.45	£109.45	£5.00

Table 3 below details the Council Tax per band. As there is a £5.00 increase from the previous financial year's level, there are updates to all of the valuation bands. The Council Tax of £109.45 equates to, for a Band D equivalent property, 30 pence per day for the Fire and Rescue Service.

Table 3: Council Tax per Band:

Valuation Band	Tax Payable Compared to Band D (Expressed in Fractions)	Council Tax for Band £
A	6/9	72.97
B	7/9	85.13
C	8/9	97.29
D	***1***	***109.45***
E	11/9	133.77
F	13/9	158.09
G	15/9	182.42
H	2	218.90

Table 4 below details the 2023/24 precepts that the Authority levies on the three councils for the Council Tax set and the Business Rates.

Unitary Councils (1)	**£ (2) Council Tax £'000**	**£ (3) Business Rates £'000**
Bedford Borough	6,835	814
Luton Borough	5,993	653
Central Bedfordshire	12,215	1,421
Total	**25,043**	**2,889**

In addition to the Authority's own Council Tax, there are separate Council Taxes for the Police, the local authorities of Central Bedfordshire, Bedford, Luton and where applicable their associated parishes.

Medium-Term Capital Programme

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. In 2023/24 a contribution from revenue of £1.836m with a further £0.422m coming from existing capital receipts and reserves. This is with the assumption that capital grants are not forthcoming. If the capital funding from 2023/24 changes, the base budget revenue contributions could reduce.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Capital Strategy Team also reviewed and assessed the bids made, approving the schemes that are contained on page 12 the 2023/24 Capital Programme.

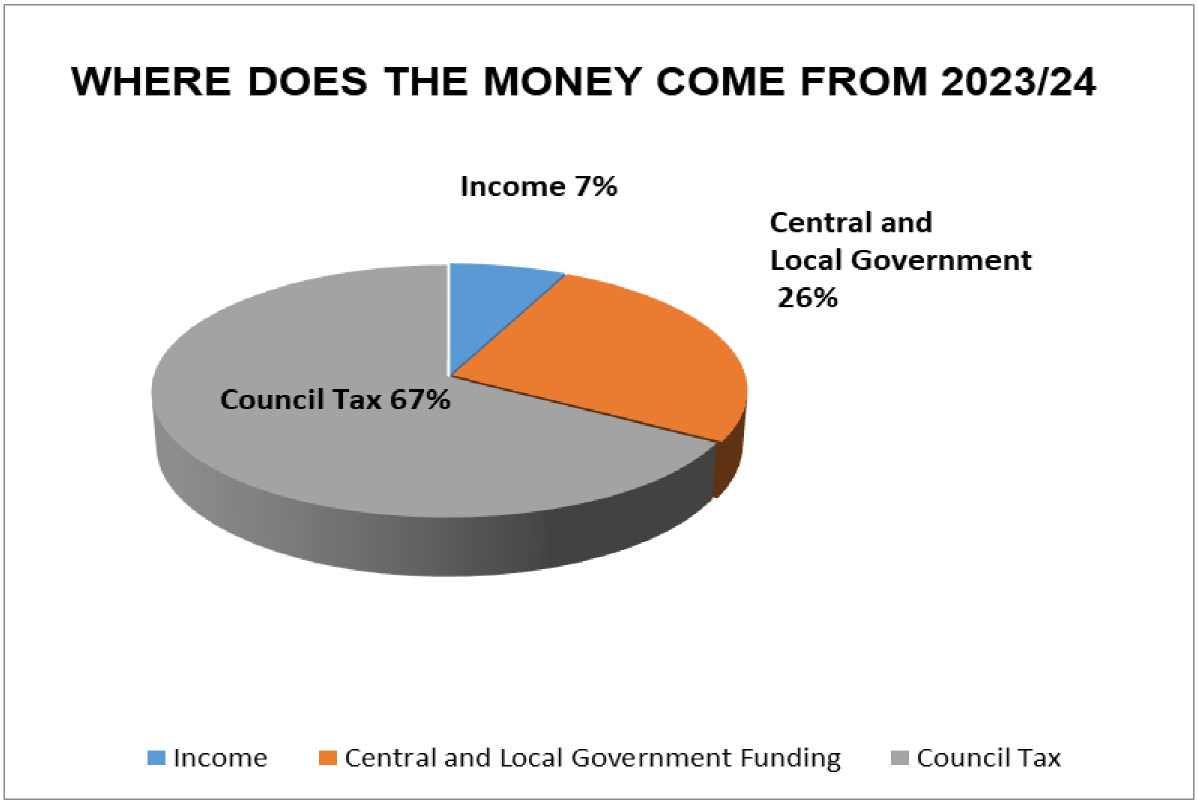
Key items of note in the 2023/24 Capital Programme of £2.258m are:

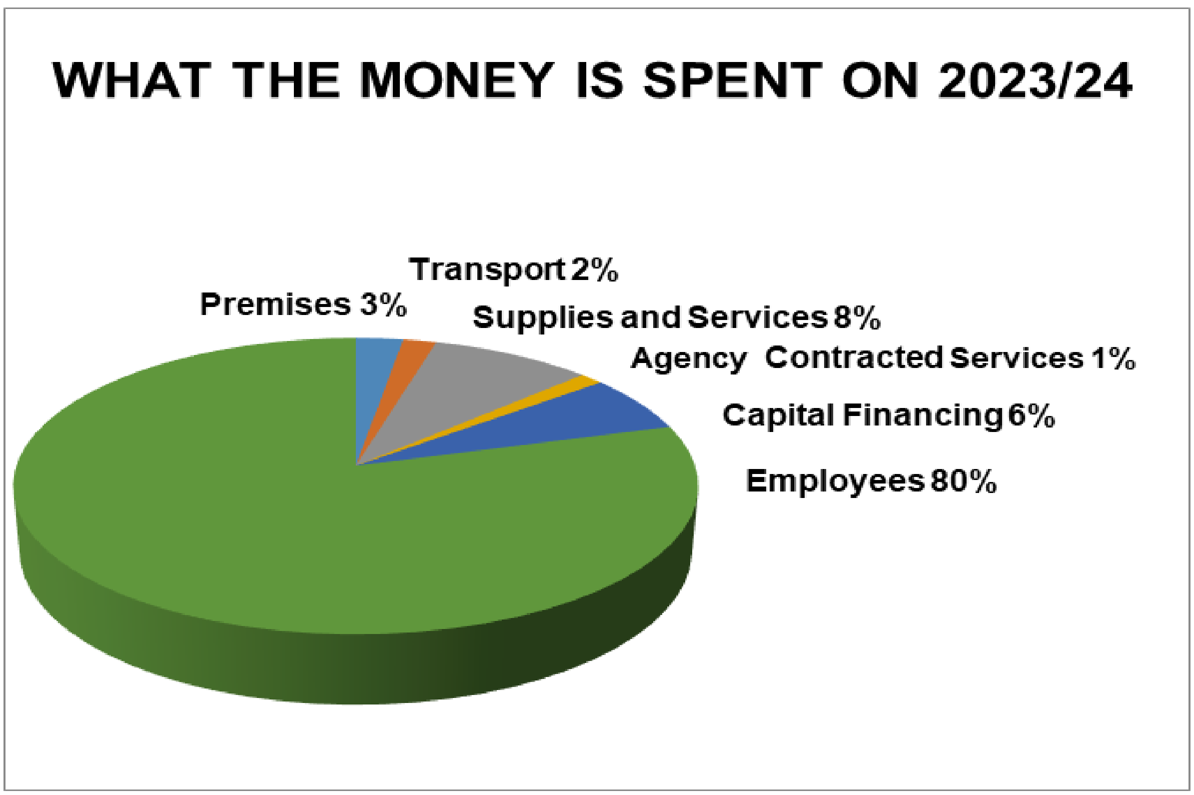
- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in IT infrastructure and hardware.
- Investment in the modernisation of our buildings and community provision.

Medium-Term Financial Strategy

The Medium-Term Financial Strategy is a document that sets the Authority's financial strategy for the next four years. It focuses on the 2023/24 Revenue Budget and Capital Programme, but also sets the scene for future years. It covers national events such as the Comprehensive Spending Review (CSR) and then breaks down how this impacts locally on the Authority.

The MTFS details the reserves policy, planning assumptions behind the budget figures and other considerations that must be taken into account when setting the strategy, such as the tax base, efficiencies and shared services.


WHERE DOES THE MONEY COME FROM 2023/24
Income 7%
Central and
Local Government
26%
Council Tax 67%
Income
Central and Local Government Funding
Council Tax


WHAT THE MONEY IS SPENT ON 2023/24
Transport 2%
Premises 3%
Supplies and Services 8%
Agency Contracted Services 1%
Capital Financing 6%
Employees 80%

Funding the 2023/24 Budget

	£
2023/24 Budget	**33,306**
Full-Year Effects and Forecast Variations to Budget	1,345
Inflation	1,891
Budget Pressures	240
Less Funding to/(from) Reserves	(1,884)
Budget Requirement 2021/22	**34,898**
Financed by:	
Central and Local Government Funding	10,453
Precept	25,043
Collection Fund Surplus/(Deficit)	(598)
Total Financing	**34,898**

MEDIUM TERM REVENUE PLAN 2023/24 TO 2026/27	Original 2022/23 £000s	Original 2023/24 £000s	Proposed 2023/24 £000s	Proposed 2024/25 £000s	Proposed 2025/26 £000s	Proposed 2026/27 £000s
Base Budget	**31,104**	**33,306**	**33,306**	**36,782**	**38,285**	**37,834**
Anticipated increase to Employer Firefighter Pension Contributions	0	0	0	0	250	0
Differences between Firefighter retirements and recruitment in advance of retirements	80	0	233	-382	0	0
Unbudgeted 2022/23 Green Book pay award (£1,925 increase v 4% budgeted)	108	0	129	0	0	0
Unbudgeted 2022/23 Grey Book pay award (Extra 1% for 22/23 4% to 5%)	194	0	142	0	0	0
Additional Bank Holidays	13	-13	0	-23	2	2
Increase to Retained FF Base due to expected recruitment	0	0	280	280	0	0
Reduction in Minimum Revenue Provision (MRP) relating to borrowing costs on previous years vehicles	-11	0	-53	-4	-4	-5
Budget Realignment	12	-53	80	10	1	-11
Apprenticeship Levy	2	2	2	2	2	0
Local Government Superannuation Revaluation Lump Sum	9	20	-126	5	6	20
Total Base Budget Adjustments	**407**	**-44**	**687**	**-112**	**257**	**6**
Forecast Variations						
Investment Interest Decrease/(Increase)	0	0	-130	30	50	15
Revenue Contribution to Capital	411	1,193	967	719	-1,442	471
Non-Uniform Incremental Drift	88	57	73	71	44	23
Transformational Savings/Efficiencies	-211	-92	-252	-94	-140	-180
Total Forecast Variations	**288**	**1,158**	**658**	**726**	**-1,488**	**329**
Inflation						
Fire-fighters pay - 5% 1 April to 30 June 2023, then 5% July 2023, 3% June 2024, followed by 2% following years	79	152	92	213	134	92
Fire-fighters pay - 1 July 2023 to 31 March 2024 5% (3% 2024/25, then 2% each following year)	438	228	600	383	263	268
Retained Pay (As per Fire-Fighters) April to June	21	12	31	24	14	14
July to March	69	47	98	73	43	44
Control pay (As per Fire-Fighters) April to June	5	7	11	10	6	6
July to March	30	18	33	31	18	19
Non Uniformed pay (5% effective from 01/04/2023, 3% 24/25 then 2% thereafter)	274	146	384	243	167	170
Member Allowances (as Green Book above)	2	2	4	3	2	2
Gas, Electricity, Water and Derv Inflation (No increases in years 24/25 to 26/27 as asume that any inflation increases will be offset by reduction in useage)	24	24	200	-15	0	0
Reset Prices / Contract Inflation 23/24 Base (was 4% in 22/23 then extra 4% to reflect average inflation 22/23)	0	0	137	0	-20	0
Prices/Contract Inflation (8% in 2023/24 followed by 2% 2024/25 - 2026/27	135	68	301	78	80	81
Total Inflation	**1,077**	**704**	**1,891**	**1,043**	**707**	**696**
Budget Pressures						
FMS3' bids (Current Year MTFP process)	373	-202	274	38	87	0
FMS3' bids (Previous Years MTFP process)	57	168	-34	-192	-14	-55
Estimated Net Revenue Expenditure	**33,306**	**35,090**	**36,782**	**38,285**	**37,834**	**38,810**
Contribution to/from Transformational Earmarked Reserves	*87*	*-1,877*	*-1,884*	*-1,408*	*371*	*904*
Estimated Budget Requirement	**33,393**	**33,213**	**34,898**	**36,877**	**38,205**	**39,714**
Budget Requirement Increase Year on Year	**1,679.9**	**-180.5**	**1,504.7**	**1,978.9**	**1,328.5**	**1,508.6**
% Budget Increase	**5.3%**	**-0.5%**	**4.5%**	**5.7%**	**3.6%**	**3.9%**

Financed by:	Original 2022/23 £000s	Original 2023/24 £000s	Proposed 2023/24 £000s	Proposed 2024/25 £000s	Proposed 2025/26 £000s	Proposed 2026/27 £000s
Revenue Support Grant (RSG):	2,405	2,479	2,649	2,705	2,705	2,759
Business Rates 1% Share from Unitary Authorities	2,300	2,300	2,888	2,949	2,949	3,008
Business Rate Top Up	3,840	3,840	3,635	3,635	3,635	3,635
S31 from Multiplier cap and Small Business Rate Relief	613	613	882	658	658	658
Business Rates - S31 Adjustment from Govt	0	0	168	392	392	392
Collection Fund Surplus/(Deficit) - net Business Rates and Council Tax	424	0	-552	0	0	0
Collection Fund Surplus/(Deficit) spreading from 2020/21	-46	-46	-46	0	0	0
Use of Collection Fund Deficit Reserve	46	46	0	0	0	
Council Tax	23,401	24,221	25,043	26,308	27,636	29,032
Services Grant 2022/23	410	-240	231	231	231	231
	33,393	**33,213**	**34,898**	**36,877**	**38,205**	**39,714**
Band D equivalent Tax base	224,040	227,362	228,807	233,384	238,051	242,812
% change on Band D's	3.39%	1.48%	2.13%	2.00%	2.00%	2.00%
Leading to an average council tax (Band D) of	104.45	106.53	109.45	112.72	116.09	119.56
% increase	***1.99%***	***1.99%***	***£5***	***2.99%***	***2.99%***	***2.99%***

Use of Transformational Reserves Summary	**Proposed 2022/23 £000s**	**Proposed 2023/24 £000s**	**Proposed 2023/24 £000s**	**Proposed 2024/25 £000s**	**Proposed 2025/26 £000s**	**Proposed 2025/26 £000s**
Transformational Earmark Reserve for Budget Setting	2,861	2,498	2,498	1,164	-44	327
Earmark Pay Reserve for Budget Setting	0	0	1,000	0	0	0
Total Earmarked Reserve for Budget Setting	**2,861**	**2,498**	**3,498**	**1,164**	**-44**	**327**
Contribution to/from Transformational Earmarked Reserves	87	-1,877	-1,884	-1,408	371	904
Annual use of Transformational Reserve for Strategic Projects and Improvements	-250	-250	-250	0	0	0
Use of Transformation Reserve for Green/Environmental agenda	-200	-200	-200	0	0	0
Reduction of General Reserve from £2.6m to £2.4m in 20/21, with potential to reduce to £2.1m	0	0	0	200	0	0
Net Balance Transformational Earmark Reserves	**2,498**	**171**	**1,164**	**-44**	**327**	**1,231**

Transformational Savings and Efficiencies 2023/24 to 2026/26

Savings/Efficiencies & Income	£'000s 2023/24	£'000s 2024/25	£'000s 2025/26	£'000s 2026/27
Energy Management Savings	10	10	10	30
Efficiencies from Operational Review (Linked to ongoing CRMP work)	0	50	100	150
Income from Workshops Non business Activity	5			
ASPIRE Leadership Programme	2			
FF Apprenticeship residential element removal	35			
Cleaning Contract	40			
Cessation Whole-time Recruitment system	4			
Surplus redistribution from the Fire & Rescue Indemnity Company (FRIC) (estimate for 2022/23 only)	(20)	10		
New for 2023/24 Budget Setting				
Increase in Investment Income through continued and robust cash flow management, combined with higher interest rates gained	130	(30)	(50)	(15)
Continue to be a supportive provider through Herts FRS. This could be developed to become an apprenticeship provider and increase income generation opportunity (Recruits Training).	30		30	
Change of provider for the procurement framework. Move to be part of the NFCC blue light collaboration hub.	9			
Charging neighbouring FRSs for support over the border	10			
Proposal for Internal testing of equipment (lifejackets, etc)	5			
Reduced use of external Compartment fire behaviour training	15			
To continue to have two Crew Commanders in the instructor pool (generating savings)	12			
Income towards Communications Team (Digital support to Staywise)	15			
Protection discount due to investment of 360 degree cameras on front line vehicles	3	9		
Cessation of software / licences for outgoing Fleet System	20			
Income from service provisions to external partners:				
Continue to develop the driver training provision to generate income from delivery of various courses including the emergency driver instructor course	30	5	5	
Continued delivery of driving courses for other services including Light Vehicle Response Driver (LVRD) and instructor courses.	27			
Savings through the benefits of having new Breathing Apparatus (BA) - less maintenance spend		10	(5)	
	382	**64**	**90**	**165**

2023/24 SUPPORTED REVENUE BUDGET BIDS

Budget Bids Agreed;

Description	2023/24 £'000's	2024/25 £'000's	2025/26 £'000's	2026/27 £'000's
Reasonable adjustments budget	10	0	0	0
WT FF Recruitment Campaign	0	0	55	(55)
Protection Office Manager	0	25	0	0
Allowance for Fire Safety Inspectors increase in workload	13	13	0	0
Increase in workshops operational equipment budget	9	0	0	0
Increase in external training budget	13	0	0	0
Increase in driver training budget	12	0	0	0
Green Book training instructor	42	0	0	0
Virtual reality software for incident command	18	(8)	0	0
Uplift for the Fire service exams budget	20	0	0	0
Cyber Security - Advanced anti-virus	32	(4)	0	0
Cyber Security - SIEM	37	(4)	0	0
Resilience - Replace backup solution	9	0	0	0
Scanners for Fleet Asset management	5	0	0	0
Fleet Management software	25	0	0	0
National Operational Guidance (NOG) alignment work	8	0	(8)	0
Increase in Equality and Diversion budget for training, subscriptions & networks	22	0	0	0
Wi-Fi licenses renewal	0	0	32	0
	274	**22**	**79**	**-55**

Summary of Subjective analysis

2022/23 £'000's		2023/24 £'000's
2,460	**Income**	**2,659**
	Employees	
16,915	Uniformed	18,122
2,379	Retained	2,758
1,118	Control	1,204
8,008	Non-Uniformed	8,441
816	Indirect Employee costs	926
29,236	**Total Employees**	**31,451**
	Premises	
57	Cleaning and Grounds Maintenance	104
235	Heating and Lighting	401
555	Insurance, Rents and Rates	472
244	Repairs and Maintenance	294
1,090	**Total Premises**	**1,270**
	Transport	
142	Maintenance	177
345	Car Allowances	362
176	Fuel and Oil	317
0	Leasing Costs	0
663	**Total Transport**	**855**
	Supplies and Services	
81	Subscriptions	81
3	Bank Charges	3
350	Clothing and Uniforms	320
143	Operational Equipment	176
1,186	Information Technology	1,554
63	Hydrants and Breathing Apparatus Maintenance	143
69	Catering and Catering Equipment	69
79	Printing and Photocopying	79
14	Stationery	14
26	Subsistence	26
127	Telephones	127
806	Other Supplies and Services	773
2,947	**Total Supplies and Services**	**3,364**
710	Agency	517
1,573	Capital Financing	2,487
33,759	**Net Revenue Expenditure**	**37,284**
-203	Transformational Efficiency Savings	-252
0	Reserves Funding	0
-163	Contribution to/from Reserves	-2,134
33,393	**Budget Requirement**	**34,898**

Capital Programme 2023/24 to 2026/27

Bedfordshire Fire and Rescue Authority Capital Programme	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's
Fleet and Associated Equipment:				
Mainly Rescue pumps (1st stage payment) & Thermal Image Cameras	1,115			
Mainly Rescue pumps (2nd and 3rd stages), Hydraulic equipment and Response Support Unit		1,450		
Mainly Technical Rescue Unit and light vehicles			470	
Mainly the Incident Command Unit, bikes and light vehicles				910
Sub total Fleet and Equipment	1,115	1,450	470	910
Digital, Data and Technology (DDaT)				
Endpoint Refresh with Desktop & Laptop Deployment		230		
Renewal of Mobilising System Mobile Data Terminal & Risk Information MDTS		310		
Equipment refresh (tablets and phones)			160	
DDaT spend on infrastructure/hardware				300
Sub total DDAT	*0*	*540*	*160*	*300*
Property Works service wide				
Various: Lighting replacements, CCTV, fire protection, doors & windows, security gates, electric infrastructure, Electric Vehicle charging points	354	255	444	8
Major Roofing Replacements	371	427	0	333
Drill yard resurfacing	14	23	35	0
WC/Shower facility refurbishments	25	58	48	7
Heating - boiler replacements	30	52	0	16
Dormitory refurbishment	23	23	0	0
Station Kitchen Refurbishments	8	8	12	10
Electric Infrastructure/Photovoltaic Tiles/Solar panels	81	0	483	115
Equality, Diversity & Inclusion (predominantly toilet and shower facilities, also access, prayer rooms)	112	40	0	20
Steel Masts & Drill Towers	110	0	0	0
Sub total Property Works (see partial/assumed funding offset below)	*1,128*	*886*	*1,021*	*509*
Other				
Fitness Equipment Expenditure	15	0	15	0
TOTAL	**2,258**	**2,876**	**1,666**	**1,719**
Capital Financing Summary				
RCCO = Revenue Contribution to Capital	1,836	2,555	1,113	1,584
Vehicle and Equipment Disposals	72	16	70	20
Capital funding held - review and utilisation	100	0	0	0
Assumed grant funding for Electrical infrastructure, photovoltaic tiles, solar panels, windows (Public Sector Decarbonisation Scheme)	0	0	483	115
Allocation of general capital reserves and vehicle sales reserve	250	305	0	0
Total	**2,258**	**2,876**	**1,666**	**1,719**

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Financial Strategy

2023/24 – 2026/27

CONTENTS

1. Introduction

This is Bedfordshire Fire and Rescue Authority's (BFRA) Medium-Term Financial Strategy (MTFS). It is a four year strategy which is refreshed annually and covers the financial years 2023/24 to 2026/27 and seeks to build upon the work undertaken in developing previous MTFS. It contains the Authority's agreed plans for both revenue and capital expenditure and the planned sources of funding to support that expenditure. It also explains the Authority's supporting strategies for matters such as council tax levels, efficiency savings, the use of reserves/reserves strategy and capital funding.

In addition, the plan also seeks to provide the strategic context for these financial plans, linking them to the national and local context and the Authority's corporate objectives and medium-term strategic priorities.

BFRA has been a precepting body since 2004/05 and is required by the Local Government Finance Act 1992, as amended by the Local Government Act 2003, to set a budget requirement and levy a tax on local council taxpayers each year. The Authority is also required to maintain adequate reserves to cope with unforeseen commitments.

In common with many other authorities, each year since becoming a precepting authority, BFRA has experienced a pressurised financial situation which has necessitated robust and effective medium-term financial planning and the taking of some difficult decisions, in order to present acceptable and affordable budgets.

This year has seen the continuation of the harsh economic climate. However, BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves.

The Authority has a planning process which aligns its financial planning with its strategic and integrated risk management planning processes, the key outcomes of which are captured in the Authority's Community Risk Management Plan (CRMP). The financial implications of the CRMP are thus fully integrated into the annual budget plan and MTFS. Both the CRMP and MTFS cover a rolling four-year timescale and are revised on an annual basis. This MTFS has therefore been developed to ensure that resources are adequate and appropriately directed to deliver the aims, objectives and key priorities of the Authority.

The Authority's corporate risk management process, which identifies key organisational risks and puts into place controls to manage these risks, also plays a major role in determining the outcomes of the planning process. This includes an annual assessment of the potential financial impact of such risks, which in turn is used in determining the most appropriate level of financial reserves for the Authority.

2. National Context

Service planning, and therefore financial planning, must take place with due regard to the national policy context for the fire and rescue service and economic and public expenditure plans.

Emergency services play an essential part in serving our communities and keeping them safe. Whilst the police, fire and rescue and NHS ambulance services all have distinct frontline roles, it is clear that close collaboration between them can provide real benefits for the public and help each service better meet the demands and challenges they face.

The Prime Minister's announcement on 5 January 2016 that responsibility for fire and rescue policy had transferred from the Department for Communities and Local Government to the Home Office again demonstrates the Government's commitment to closer collaboration between police and fire and rescue services.

In April 2017 the National Fire Chiefs Council (NFCC) was formed. The NFCC is made up of senior representatives from all fire and rescue services across the UK.
The new Council provides clear, professional advice to government (including devolved administrations) and the wider sector on matters such as professional standards, operational guidance, research and sharing best practice, while supporting the whole of the UK FRS.

As part of the reform agenda, a Fire and Rescue inspectorate (Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services, HMICFRS) has been created. The Authority's review took place in the first tranche of inspections in 2021. The results of this can be found at
https://www.justiceinspectorates.gov.uk/hmicfrs/publications/fire-and-rescue-service-inspections-2021-22-tranche-1/

A Covid-19 HMICFRS pandemic review took place in late 2020 and the Service/Authority had its second full inspection in 2021. The links for these can be found at:

https://www.justiceinspectorates.gov.uk/hmicfrs/publications/the-fire-and-rescue-services-response-to-the-covid-19-pandemic-in-2020/

and

https://www.justiceinspectorates.gov.uk/hmicfrs/publications/frs-assessment-2021-22-bedfordshire/

The Service's inspection in Tranche 1, Round 3 with HMICFRS will commence in February 2023.

The Authority has implemented where appropriate, the recommendations from the Thomas Review.

The following sections cover in broad outline the national context within which the budget and other aspects of MTFS have been framed.

2.1. National Statutory and Policy Context:

The Fire and Rescue Services Act 2004 represented the most comprehensive reform of the statutory framework for the service for more than fifty years and brought about far reaching changes to the way in which individual fire and rescue authorities plan and deliver their services. Amongst the most fundamental of these was the replacement of the previous prescriptive standards of fire cover with a framework for local integrated risk management planning, a duty to engage in preventative community safety work and the provision for a National Framework (revised in June 2018) to provide clarity for Fire and Rescue Services on the Government's expectations.

In addition, a range of Statutory Instruments have been introduced over recent years, which between them impose new duties on the Service, including the requirement to respond to emergencies other than fire, such as road traffic collisions, chemical, biological, radiological and nuclear (CBRN) incidents, serious flooding and major search and rescue incidents. The new responsibilities are not limited to response, but also extend to the need for the fire and rescue service to play a key role in civil contingency planning.

Reform

When the then Home Secretary, Theresa May, outlined her vision for fire and rescue services in May 2016, this was a "radical ambitious" package of reforms. This approach has since been supported by subsequent Home Secretaries up to an including the current Minster Rt Hon Chris Philp MP.

The reform agenda is made up of three distinct pillars. These are:

1. Efficiency and Collaboration

   The aim is to drive deeper collaboration between fire and rescue and other local services – including through the statutory duty in the Policing and Crime Act – and support the NFCC and the sector deliver commercial transformation, including
   procuring more collaboratively, efficiently and effectively.

2. Accountability and Transparency

   The aim to enable the public to fully hold their service to accounts by replacing opaque governance and inspection arrangements and publishing more comparable performance indicators.

3. Workforce Reform

   The recommendations are the sector and Government to deliver and are based around five broad themes:

   - The working environment including diversity of workforce
   - Documented conditions of service
   - Industrial relations
   - Retained duty system and
   - Management

On a more local level; the Service continues to work with a range of statutory and non statutory partners in pursuit of joint initiatives that will make our communities safer and healthier. With shrinking budgets and a Government desire to 'do more for less' the expectations of all partner organisations on each other will increase. As a Service we must ensure we remain best placed to meet this challenge. The Authority actively seeks joint working arrangements to best meet the need of the community.

2.2 National Financial Context:

The public sector received a three-year Comprehensive Spending Review (CSR) in December 2021, following three years of annual budget allocations from Government.

The Chancellor of the Exchequer, Rishi Sunak, presented the outcome of the 2021 CSR on 27th October 2021.

Following the announcement of the CSR, the second 1 year provisional financial settlement was announced on 19th December 2022, but only for one year 2023/24.

3. Local Context

3.1 The Authority's Area:

Bedfordshire occupies a geographically central position within the UK. It has exceptional links to London with the presence of key transport infrastructure including the M1 and A1 roads, three major rail routes and London Luton Airport. Bedfordshire has a growing and ageing population of over 682,311[1] people, with a workforce of over 250,000. It has one of the most diverse populations in the country, over a relatively small geographical area.

The county is, in land use terms, largely rural and agricultural, including major areas of outstanding natural beauty. Most people (over 70%) live in its larger towns including the two major towns of Luton and Bedford but also in a number of smaller market towns. These towns lie within often picturesque rural settings which also includes many villages that add to the area's diversity of places to live, work and play.

Over recent years the local economy, like many throughout the UK, has moved from traditional manufacturing and heavy industry to one based more upon the service industry. These industries include logistics and air transport, higher education, research and development, tourism and hospitality, creative and cultural businesses, construction, and business services.

Bedfordshire has two successful universities; the post-graduate Cranfield University, and the under-graduate University of Bedfordshire, together with strongly performing further education colleges based in Bedford, Luton and Dunstable. There are a number of significant and internationally linked research locations at these universities and also at Colworth Science Park, Cranfield Technology Park and the Millbrook Vehicle Proving Ground.

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[1] 2020 mid-year population estimates

There are on-going major transport infrastructure improvements and developments to the road system within the county and continued growth at London Luton Airport; a key deliverer in the business passenger market and handling circa 16 million passengers a year in total.

There are also iconic visitor attractions in the county, such as Woburn Safari Park, Whipsnade Zoo and Center Parc's fifth UK village at Woburn.

From April 2009 local government within the county has been through three unitary authorities - Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. The Bedfordshire Fire and Rescue Authority (BFRA) comprises elected Members from each of these unitary authorities, whose numbers are proportional to the populations they represent: 3 Members from Bedford Borough Council, 5 Members from Central Bedfordshire Council and 4 Members from Luton Borough Council.

3.2. **The Authority's Strategic Priorities Objectives:**

The achievement of the Authority's objectives and targets within a rapidly changing and complex environment requires a robust strategic and business planning process which must in turn guide the development of the medium-term revenue and capital expenditure plans, targeting financial resources to support day-to-day activities as well as planned investment.

Such effective business planning is also essential in order to embed a Service-wide culture of providing the best quality service through the most efficient means and ensure that efficiency measures can be used to free up existing resources, enabling them to be redirected to new and emerging priorities.

BFRA continues to rise to the economic challenges that it faces, whilst at the same time endeavouring to continue to improve the quality of the service it provides to the communities it serves. In the recent years the Authority has:

- Changed the shift system at all of our wholetime fire stations.
- Changed the shift system at 1 of our 2 day crewed fire stations.
- Restructured our teams
- Significant ICT investment to enable working from home across the service in response to the Covid Pandemic including increased Cyber security
- Introduction of a new Mobilising system, the first in the country to utilise a fully cloud based system.

The production of the Service's Community Risk Management Plan (CRMP) is facilitated by the Strategic Assessment and considers a wide range of factors and issues, many of which are complex and played out over a longer timeframe, whilst others are less complex but more volatile requiring close monitoring.

The annual CRMP process enable the development of more detailed plans across the Service and in particular the programme of strategic improvement projects / actions for the forthcoming year and medium-term beyond and play a vital role in guiding and prioritising proposals for expenditure in the annual budget setting and medium-term financial planning process.

The Service planning processes and current medium-term CRMP led to the development of six aims (see below). Our Mission is: Working together to keep Bedfordshire safe.

For us, delivering on our mission means focusing on the following six strategic commitments:

We are:

PREVENTING ... fires and other emergencies from happening.
PROTECTING ... people and property when fires happen.
RESPONDING ... to fires and other emergencies quickly and effectively.

We will do this by:

ENGAGING ... and building closer relationships with our communities and businesses
INVESTING ... in our people to be the best they can be, to serve you better.
MAKING ... every penny count, using our resources in an environmentally sustainable way

Please refer to the CRMP for further detail.

The budget also financially and strategically supports the Service's Values, including new 2023/24 budget bids. The Values are:

- We've got your back – striving to keep us all safe, while being supportive and inclusive.
- We are to be different – we are bold in our approach, we welcome challenge and are open to innovative ideas
- Every contact counts – making a positive difference each and every time, with respect and professionalism.
- We are accountable – we are transparent, trustworthy and responsible for our actions.

3.3. **Government Funding Settlement:**

The Government's provisional settlement was announced on 19 December 2022, with the final settlement figures to be confirmed in early February 2023. The settlement figures are detailed below in Table 1.

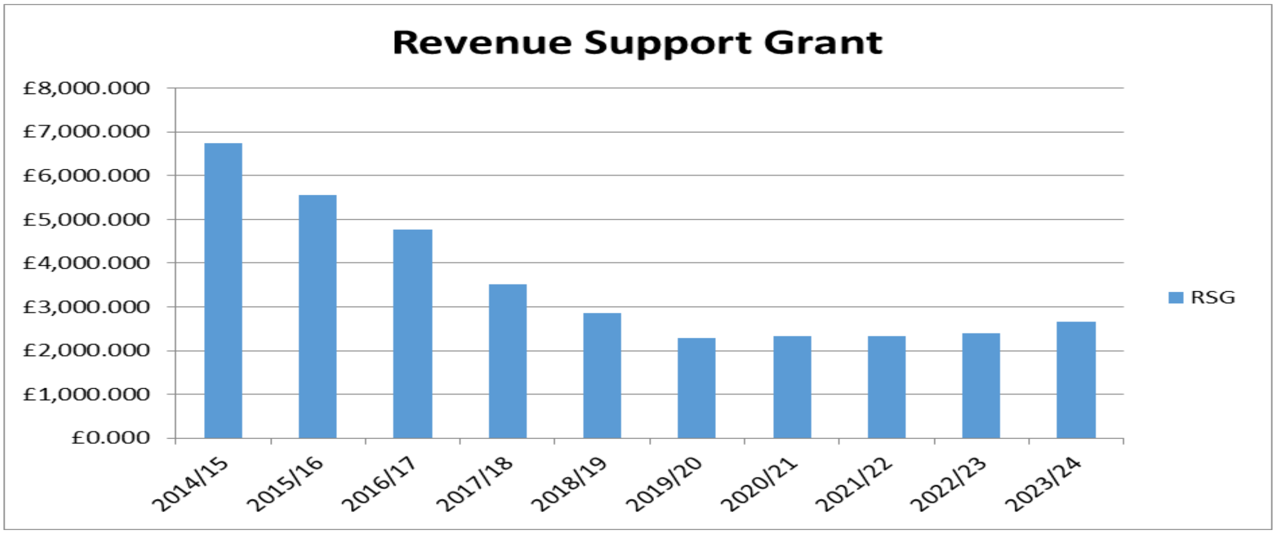
Table 1: Government Grant Revenue Funding

	2022/23 £m	**2023/24 £m**	**£m Variance**
Revenue Support Grant (RSG)	2.405	2.649	0.244
Business Rates baseline funding	5.942	6.164	0.222
Settlement Funding Assessment	**8.347**	**8.813**	**0.466**

As detailed above, the funding increase between 2022/23 and 2023/24 is £0.466m over both grant and business rates income.

The chart below details the Revenue Support Grant income reductions since 2014/15. These reductions have been visible in the Medium Term Revenue Plan and have course led to increased savings and efficiencies.

Chart 1: Revenue Support Grant from 2014/15 to 2023/24



The Authority’s Business Rates Baseline Funding Level (BFL) has been assessed at £6.164m by the Department of Levelling Up, Housing and Communities (DLUHC) for 2023/24, which includes a forecast share of local business rates estimated at £2.475m (the Government’s estimate of the Authority’s 1% share of locally collected business rates). As our business rates locally collected/allocated (the 1% share) are lower than the baseline funding level of £6.164m, we are therefore a ‘top up’ authority and will receive the payment of £3.689m from central government (to get back to the £6.164m baseline funding level). All fire and rescue services are top up authorities. The RSG and business rates funding of £8.813m shown in Appendix 1 for 2023/24 is split between £2.649m RSG funding and £6.164m Business Rates. The local share of business rates, as advised by the Unitary Authorities, is higher than the assumed £2.475m at £2.529m and therefore the top up has been reduced by this £54k in Appendix 1.

There is much volatility with business rates income and associated discounts and grants to compensate, particularly since Covid and the various support provided by Government to businesses. Any variances will be monitored and reported as part of the in-year budget monitoring reports. There will also be the impacts from the valuation appeals; the Chancellor has confirmed that there will be a business rates revaluation taking place in 2023.

The Service will also increase links with the Unitary Authorities to better understand their business rates positions and how this will impact the in-year funding position of the Authority. With material re-distribution in 2022/23, this further understanding would be beneficial.

The split of this between local authorities is shown below in Table 2.

Table 2: Local Business Rates income.

Authority	**2023/24 £**
Bedford	813,819
Luton	653,637
Central Beds	1,420,881
Total	**2,888,337**

The above figures are fed into the MTRP. As are the Section 31 Business Rates Grants currently forecast at £882k in total from the three Unitary Authorities for 2023/24 (subject to final update). In addition there is annual Government S31 funding (multiplier compensation), £168k for 2022/23 and a Services Grant of £231k.

As previously reported, the Authority in future years will be subject to fluctuations of the Business Rates collected in Bedfordshire. If business rates income increases, the Authority will receive a share of this, if it decreases the Authority will be impacted by this. There are mechanisms in place within the funding scheme that offer protection, called safety nets, should an authority be considerably adversely impacted.

The detailed split of the Authority's total funding and local council tax is shown in Table 3 below:

Table 3: Detailed income split

	2022/23 £m	**2023/24 £m**	**Change £m**
Budget Requirement (£m)	**33.819**	**34.898**	**1.079**
<u>Funded by:</u>			
Precept Requirement (£m)	23.401	25.043	1.642
Central and Local Government Funding (£m)	8.747	9.172	0.425
Section 31 Business Rates grant (est)	0.382	0.168	(0.214)
S31 Multiplier Cap grant (est)	0.488	0.882	0.394
Collection Fund surplus/(deficit) incl spreading of prior year	0.345	(0.598)	(0.943)
Use of Collection Fund Deficit Reserve	0.046	0	(0.046)
Services Grant (new from 2022/23)	0.410	0.231	(0.179)
Funding Total (£m)	**£33.819**	**£34.898**	**1.079**
Tax Base (Band D equiv. properties)	224,040	228,807	4,495
Band 'D' Council Tax	£104.45	£109.45	£5

The above income lines are further explained below:

- The Government Grant funding for 2023/24 is as per the provisional settlement figures provided by the DLUHC, with the exception of the local business rates. For business rates, as noted below, the more up to date local authority information is used.

- The Precept Requirement is the total of council tax income to the Authority.

- The local business rates for 2023/24 are the figures provided by the three local authorities that are being finalised and reported in their NNDR 1 returns.

- Council Tax Taxbase, is the Band D equivalent number of properties. For six years there was a lower figure than in 2012/13 and prior years due to the changes in the benefits system, which has reduced the taxbases. This reduced council tax income was offset by the Council Tax Support funding that was separately identifiable in 2013/14 but from 2014/15 has been included in the general Government funding calculations. The taxbase in 2020/21 was higher for the first time than the 2012/13 levels.

- The S31 grants have been updated, for both the locally collected and the Government S31 grant where known/confirmed.

3.4. **Other Revenue Grants:**

In addition to the formula funding, the Government provides specific revenue grants. For the two grants listed below, these are forecast to be circa £150k in 2023/24.

- *Firelink* - This is for the wide area radio system in England, Wales and Scotland for the fire and rescue service. This grant is reducing over the medium term and the cost will have to be picked up by the service.

- *New Dimensions* - This is a grant to cover local costs associated with hosting and maintaining skills associated with national resilience vehicles. This grant was reduced from 2017/18.

The total and split of the 2023/24 funding is yet to be received from the DLUHC.

As well as the above, a grant is also received for the Special Response Team (MTA). This is currently circa £54k per annum.

3.5. **Fire Capital Grant Allocation:**

As anticipated, there is no Government funding or bidding round for capital in the 2023/24 budget. This was the position for the 2016/17 to 2022/23 financial years too. The Authority, in 2012/13 and before, used to receive an annual capital grant of £1m.

The Authority's base budget revenue contributions to fund capital commenced in 2012/13 to support capital expenditure funding in future years. There is now a budgeted base budget revenue contribution of circa £1.0m per annum (with fluctuations) from 2023/24 onwards towards capital expenditure. This is with the assumption that capital grants are not forthcoming in future years. If capital funding becomes available, there will be a direct reduction in revenue contributions.

The Capital Programme, as per the approved timetable, has followed the same robust challenge/scrutiny route as the revenue budget. The Corporate Management Team has also reviewed and assessed the bids made, approving the schemes that are attached at Appendix 3 as the 2023/43 Capital Programme.

Key items of note in the proposed 2023/24 Capital Programme of £2.258m are:

- Investment in our vehicle fleet, to maintain efficient, economic and effective appliances.
- Investment in our equipment to ensure safety of the public, firefighters and officers.
- Investment in Digital, Data and Technology (DDaT).
- Investment in the modernisation of our building

4. <u>The Medium-Term Revenue Plan</u>

4.1. Overview and Key Features of the Revenue Budget Strategy:

The Medium-Term Revenue Plan (MTRP), attached at Appendix 1/1a of the 2023/24 budget report, sets out the Authority's revenue budget strategy for the next four years and the predicted impact on council tax. It captures all of the revenue budget implications of the forecasts and assumptions set out throughout this document, including the impact of the capital budget on revenue.

A key feature of the Authority's overall revenue budget strategy is the decision to set a budget for 2023/24 which involves a £5 increase in council tax on 2022/23 levels. This £5 council tax increase is combined with strategies for council tax, efficiency savings and the use of reserves, which together are aimed at delivering significant and sustainable savings over the four year period and beyond, whilst supporting continuing improvements in the quality of service in line with the Authority's strategic priorities.

The council tax strategy, based on current assumptions and estimates, involves increases at £5 for 2023/24, 2.99% for 2024/25 and 2.99% for the following 2 years until 2026/27. These increases are currently built into the MTRP based on need. This is supported by a strategy for efficiency savings and the utilisation of the 'transformational reserve' in 2023/24 onwards. The support provided to the revenue budget by the planned use of the reserves in the years 2024/25 to 2026/27 is aimed at smoothing the impact of formula grant reductions.

4.2 **Components of the Medium-Term Revenue Plan:**

The following sections give a brief explanation of each of the main components of the MTRP:

4.2.1 *Base Budget*

The net revenue budget for running the Service in 2022/23 was £33.306m. After adjusting for an amount of £87k, which was a contribution to reserves to balance the budget, this increased the budget requirement to £33.393m.

For the 2023/24 budget, the net revenue budget is £36.782m, with a budgeted contribution of £1.884m from the Transformational reserve decreasing the budget requirement to £34.898m.

4.2.2 *Impact of Pensions Funding Changes*

From 2006/07 arrangements were introduced which saw the majority of firefighters pension costs being paid for from the pension account (that is separate from the BFRA's budget), which is funded by a combination of employers' and employees' contributions with Government paying the balance. The level of the employers' contributions is set by the Government Actuary Department and applies uniformly across all Authorities. The BFRA is still responsible for injury retirements and the initial contribution towards ill-health retirements.

The employer pension lump sum contributions percentage have decreased for non-operational employees from April 2023. The employer firefighter contributions have also seen recent significant increases, with some grant funding support these increases.

4.2.3 *Forecast Variations*

This component of the budget includes a variety of estimated or predicted impacts. The items for increases on protection premiums and investment interest decrease/increase are self-explanatory and the figures given represent estimates based on information currently available. The Revenue Implications of the Capital Programme represent the cost of capital borrowing (minimum revenue provision, loan, interest repayments, running costs) on the revenue budget.

The item on non-uniform incremental drift relates to increases in pay for non-uniformed staff as a result of increased 'time served' which results in their moving up the 'spinal column points' within their salary scales.

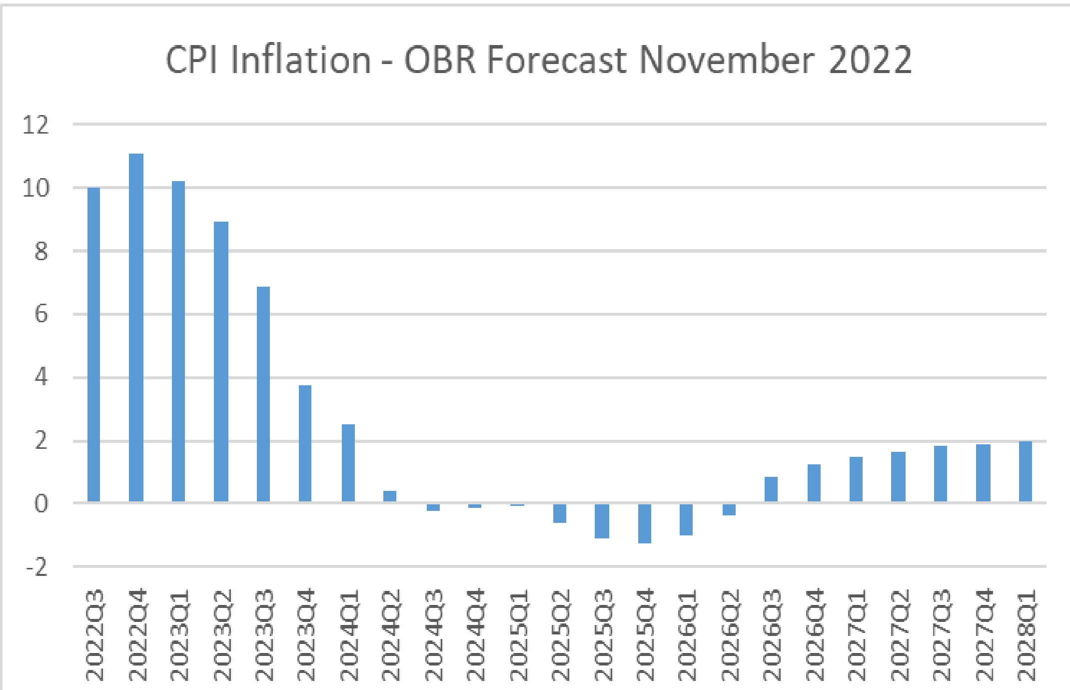
Of particular importance are the items on efficiency savings. As noted at the start of this Section, the Authority's efficiency savings strategy is a core component of the MTRP. The efficiency savings for each of the four years are shown as two types: Transformational Efficiencies/Savings which relate to far-reaching organisational changes, normally associated with significant strategic projects; and Budget Manager Process Efficiency Savings which relate to incremental cost reductions and improvements in ways of working for which all senior managers are set annual targets across all non pay-related budgets. Further details of the Authority's efficiency savings strategy are given in Section 4.3 below.

Of course it is important to remember that actual spending will be under significant pressure. Other recent increases/pressures include the National insurance contributions for employers from April 2016 and the new apprenticeship levy from April 2017.

4.2.4 *Inflation*

In the last quarter of 2022 CPI peaked at a 40 year high and the exceptional rates are expected to continue into 2023/24 when prices are expected to reduce over 23/24 and then hover near 0% and possible negative inflation for a short period of time before slowly rising from quarter 3 in 2026/27 financial year to the Bank of England target of 2%.

The graph below shows the impact on the MTRP for CPI with a high cost in year 1 dropping to manageable costs in years 2 to 4 of the MTRP period (23/24 – 26/27).



Staff Pay: Direct employee costs amount to circa 82% of the revenue budget and as a result the annual pay awards in the latter years of this current budget setting process have a significant impact on future expenditure levels. Specifically for 2023/24, with pay forecasts at 5% for non-uniformed officers and uniformed officers from 2023 for members to consider. For uniformed officers, their pay award may be linked with a review on conditions of service, so some funding uncertainty here.

This budget will fund wholetime and retained operational staff, emergency fire control operators and full-time and part-time support staff pay awards. All of the Authority's pay awards are determined by national negotiating bodies and, other than through the Employers' representatives on the negotiating team, the BFRA has no direct influence on the outcome and, therefore, the use of estimates for budget projections is required.

Prices Inflation: This includes all non-pay items, from indirect employee costs such as recruitment, insurance, occupational health and health and safety related provision and operational training, through to premises, transport, supplies and services. Non-pay inflation of 8% (the average of the OBR forecast for 2023/24 period) for general supplies and services has been incorporated into the MTRP for 2022/23. There is a separate line for an inflation provision for gas, electricity, water and diesel.

4.2.5 *Budget Pressures*

This line of the MTRP refers to proposed items of new or additional expenditure brought forward by managers during the process of budget setting, which have been approved for taking forward into the budget. These projects (after the number of the business case template used for submission) and all have been subject to rigorous scrutiny.

4.2.6 *Estimated Net Revenue Expenditure*

This line of the plan shows the sum total of each of the above expenditure elements and thus represents the total budgeted revenue spending on the Service.

4.2.7 *Contributions to/from General Reserves*

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. Details of the amounts and nature of Reserves which the Authority has decided to hold are given in Section 4.4.

4.2.8 *General and Earmarked Reserves, below*

This line of the MTRP shows how the Authority plans to use the Transformational Reserves, as per the strategy, in years 2023/24 to 2026/27. This strategy is supported by the Authority's efficiency savings plans and the proposed council tax strategy over the four years of the MTRP and is aimed at smoothing the impact of the uncertainty in formula grant in 2023/24 to 2025/26, thereby allowing adequate time for longer-term efficiency savings measures to deliver sustained reductions to base budget requirements, whilst maintaining levels of service delivery.

4.2.9 *Collection Fund*

For 2012/13 and the years before, a collection fund deficit arose for a local authority (a billing authority) when the actual amount of council tax collected by the Authority is less than the amount calculated based upon the number of properties (taxbase) and level of council tax set. This can arise due to a number of reasons including an over-estimation of the taxbase and non-payment by householders. Conversely, a collection fund surplus can arise when the amount of council tax collected exceeds the calculated amount due to an under-estimation of the council taxbase. From 2013/14, there is also now a surplus or deficit on the business rates collected too.

For 2023/24, the respective estimated Collection Fund position of each of its constituent authorities (Bedford, Central Bedfordshire and Luton) has resulted in a net collection fund deficit of £343k for this Authority, with a further £46k deficit spread from 2022/21 in 2022/23 and 2023/24. This means that the Authority's net funding from council tax for this year only is effectively increased by that amount. This is detailed on an individual authority basis in Table 4 below.

Table 4: 2022/23 Collection Fund estimated outturn after the impact of 2020/21 deficit spreading

Authority	Council Tax £ surplus/(deficit)	Business Rates £ surplus/(deficit)	Net £ surplus/(deficit)
Bedford	75,476	19,037	94,513
Luton	86,917	(253,820)	(166,903)
Central Beds	(104,000)	(422,164)	(526,164)
Total	**58,393**	**(656,947)**	**(598,554)**

For a combined fire authority, any collection fund deficit or surplus will represent the combined 'net' result of its share of each of its constituent authorities' estimated year-end Collection Fund position.

4.2.10 *Financed By*

This element of the Plan shows the detail of the separate sources of revenue funding required to meet the estimated budget requirement for each year of the Plan, ie from where the Authority's revenue income comes.
The detailed split of funding is shown earlier in the MTFS in Table 3.

4.2.11 *Calculation of Band D Council Tax and Percentage Increase*

The taxbase used in the MTRP projections represents the number of Band D equivalent properties in the three constituent local authorities that BFRA precepts upon (ie Bedford, Central Bedfordshire and Luton). The taxbase for 2023/24 has been set at 228,807 Band D equivalent properties, based on the information that has been supplied by these authorities. This is 4,767 Band D equivalents higher than 2022/23. The split per authority is shown in Table 5 below. This is an increase of 2.13% compared to the 224,040 taxbase in 2022/23.

The estimated increases of future years' council taxbases are included within the MTRP, currently at c.2% each year.

Also shown is the percentage increase in council tax projected for each year of the MTRP. As explained previously, these equate to 2.99% for 2024/25 and each year until 2026/27.

Table 5: Taxbase – Band D Equivalents

Authority	2023/24
Bedford	62,443
Luton	54,758
Central Bedfordshire	111,606
Total	**228,807**

4.3 Efficiency Savings Strategy

An efficiency saving occurs when the cost of an activity is reduced, but its quality and effectiveness remains the same or improves. BFRA continues to focus on becoming more efficient - finding new ways to deliver highest quality services at lowest possible cost.

The Authority's MTRP for 2023/24 to 2026/27 shows the level of budgeted efficiency/ savings planned for each of the four years, which form an integral part of the overall revenue budget strategy. In addition, the Authority's efficiency savings/initiatives during 2022/23 are mainly on track to deliver an underspend which will be used, subject to the approval of the FRA, to contribute to the Collection Fund deficit Reserve.

As well as making significant savings in previous years, from 2010/11 to 2022/23 £7.419m has been reduced from budgets through budget scrutiny and savings/efficiencies, the Authority's plans for 2023/24 and beyond include making additional significant efficiency savings through:

- Further operational and non-operational reviews
- Efficiency improvements from investments in ICT
- Procurement savings from new contracts
- Collaboration savings
- Income generation

4.4. **General and Earmarked Reserves:**

As a precepting authority there is a requirement under the Local Government Act 1992 for BFRA to hold reserves in order to meet any unforeseen emergencies and manage uneven cash flows. The Authority undertakes a thorough risk assessment in order to identify the required level of reserves each year. The Treasurer has the duty to report on the adequacy of reserves (under section 25 of the Local Government Act 2003), particularly when the authority is considering setting its budget requirement.

The required level of reserves for the period 2023/24 is outlined within the Reserves Strategy and financial strategy.

General Reserves are a working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing and as a contingency to cushion the impact of unexpected events or emergencies. The Authority's General Reserves are detailed in the Reserves Strategy at Appendix 5 to the 2023/24 Budget Report.

Earmarked Reserves, in accordance with the Local Authority Accounting Panel (LAAP) Bulletin 77, can be set up where there are known or predicted requirements. As is common with most other Fire and Rescue Authorities and public sector bodies, BFRA has set up a number of earmarked reserves which have been separated out from General Reserves. These are also detailed in Appendix 5, the Reserves Strategy.

The General Reserve of £2.4m, at c.7% of net revenue expenditure, is in line with the current overall average Combined Fire Authority average. As the S151 Officer I am comfortable with the level or reserves and do not deem it too low or high.

In addition, the Authority has separate ear-marked reserve for the Capital Receipts Reserve. Project carry forwards are also classed as ear-marked reserves at the year end stage.

The Transformational Earmarked Reserve that was specifically set up for budget setting purposes is estimated to total £2.498m at 31 March 2023. As detailed in the MTRP, it is forecast that this will be allocated to offset the budget gap in the years 2023/24 to 2026/27 and to invest in transformation initiatives.

5. The Medium-Term Capital Programme

5.1 **The Capital Programme**

Maintaining and improving the BFRA's infrastructure requires considerable resources and, for asset management purposes, this is broken down into three categories of investment, for each of which a comprehensive Asset Management Plan is produced; namely:

- Land and Buildings
- Fleet and Operational Equipment
- Information and Communication Technologies (ICT)

For each category of investment a separate programme of projects exists which spans a four year period. Because of the nature of the types of projects included in the programmes it has been the practice for some time to phase plans over a medium-term timeframe in order to show the way some schemes run over several years.

In line with best practice the land and buildings programme is developed so as to meet ongoing maintenance demands as well as to support the development of land and buildings investment and its subsequent management.

The fleet and operational equipment programme reflects the need to maintain a comprehensive fleet of vehicles with acceptable asset lives, equipped to the correct standard to meet current and planned service delivery requirements.
The ICT programme contains projects designed to develop and maintain the communications and technological infrastructure, to support both operational and organisational needs.

Traditionally IT, vehicles and operational equipment have either been leased or funded from revenue and hence did not feature in the Capital Programme, but are the subject of revenue bids for funding. Following the introduction of the Prudential Code, work was undertaken to review the cost effectiveness of leasing compared with long-term borrowing and a number of previously leased items are now being included as part of the four year Capital Programme. Discussions regularly take place with our treasury and leasing advisers, Capita Treasury Solutions, to ascertain for our specific Authority at that point in time, what the optimal funding options are.

All proposed schemes are assessed against set criteria to establish the extent to which they support the strategic objectives and Authority's priorities.

The Authority has implemented an asset management process that ensures all its assets are procured, maintained and disposed of in an efficient and effective way to provide value for money to the council tax payer.

The buildings programme for 2023/24 onwards has been developed on the basis that at present there are no further plans to change the type or location of fire stations and therefore the bulk of investment in premises is directed towards enhancement and the provision of new facilities for training and enhanced national resilience. However, it is an area that may change due to joint working/collaboration.

Historically, vehicles and equipment for frontline response and community fire safety have followed certain levels of specification and requirements. Following a comprehensive review of the emergency response fleet, a number of innovative changes are being made to the current fleet. These changes will deliver a fleet of vehicles aligned to the emergency response required to be mobilised to the identified risk profile of Bedfordshire.

The Capital Programme for 2023/24 is fully funded by revenue contributions of £1.836m, with a contribution from the Capital reserves and vehicle sales of £422k.

It is unknown how fire and rescue authorities will be funded for capital expenditure in the next Spending Review period.

6. Other Considerations

6.1. **Key Budget Assumptions and Uncertainties:**

2023/24 Budget Process- Assumptions/Uncertainties

Current Assumptions:

- One year settlement for 2023/24 (Final settlement February 2023).
- The tax base will increase by 2% annually.
- An increase in the employer firefighter pension contributions will increase in 2025/26.
- That the council tax referendum limit will continue @ 3% for 2025/26 and 2026/27
- Based upon demonstrable need that the FRA will approve the £5 council tax precept increase.
- The FF Employer Pensions Grant will be received for 2023/24 at £1.7m again as a grant, likely to be part of settlement in a future year
- Collection Fund positions as per early indications – Still awaiting final NNDR1's from local authority partners.
- All longstanding grants received in 2022/23 will continue in 2023/24. This includes, New Dimensions, Fire link (with reductions), MTA.
- Green Book pay award 5% April 2023. Modelling 4% too 2023/24.
- Grey Book pay award 5% July 2023. Modelling other 4% too in 2023/24.
- Taxbase increasing post the reduction due to the pandemic.

- Business rates increasing not decreasing.
- Fire Grant/Emergency Services Mobile Communications Programme (ESMCP) funded – *Potential large funding risk here.* MAIT funding.
- That CPI will fall in line with OBR projections as at Q3 2022/23.

Other – the Authority wants to build in an Environmental Impact budget, to invest in reducing greenhouse gasses and becoming more green.

Uncertainties:

- Firefighters pay awards for July 2022 and July 2023 onwards.
- The continuation of inflationary pressures and if costs will reduce or remain at current level.
- What, if any, allocation will be given to Authorities to deliver efficiencies/savings/productivity.
- How much Prevention and Protection Grant we will receive.
- As above, how much of the Employer Pension Grant at £1.7m will be included as part of the settlement/CSR from 2024/25 onwards. It could be subject to reduction in the following years.
- If the new Services Grant of £231k will continue at this level (was £430k when introduced in 2022/23).
- FF pensions – impact from the Remedy and associated costs (internal resourcing, payment to Administrators), immediate detriment costs and other pension related matters.
- The government Public Sector Decarbonisation Scheme will remain open for bids in future years to help fund environmental works to service properties. Our Capital programme forecasts a successful funding bid for 2025/26 & 2026/27.
- Impact from Business Rates Retention (no Revenue Support Grant) potentially a future year in the MTRP.
- Impact from recent CSR and funding for 2023/24 to 2024/25 and Spending Review for 2025/26.
- Impact from delayed formula funding review (year unknown).
- Recruitment profile/establishment/retirements – associated recruitment/training costs.
- New savings/efficiencies in the medium term.
- Collaboration (PCC, Ambulance (servicing, co-responding, falls, bariatric funding?), Police etc) – and associated costs/savings/investments.
- Medium term property strategy (Emergency Cover Review, One Public Estate, HQ, workshops, sharing etc)
- Contingent Liabilities/Assets included in the Statement of Accounts.
- EU directives/legislative changes/post Brexit impacts such as supply chain and cost increases.
- Implications arising from the Day Crewing and Retained pensions.
- Strike expenditure potential over the course of the four year MTRP.
- Interest and inflation rate fluctuations.
- Outcomes of Retained Duty System project (budget increase/decrease)
- Outcome of Emergency Cover Review Project.
- Outcome of contaminants work both locally and nationally and potential additional expenditure here.

6.2 **Equality Impact:**

The challenging economic environment in which the Service is operating means that it is sometimes necessary to make difficult and unpopular decisions. A number of the major changes included within the Authority's strategic priorities for the medium-term and thus supported by financial provision within this MTFS, particularly those associated with transformational efficiency savings, will be of this type. The Authority recognises that equality legislation does not prevent it from making these decisions but gives an opportunity to demonstrate its commitment to equality, diversity and inclusion and to ensure such decisions are based on robust evidence and taken in accordance with the Public Sector Equality Duty.

The Authority, therefore, ensures that robust equality analysis is carried out, paying due regard to the impact on our community and staff, where policies, procedures and practices are changing. Decisions, where appropriate, will also be informed by the wider context to ensure particular groups are not unduly affected by the cumulative effects of different decisions. All decisions will be documented through equality impact assessment ensuring fairness, transparency and accountability. This information will be published in line with the requirements of the Public Sector Equality Duty.

6.3. **Data Quality:**

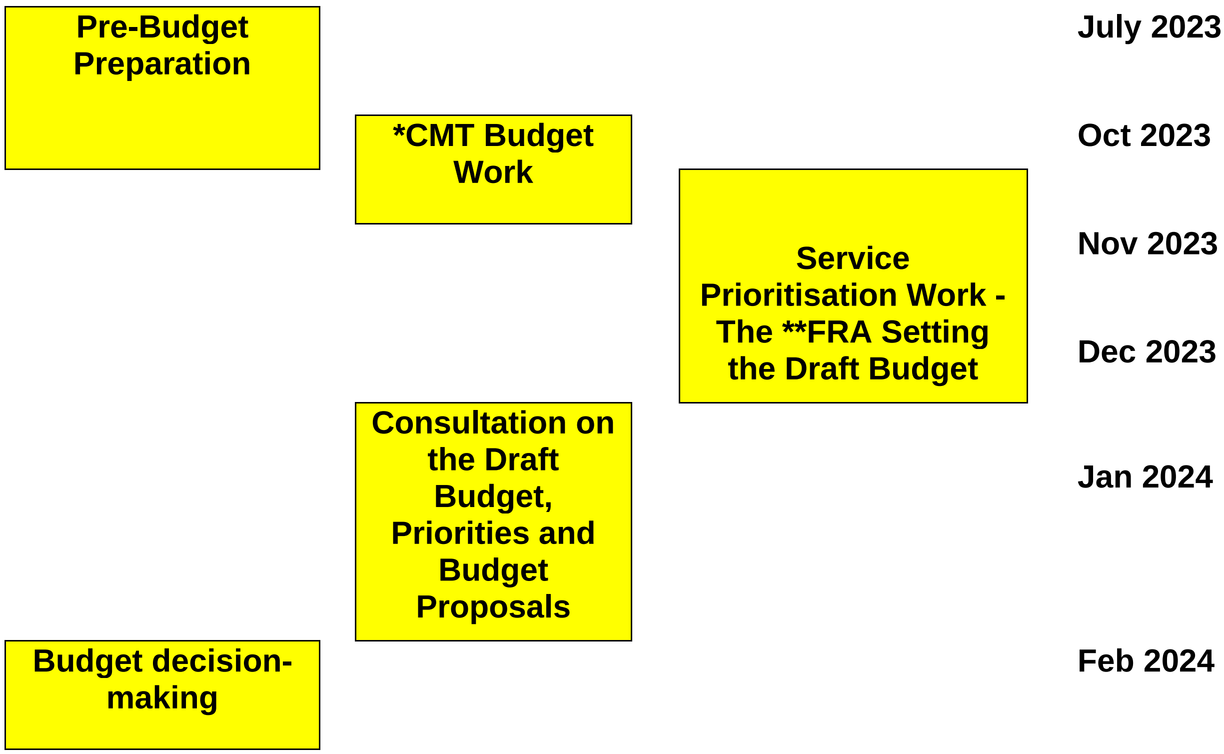
The Authority is committed to achieving and maintaining fit for purpose, quality data enabling sound decision making and informed planning. This is vitally important with key documents, such as this MTFS and the Authority seeks to continually improve the quality characteristics of such data with particular emphasis on accuracy, validity, reliability, timeliness, relevance and completeness.

Systems for assurance and validation of our data are in place, for example Performance Indicators are supported by data proformas which include descriptors, data sources, and change control. A data issues log is maintained that considers severity, impact and mitigation. The Authority's Business Improvement Programme incorporates process re-engineering to assure our data at the point of entry following the 'record once and use many times' principle, delivering new ways of working and business systems where appropriate. A new Digital, Data and Technology steering group commenced in January 2023 chaired by the Chief Fire Officer who is the NFCC national lead for DDaT.

6.4. **Budget Setting Process for Future Years:**

The summary diagram below shows the key stages that will be followed by the Authority in setting future year's budgets. In order to ensure proper process and timescales, it incorporates budget planning from July, setting a draft budget in December for consultation, followed by a final budget set in February.

Diagram 1: The budget setting timetable



***CMT**= Corporate Management Team   ****FRA**= Fire and Rescue Authority

Reserves Strategy – Budget 2023/24 to 2026/27

1 Introduction and Background

1.1 Reserves are an essential part of good financial management. They help the Authority to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Authority to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.

1.2 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The relevant paragraphs are detailed in Annex 1 attached.

1.3 In setting the budget, the Authority decides what it will spend and how much income it needs from limited fees/charges and the council tax to supplement government funding. The Authority may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.

Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.

1.4 Authorities are free to determine the reserves they hold. Members are responsible for ensuring that the Authority's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.

1.5 Fire and Rescue Authorities face significant challenges. The unprecedented reduction in government funding since 2010/11, rising costs and growing demand for many services are all testing the Authority's financial management and resilience. The current inflationary pressures considerably add to the pressures, including pay awards. The position is potentially to become tougher with again only a one year settlement for 2023/24 despite there being a three year Comprehensive Spending Review in 2022, and potential Funding Formula and

Business Rates Retention reviews to take place. There are also continuing pressures from inflationary increases in supplies, services and pay awards.

1.6 Current and future financial challenges pose significant, and increasing, risks for the Authority. The Authority may consider using reserves to balance competing pressures, for example:

- Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource – and/or invest in making changes that reduce the cost of providing services in the longer term.

- Increasing reserves to strengthen resilience against future, uncertain cost pressures. A feature of the previous budget strategy and MTFS, was that reserves were built up to be used to support the budget and fund investment in delivering savings through transformation and improving services. The Transformational Budget Reserve is now being utilised to offset the budget gap as strategically planned and importantly invest in service transformation and environmental initiatives.

2. The approach to setting the Reserves Strategy

2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. This strategy includes:

- Information showing the current level of reserves
- Consideration of the forward strategy for reserves needed to support the Authority's MTFS
- A summary of the financial risks facing the Authority in conjunction with
- An explanation of the purpose and level of any earmarked reserves
- Details of the plans for reserves within the published budget

2.2 Reserves will be monitored throughout the year and the level of reserves reported as part of the year end accounting processes.

3 Why the Authority holds reserves

3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:

- *General* – the main balance that the Authority wishes to set aside. This is the £2.4m and is compared annually to other Combined Fire Authorities. This has reduced, as planned, from the previous £2.6m, with a planned reduction to £2.2m over the medium term plan.
- Available *earmarked reserves* – funds we hold set aside to meet known or predicted future spending or ring-fenced by previous Authority decisions (such as the Collaboration Reserve, pay reserve)

- *Other reserves* the Authority holds but which are not available to fund their general spending; some reserves with statutory restrictions on how they can be spent, such as capital receipts or specific revenue grants
- Total reserves – the sum of earmarked, other and General

3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example property or vehicle damage, or reserves to cover shortfalls in investment income, pay award projections and so on.

3.3 Reserves are distinct from provisions. Provisions are funds set aside for probable future liabilities where the timing and amounts are uncertain

Delivering a balanced budget

3.4 There are a number of reasons why a Fire and Rescue Authority or Local Authority might hold reserves, these include to:-

(a) Mitigate potential future risks such as increased demand and costs;
(b) Help absorb the costs of future liabilities;
(c) Temporarily plug a funding gap should resources be reduced suddenly;
(d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
(e) Spread the cost of large scale projects which span a number of years.

Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term. Due to the fact that funding for future Capital Projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as the Capital programme progresses.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

3.5 The Local Government Finance Act 1992 requires the Authority to calculate its expected outgoings and income for the year – including any additions to or use of reserves. Where expected outgoings exceed expected income, the difference is the Authority's tax requirement for that year.

3.6 If unplanned costs are incurred during the year that are not funded externally – for example, by a grant from government or an insurance policy – or the Authority experiences a shortfall in expected income/funding, there will be few options if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore the Authority may want to consider using reserves to balance spending and income.

3.7 The 2023/24 to 2026/27 MTFS assumes that there will be utilisation of the Transformation Reserve for budgeting and transformation/innovation/environmental purposes. It forecasts that this reserve will be usable to balance future years budgets. The MTRP details the utilisation of General Reserve (line 76) and also proposes the use of held and previously unused capital reserves (£555k) and the Pay Award reserve (£1m) that was created for pay awards above budgeted for. This is clearly the case now, with the firefighters pay award for July 2022 yet to be agreed with potential industrial action ahead.

4 Reserves and the management of risks – Annual Review

4.1 With regard to the Authority's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: insurance/protection, ill health and early retirement, HR matters, Health and Safety matters, grant loss, Pensions/Pay uncertainties, budget pressures and one that was new for 2021/22 a Collection Fund deficit reserve. These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process. The review of reserves in year and the forecast of a forecast large Collection Fund deficit, led to the FRA in October 2020 establishing an earmarked reserve for this from the 2020/21 year end underspend.

4.2 The Authority also manages unforeseen financial shocks by maintaining a General Fund/Working Balance. The Authority's agreed policy is to maintain working balance at £2.4m. Some Authorities set a minimum desired percentage and although the Authority has not done this, the policy would maintain general balances at approximately 7% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process. A reduction over the medium term to £2.2m is currently planned, but subject to a further review when setting next year's budget.

Increasing Financial Risks

4.3 The risk environment for local government has significantly increased over recent years. This strategy identifies the following issues that have increased risk:

- Ongoing inflationary pressure to supplies, services and pay awards
- Continued limited Government funding with now four years of only annual settlements, although there was a three year CSR for 2022/23, only the police sector had indicative high level funding figures given for 2023/24 too.
- Potential changes in the grant funding methodology – Formula Funding Review, Business Rates review and Spending Reviews

- Significant movement and growth in resident population numbers brings pressures to a range of services and requires more investment in infrastructure – could have impacts on hydrant and operational provision
- Localisation of business rates presents a collection rate risk, an economic downturn risk and a risk in respect of backdated appeals – In a future year potentially, Business Rates Retention Scheme and no RSG
- A key new uncertainty is the outcome of the Remedy for the age discrimination case (McCloud) and the impact that this may have financially on Fire and Rescue Services. An earmarked reserve has been set up to cover this and the unknown cost of employer contributions and Administrator payments (as well as pay awards and associated potential industrial action).
- Any impacts from Brexit/the war in Ukraine and supplies still could have a financial impact.
- Collection Fund deficits and the volatility of the taxbase during and post the pandemic and also Business Rates valuations/appeals.

On-going risks in the current strategy

4.4 In addition to the new risks there are still the risks that are usually managed within the MTFS and the Corporate Risk Register.

5 Budgeted Reserves – Risk Assessment

5.1 The forecast Earmarked Reserves usage assumed as part of the budget strategy are included in the Medium Term Revenue Plan.

5.2 The forecast value of General Fund Reserves as at 1st April 2023 is £2.4m as detailed in Table 1 below.

Table 1: Risk Assessed General Reserves

Description	**Likelihood**	**Impact**	**£'000**
Large scale failure of Personal Protective Equipment or other safety critical equipment	Possible	Significant	300
Major incident within the County/Region	Likely	Significant	650
Failure of operational vehicle prior to planned replacement in Capital Programme/unforeseen inability to provide service requirements	Possible	Significant	300
Failure of a major supplier	Likely	Significant	300
Failure/corruption/security breach of ICT System	Possible	Significant	200
Non-specific General Reserves to meet any other unforeseen service requirements			650
Total General Reserves			**2,400**

5.4 The reserves below have been set aside for foreseen circumstances that may necessitate usage. They are annually reviewed and if not deemed necessary, released to support the revenue budget. Some have been set up as a result of base revenue budget scrutiny, where budgets in the past were held for just in case events necessitated their use. Where this was so, these have been removed from base revenue budget and an earmarked reserve created. The large items, such as ESMCP, Hydrants and the Replacement mobilising system, are where the spend is unknown so these amounts have indicatively been set aside to avoid budget pressure in the medium term and to assist with the Medium Term budget setting. The items listed below are not contractually or legally committed, at this point in time. All are clearly linked to supporting the Authority's service delivery plans. Following a review by the Treasurer for the 2023/24, and in accordance with discussions held at the second Members budget workshop in January 2023, a newly identifiable earmarked reserve has been allocated to Contaminants at £200k

5.5 The earmarked reserves are detailed in Table 2 below.

Table 2: Earmarked Reserves

Description	**£'000**
Emergency Services Mobile Communications Programme (ESMCP) reserve – Emergency Services Network (ESN)	180
Replacement Mobilising Project	100
Contingency for doubtful debts	10
Hydrant installation (taken out of revenue budget due to uncertainty)	225
Goods and services, contractual inflation in excess of assumptions (1%)	80
Potential liability as a result of legal/disciplinary action in relation to Personnel	100
Health & Safety and/or Contaminants work	**200**
Sudden absenteeism of a large number of personnel across the whole of the Service due to pandemic or similar	125
Ill-health retirements in excess of budget provision/injury pension	125
Unplanned urgent property works (eg roof repairs)	100
Contingency for insufficient Insurance cover (additional contribution)	25
Interruption to Business Continuity (including Industrial Action, Cyber, adverse weather conditions resulting in higher than average numbers of emergency incidents – excludes Bellwin incident))	150
Unplanned urgent maintenance/replacement of particular item of equipment (eg engine or gearbox wearing out/failing earlier than anticipated)	50
Invest to Save/Innovation Fund (these have been taken out of annual revenue budgets)	60
ICT Innovation/Application Development	75
Total Requirement	**1,605**

The use of the previously held £1m for pay and pensions has been included for utilisation as part of the 2023/24 budget setting. However, a contribution back to this reserve is proposed within the Budget Monitoring report presented in today's agenda. This underspend is predominantly achieved through the redistribution of business rates monies form 2021/22.

5.5 Other Reserves for noting:

- Collaboration Reserve £2.378m (includes 2017/18 year end additional contribution of £498k from Home Office Pensions refund)
- Capital Receipts Reserve £507k plus the vehicles reserve of £48k (totalling £555k) has been allocated as part of the funding of the capital programme for 2023/24.

There is also a Capital Reserve that holds the approved funding where schemes run over the financial year end, this includes vehicles, property works and ICT projects.

Annex 1 – Extract from National Framework reference reserves

Reserves

1.1
Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.2
Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.

1.3
Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

1.4
Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:
• how the level of the general reserve has been set;
• justification for holding a general reserve larger than five percent of budget; and
• details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

1.5

The information on each reserve should make clear how much of the funding falls into the following three categories:

a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.

b. Funding for specific projects and programmes beyond the current planning period.

c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)

Bedfordshire
Fire and Rescue Service

BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Capital Strategy

Contents

1. **Introduction**

1.1 This Capital Strategy outlines how Bedfordshire Fire and Rescue Authority intend to optimise the use of available capital resources to assist in achieving its objectives. The strategy therefore sets out the corporate framework for planning and financing capital in pursuit of the Authority's objectives.

1.2 Capital expenditure is a considerable cost to the Authority and it is necessary to ensure that work, projects and equipment of a capital nature are properly identified, evaluated and prioritised whilst ensuring associated revenue implications are fully understood and affordable.

1.3 Historically, the Authority has used a number of sources of capital financing to fund capital projects, including borrowing, specific grants, capital receipts, revenue contributions and leasing.

1.4 The Authority is committed to ensuring that Value for Money (VFM) is embedded in the decision making process, and the Capital Strategy takes account of the concept of VFM through the capital decision making framework that is in place.

2. **The Role of the Capital Strategy**

2.1 The Capital Strategy has a significant role to play in assisting the Authority to achieve its objectives. The Authority has a vision of 'to provide an excellent Fire and Rescue Service' and within this vision has two strategic aims:

- To maximise the safety of our communities by whatever means possible.

- To deliver a modern, well managed and effective Fire and Rescue Service of which we can all be proud.

2.2 It is essential that the Authority has a capital portfolio that fully supports the vision and priorities that have been set. It is also essential that the provision of appropriate capital assets considers all aspects of VFM, ensuring benefit for the Authority and the local taxpayer.

2.3 The purpose of this strategy is therefore to provide a framework that transparently demonstrates how the investment of capital resources contributes to the achievement of the vision and key priorities set out in the Corporate Plan and Community Risk Management Plan (CRMP).

2.4 **The Strategy:**

- Shows how the investment of capital resources contributes to the achievement of key priorities set out in the Strategic Plan.
- Provides a framework for the consideration of capital options that are competing for scarce capital resources.
- Provides a framework for the management and monitoring of the capital programme.
- Sets out the processes for generating capital investment proposals and the appraisal of options.
- Demonstrates how the revenue implications of capital investment are taken into account.
- Raises the profile of capital and asset management with Members, staff, partners and the public, to ensure the economic, efficient and effective use of the Authority's assets.

2.5 By implementing the Capital Strategy, the Authority has a framework in place to consider and implement recommendations from the Strategic Asset Management Plan (AMP) and the individual asset management plans for Land and Buildings, Vehicles and Operational Equipment and ICT. This approach will also ensure that capital investment is sustainable, and VFM is routinely considered across all aspects of capital investment.

3. Managing the Capital Strategy

3.1 A Capital Strategy Team (CST) will oversee all developments relating to the use and management of capital resources in respect of the capital programme, ensuring that asset planning, acquisition, financing and use is consistent with the Strategic Plan and CRMP.

3.2 The CST will ensure that the capital programme is formulated so as to support the delivery of the Authority's priorities. The broad role of the CST will be to oversee:

- Preparation of the capital programme.
- Assessment of the capital programme bids.
- Assessment of capital value for money considerations.
- Advise the Corporate Services Policy and Challenge Group of ongoing and imminent capital schemes.
- The commissioning of post implementation reviews.
- Assessment of revenue implications of the capital programme and individual schemes.
- Informing the content of the Medium-Term Financial Plan in relation to capital expenditure and associated revenue implications.

3.3 The CST will also oversee compilation and review of the Asset Management Strategy and ensure that information flows between the Capital Strategy, AMPs, ICT Strategy, HR Strategy, Service Delivery Strategy and the Medium-Term Financial Strategy.

3.4 The Membership of the Service's Capital Strategy Team is as follows:

- Chief Fire Officer
- Deputy Chief Fire Officer
- Head of Finance/Treasurer
- Specialist staff seconded to the CST as required

3.5 The CST is supported by a Capital Working Group, as and when required,to assist in developing capital investment submissions for consideration by CST, and to prepare the capital programme based on CST recommendations. The membership of the Group is as follows:

- Treasurer (Section 151 Officer)
- Chief Accountant (Deputy Section 151 Officer)
- Property Manager
- Strategic Support Manager
- Information Systems Manager

4. **The Capital Strategy and the Strategic Planning Process**

4.1 The Capital Strategy will reflect the key strategic plans of the Authority. It is essential that all key strategic documents produced by the Authority inform the Capital Strategy, and it is equally important that strategic documents give consideration to the capital framework that is in place when considering proposals that impact on assets and capital expenditure.

4.2 The strategic planning process links the key plans and strategies of the organisation including the CRMP and the MTFS.

5. **The Role of Partnerships**

5.1 The Authority recognises that strategic priorities can only be achieved by working in partnership with other agencies.

5.2 The advantages of partnership working are clear. With Government funding streams becoming increasingly target based and focused on partnership working, the benefits of partnership working could include access to additional sources of funding for the Authority.

6. **Key Strategic Priorities and the Capital Strategy**

6.1 As explained within the MTFS, the Authority's strategic priorities are driven by the Authority's vision of 'to provide an excellent Fire and Rescue Service' together with its aims and objectives. These are realised through a number of strategic priorities identified through a process of Strategic Assessment, which in turns guides the production of the annual CRMP and the specific priorities, projects and programmes within it. The implications of these for capital expenditure are reflected within the Capital Strategy and Programme.

6.2 The process of risk assessment inherent within the CRMP, ensures that the Authority fully understands the nature and extent of the risks to the community and the actions that need to be prioritised to address these risks. The Plan sets out how to reduce these risks, as well as how to deliver services effectively, taking account of external influences such as the National Framework, national assessment processes, improvement plans and the financial resources available to the Authority.

6.3 The Capital Strategy is designed to assist in achieving these objectives and priorities. By ensuring that the Authority's capital assets are appropriate to the demands that the Corporate Plan places upon them, financial planning can ensure resources are sustainable in the years ahead.

6.4 The practical implications of how the Capital Strategy supports the Authority's planning by providing information relating to the links between the strategic priorities of the Authority, are set out in the following section.

6.5 Consultation is a key aspect of setting strategic priorities, and the Authority undertakes detailed consultation with the public in relation to the CRMP.

7. **Links between Strategic Priorities and Capital Investment**

7.1 The Authority recognises that there is a requirement to invest in capital assets to realise its strategic priorities. The Capital Strategy has four key strands to its approach to capital investment and asset maintenance:

7.1.1 *Buildings:*

Repairs and Maintenance investment in 'fit for purpose' fire stations and buildings is essential in providing a community safety service that meets the demands of a modern fire and rescue service. The Authority has undertaken a complete review of its existing premises and, by investing in existing property maintenance, the Authority can continue to provide building assets to meet its strategic aims.

7.1.2 *Capital Investment:*

The Authority has historically provided a significant element of capital funding for the replacement or ongoing enhancement of building stock. However, the Fire and Rescue Service improvement agenda requires the Authority to assess existing building stock and take consideration of the role of community fire stations and how this impacts on the existing estate. A recent example of this approach is the newest Fire Station at Dunstable, which was designed to meet the needs of staff and the public. Investment in the station was related to all of the strategic priorities and the CRMP, and has resulted in a modern fit for purpose Community Fire Station that provides an asset for the benefit of the local communities. The Authority recognises that there is a requirement to invest in the building stock and has undertaken a review of building assets with a view to producing options for improvement and replacement in line with the CRMP. Additionally, future capital investment decisions will need to be mindful of the Public Sector Equality Duty.

By investing in existing building stock and identifying requirements for new buildings, the Authority can demonstrate a commitment to meeting its strategic priorities through capital investment. It is recognised that the community engagement agenda and associated improvement to building stock will require capital investment. This investment requirement has been acknowledged by the Authority – see section 9.

7.1.3 *Vehicles and Equipment*:

The Authority plans for vehicle and equipment replacement over generally a fifteen year period. The Authority is committed to ensuring that its front line appliances, which provide vital means of responding to incidents, are fit for purpose. To this end, a twelve/fifteen year lifespan policy for rescue pumps and special appliances has been adopted.

The replacement programme is fully costed and is included within the capital programme and Medium-Term Financial Strategy. The Authority's Capital Strategy acknowledges the necessity of ensuring that adequate provision is made for new and replacement equipment as appropriate. The ongoing replacement programme demonstrates value for money by replacing appliances and equipment within the most appropriate timescales. Vehicles are rotated between stations to ensure that there is a more equal use of them. For example, retained stations pumps where use may be low, may be swapped with Luton where use is the highest. Increasingly, the CRMP has required the Authority to examine alternative types of vehicles and, to this end the Authority is examining alternative vehicles that may offer increased efficiency and improved value for money. The Authority also has regard to the National Procurement Strategy when considering capital acquisitions.

7.1.4 *National Modernisation Projects:*

The Authority is committed to the Government's strategy of preparedness in order to deal with the impact of any exceptional incidents that could occur within the country. The Capital Strategy takes into account the need to ensure that the Authority's building infrastructure is capable of providing the necessary support for this type of work. The Authority has been committed to supporting national projects aimed at ensuring there is a resilient infrastructure in place to deal with large scale and widespread incidents.

The FiReControl project that was due to provide a regional control centre in Cambridge ceased. The Authority is now replacing its own mobilisation system in conjunction with Essex FRS. The Authority was successful in 2011/12 in securing a DCLG grant of £1m to fund this work in collaboration with Essex FRS.

Firelink will provide a wide area radio network offering resilience and inter-operability between fire and rescue services. New Dimensions grant cover local costs associated with hosting and maintaining skills associated with national resilience vehicles. The Authority expects to continue to receive both grants.

8. <u>Capital Resourcing</u>

8.1 There are numerous methods of financing the capital programme. Historically, the Authority has utilised borrowing, leasing, capital grants, capital receipts and revenue contributions to fund the capital programme.

8.2 The Authority has identified the need to review its estate and ensure that buildings are fit for purpose and meet the requirements of the public and staff.

8.3 The Authority undertakes an assessment of the most cost-effective means of funding the capital programme. Future programmes that include increased expenditure in relation to building works will be assessed according to capital investment criteria including:

- Expected duration of service for new assets.
- Potential for fundamental changes to service provision over a twenty-five year period.
- Likelihood of alternative methods of finance becoming available over the short to medium-term.
- The revenue implications of capital expenditure.
- Demonstrating VFM.

8.4 The Local Government Act 2003 introduced a new Prudential regime for capital expenditure. Local Authorities are free to borrow if they can afford the debt without extra government support. Authorities must, however, demonstrate to Members that capital spending plans are affordable, sustainable and prudent.

8.5 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires the Authority to report a number of key prudential indicators. Authorities are free to undertake unsupported prudential borrowing, subject to meeting certain criteria.

9. Resource Allocation

9.1 The existing capital programme is mainly concentrated in the areas of premises and vehicle acquisition. Resource allocation has, in the past, matched the requirements of the capital programme, subject to this being affordable.

9.2 Any capital expenditure bid requires an investment appraisal process to be followed that assesses the suitability of the proposed capital works against key criteria. These bids will be considered by the Capital Strategy Team as part of the medium-term and annual budget setting process.

9.3 Resources will be allocated to specific projects depending on the outcome of the assessment of capital bids (see 8.4).

10. Capital Programme – Implementation and Monitoring

10.1 Capital resources are dependent on capital receipts, capital grants, revenue contributions and the Authority's potential to prudently afford additional borrowing. As the Authority examines its building portfolio and identifies areas for capital investment, there is likely to be a requirement for capital investment that will require funding from these and other available funding streams.

10.2 The capital programme is approved by the Authority on an annual basis and provides details of the expected programme over a three year period.

10.3 The capital programme is monitored by the Service's Capital Strategy Team, with a view to monitoring expenditure and timescales of individual projects against plan.

11. Capital Strategy Review

11.1 The Capital Strategy will be reviewed annually to ascertain its effectiveness and enable updates as necessary.

Bedfordshire Fire and Rescue Service

Fire and Rescue Service

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

1. Introduction

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting Requirements

1.2.1. Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority’s elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2. Treasury Management reporting

The authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
   - the capital plans, (including prudential indicators)
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinized before being recommended to the Authority. This role is undertaken by the Fire and Rescue Authority (FRA).

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- The capital expenditure plans and the associated prudential indicators
- The minimum revenue provision (MRP) policy.

Treasury Management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities on the Authority
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training can be provided to Members by our Treasury Advisor's, Link Treasury Services, in 2023 at the FRA's request. Last training provided was 7th July 2022.

1.5 Treasury Management Consultants

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

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

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

2. The Capital Prudential Indicators for 2023/24 – 2025/26

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

2.1 Capital expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Members have approved the capital expenditure forecasts below as part of the annual budget setting process:

Capital Expenditure £000's	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total	748	1,357	2,258	2,876	1,666

Other long-term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £000's	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital receipts	0	0	72	16	70
Capital reserves	748	488	350	305	0
Revenue	0	869	1,836	2,555	1,113
Government Grant	0	0	0	0	483
Net financing need for the year	**0**	**0**	**0**	**0**	**0**

2.2 **The Authority's borrowing need (the Capital Financing Requirement)**

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

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

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

The Authority is asked to approve the CFR projections below as part of this Strategy:

£m	**2021/22 Actual @ 31/03/2021**	**2022/23 Estimate @ 01/04/2022**	**2023/24 Estimate @ 01/04/2023**	**2024/25 Estimate @ 01/04/2024**	**2025/26 Estimate @ 01/04/2025**
Total CFR	**7,550**	**7,273**	**7,040**	**6,812**	**6,587**
Movement in CFR	**(277)**	**(233)**	**(229)**	**(225)**	**(221)**

Movement in CFR represented by;					
Net financing need for the year (above)	**0**	**0**	**0**	**0**	**0**
Less MRP/VRP and other financing movements	(277)	(233)	(229)	(225)	(221)
Movement in CFR	**(277)**	**(233)**	**(229)**	**(229)**	**(221)**

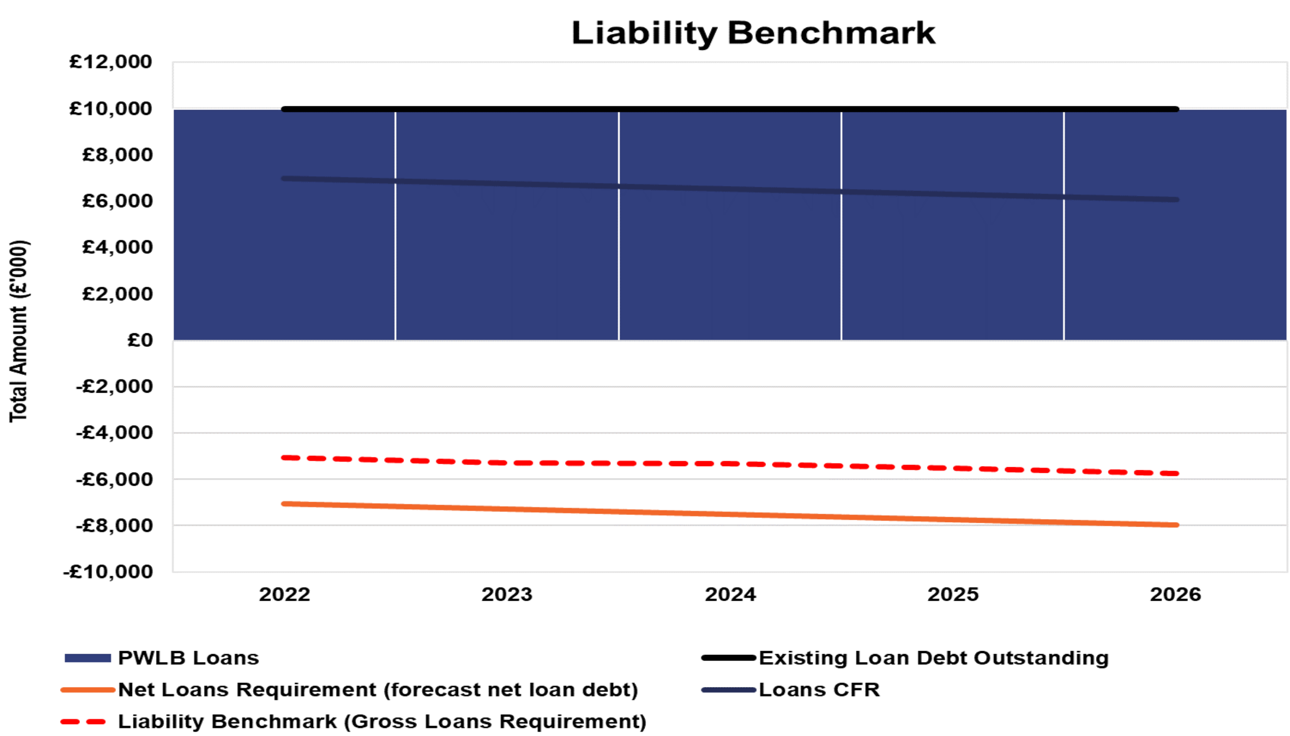
2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

The liability benchmark measures the Authority's projected net debt requirement plus a short-term liquidity allowance in the form of minimum cash and investment balances. The purpose of the benchmark is to set the level or risk which the Authority regards as its balanced or normal position.

The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority must hold to funds its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.03.22 £m	31.03.23 £m	31.03.24 £m	31.03.25 £m	31.03.26 £m
Existing Loan Debt Outstanding	9,987	9,987	9,987	9,987	9,987
Net Loans Requirement (forecast net loan debt)	7,046	7,279	7,508	7,733	7,954
Loans CFR	6,996	6,763	6,534	6,309	6,088
Liability Benchmark (Gross Loans Requirement)	5,046	5,279	5,308	5,533	5,754
(Over)/Under Liability Benchmark	15,033	15,266	15,295	15,520	15,741



The above chart and graph indicates that as actual loans outstanding exceed the benchmark, this represents an over borrowed position, which results in excess cash.

3. **Borrowing**

The capital expenditure plans set out in Section 3 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 **Current Portfolio Position**

The Authority's treasury portfolio position at 31 March 2021 with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR), highlighting any over or under borrowing.

External Debt	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External Debt					
Debt at 1 April	9,987	9,987	9,987	9,987	9,987
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**9,987**	**9,987**	**9,987**	**9,987**	**9,987**
The Capital Financing Requirement	7,273	7,040	6,812	6,587	6,366
Under/(over) borrowing	**(2,714)**	**(2,714)**	**(2,714)**	**(2,714)**	**(2,714)**

3.2 **Treasury Indicators: limits to borrowing activity**

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

Operational boundary	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	0	0	0	0
Overdraft	0	0	0	0
Total	**9,987**	**9,987**	**9,987**	**9,987**

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

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

2. The FRA is asked to approve the following authorised limit:

Authorised Limit	**2021/22 Actual £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Debt	9,987	9,987	9,987	9,987
Other long term liabilities	0	0	0	0
Overdraft	0	0	0	0
Worst Case Scenario Payroll	2,200	2,500	2,500	2,500
Total	**12,187**	**12,487**	**12,487**	**12,487**

3.3 **Prospects for Interest Rates**

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07.02.23. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest View 07.02.23

	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40

Our central forecast for interest rates was previously updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our best judgment is that there will be scope for an early Christmas present for households with a December rate cur priced in, ahead of further reductions in 2024 and 2025.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.00% (1.3.23).
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate later in the year of in 2024.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

3.4. **Borrowing Strategy**

3.5 **Borrowing Rates**

The Authority is currently maintaining an over-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been exceeded by loan debt and leasing liabilities. The strategy for the CFR and the under/over borrowed position going forward will be discussed at the next meeting with our Treasury advisors.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Authority officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *If it were felt that there was a significant risk of a sharp FALL in long and short term rates,* eg 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 a greater than expected 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 were still relatively cheap.

3.5 Policy on Borrowing in Advance of Need

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

In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- 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 merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

3.6. **Debt Rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. If rescheduling is to be undertaken, it will be reported to FRA at the earliest meeting following its action.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in paragraph 7 above;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

4. **Annual Investment Strategy**

1.1 Investment Policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team).

The Authority's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ('the Guidance')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the CIPFA TM Code')
- CIPFA Treasury Management Guidance Notes 2018

The Authority's investment priorities will be security first, portfolio liquidity second, then return.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor couterparties are the Short Term and Long Term ratings.

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

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

4. This authority has defined the list of types of investments instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with the high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is class as non-specified, it remains non-specified all the way though to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

Non-specified investments limit. Under previous regulations the investment of surplus cash was restricted to periods not exceeding 365 days. Under the new regulations that restriction is removed, however investments that do exceed 365 days are classified as non-specified investments because of the greater degree of risk they carry. The Authority has no investments over 365 days.

Should the Authority make use of Property Funds to supplement their investment portfolio, these would be in excess of 365 days. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using.

As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23). At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

4.2 Creditworthiness Policy

This Authority applies the creditworthiness service provided by Link Treasury Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS (Credit Default Swap) spreads that may give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used for Investments

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

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

All credit ratings will be monitored quarterly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Treasury 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.

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.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits, are required, by UK law, to separate core retails banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other member of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country Limits

Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio

b) **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- No more than £7m will be placed with any non-UK country at one time
- Limits in place above do not apply to a group of companies where the limit is £10m per group
- Sector limits will be monitored regularly for appropriateness

4.4 **Investment Strategy**

In-house funds:
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. Members of the FRA, during the member budget workshops for 2018/19, enquired about the potential of lending to local authorities. This is a possibility should an amount, interest rate and loan period be agreed. If this was to be something to implement that aligned with our cash flow, guidance and relevant paperwork would be sought and discussed with Link Treasury Services.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obainable, for longer periods.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, are as follows:

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

4.5 Investment performance/risk benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day SONIA (Sterling Overnight Index Average) compounded rate.

4.6 End of Year Investment Report

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

4.7 Policy on the Use of External Service Providers

The Authority uses Link Treasury as its external treasury management advisers.

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

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

Money Market Funds for short-term investments will be considered.

4.8 Scheme of Delegation

Please see Appendix 6.

4.9 Role of the Section 151 Officer

Please see Appendix 7.

Appendices

1. Prudential and treasury indicators and MRP Statement
2. Interest Rate Forecasts
3. Economic Background
4. Treasury management Practice
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The Treasury Management Role of the Section 151 Officer

MINIMUM REVENUE PROVISION POLICY STATEMENT 2022/23

The Authority implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10 and will assess their MRP for 2020/21 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2022/23 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2011 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method*)*. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's finances. The Authority is asked to approve the following indicators:

a. **Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
% Ratios	**2.03%**	**1.12%**	**1.30%**	**1.30%**	**1.39%**

The estimates of financing costs include current commitments and the proposals in this budget report.

Treasury indicators for debt

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates:

- Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The FRA is asked to approve the following treasury limits:

Maturity structure of fixed rate borrowing during 2023/24		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
5 years to 10 years	0%	25%
10 years and above	0%	100%

INTEREST RATE FORECASTS

1. Individual Forecasts

Link Treasury Services

Interest rate forecast – February 2023

	End Qtr 1 2023	End Qtr 2 2023	End Qtr 3 2023	End Qtr 4 2023	End Qtr 1 2024	End Qtr 2 2024	End Qtr 3 2024
Bank Rate	4.50%	4.50%	4.50%	4.25%	3.75%	3.25%	3.00%
5yr PWLB rate	4.00%	3.9%	3.80%	3.70%	3.60%	3.50%	3.40%
10yr PWLB rate	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
25yr PWLB rate	4.60%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%
50yr PWLB rate	4.40%	4.20%	4.10%	3.90%	3.80%	3.60%	3.60%

Capital Economics

Interest rate forecast – February 2023

	End Qtr 1 2023	End Qtr 2 2023	End Qtr 3 2023	End Qtr 4 2023	End Qtr 1 2024	End Qtr 2 2024	End Qtr 3 2024
Bank Rate	4.25%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%
5yr PWLB rate	3.80%	3.70%	3.60%	3.50%	3.50%	3.40%	3.30%
10yr PWLB rate	3.80%	3.70%	3.70%	3.60%	3.50%	3.40%	3.40%
25yr PWLB rate	4.20%	4.00%	4.00%	3.80%	3.70%	3.60%	3.60%
50yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.80%	3.70%	3.60%

5.3 ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	4.0%	2.5%	4.5%-4.75%
GDP	0.0%q/q Q4 (4.0%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.9% Q4 Annualised
Inflation	10.1%y/y Jan)	8.5%y/y (Jan)	6.5%y/y (Dec)
Unemployment Rate	3.7% (Dec)	6.6% (Dec)	3.4% (Jan)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

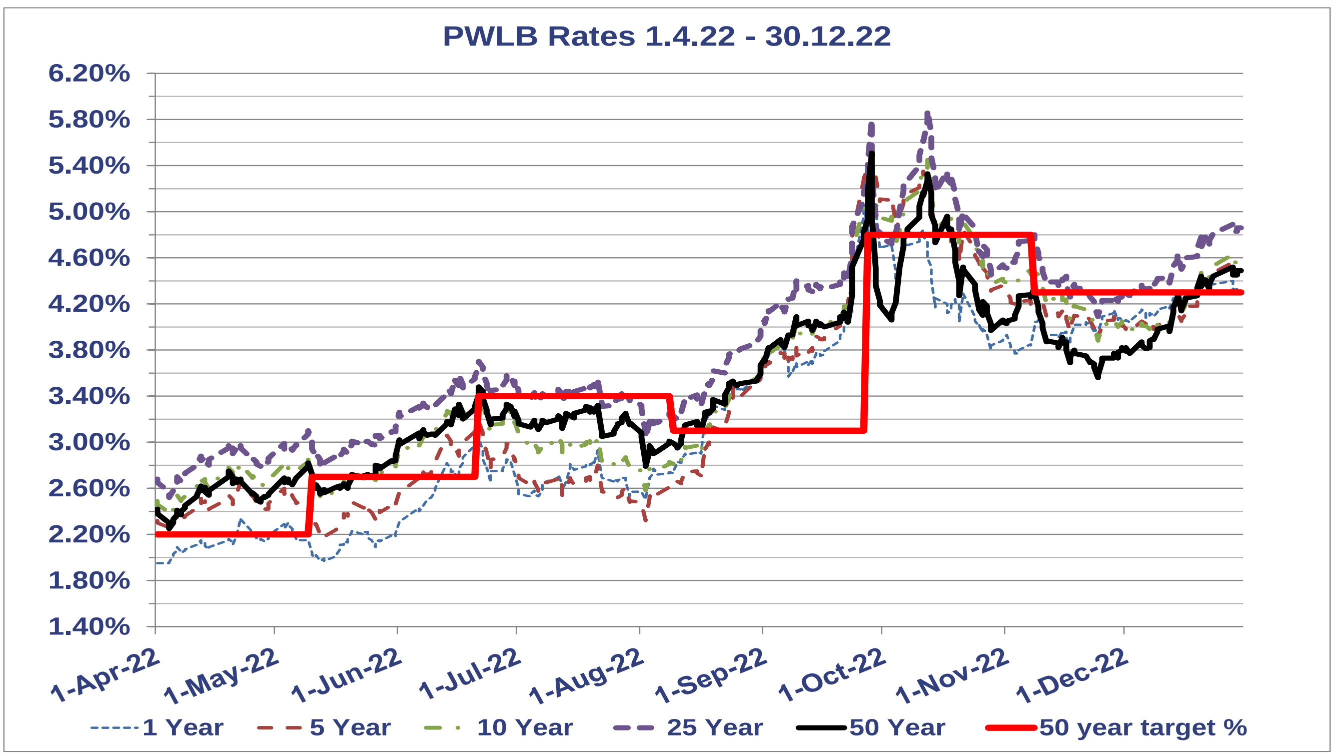
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term despite the recent rise above 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China. Whether that means a shallow recession or worse is still unclear. As recently as November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.21. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first 9 months of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally around 1% lower now whilst the 50 years is just under the 1% lower.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 425% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS:

All such investments will be sterling dominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS;

These are any investments which do not meet the specified investment criteria. A maximum of 30% will be held in aggregate in non-specified investment.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Green	In-house

Strategy for specified Investments:

The Authority expects to have a net surplus of funds throughout 2023/24 and will invest those funds through the money markets with those organisations included on its approved lending list (attached as Annex A).

The Authority's approved lending list includes the following organisations which are thus deemed to have a high credit rating:

- UK and Foreign Banks with a short-term rating of F1 or F1+ and a long-term rating of A- or higher.
- UK Building Societies with a short-term rating of F1 or F1+ and a long-term rating of A- or higher.

Ratings are those given by Fitch, the credit rating agency. In compiling the lending list, other factors such as legal rating and individual rating, which Fitch also provide, have been taken into consideration. The lending list is regularly reviewed to ensure that the organisations included maintain their credit ratings at the required level.

Investments will be made for terms of up to 365 days. The Authority will consider its cash flow requirements, prevailing market conditions and advice from its Treasury Advisers when determining exact terms for each investment, in order to ensure that it is both favourable and prudent. At the time of writing, interest rates are at a low point.

Non-Specified Investments:

These are any other investments that do not meet the criteria above for Specified Investments.

The Authority has no investments other than the short-term investment of surplus cash through the money market. Under previous regulations the investment of surplus cash was restricted to periods not exceeding 365 days. Under the new regulations that restriction is removed, however investments that do exceed 365 days are classified as non-specified investments because of the greater degree of risk they carry.

The Authority is investigating the use of Property Funds to supplement their investment portfolio and these would be in excess of 365 days. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using.

SPECIFIED INVESTMENTS: (All such investments will be sterling denominated, with **maturities up to maximum of 1 year,** meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Green	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	**Use**	**Max % Limit**	**Max Maturity Period**
UK banks	Orange	In-house	50%	**1 year**
UK banks and Building Societies	Red	In-house	50%	**6 months**
UK banks and Building Societies	Green	In-house	50%	**100 days**
UK banks and Building Societies	No Colour	In-house	Not to be used	
UK part nationalised banks	Blue	In-house	90%	**1 year**
DMADF – UK Government	AAA	In-house	Unlimited	**6 months**
Local Authorities	Yellow	In-house	50%	**5 years**
Money Market Funds LVNAV	AAA	In-house and Fund Managers		**1 year**
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house and Fund Managers		**1 year**
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house and Fund Managers		**1 year**
Non-UK Banks	Orange	In-house and Fund Managers	50%	**1 year**

5.1 ACCOUNTING TREATMENT OF INVESTMENTS

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

5.2 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating as at 19.12.22

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

i. **FRA**

- Receiving and approving reports on treasury management policies, practices and activities ;
- approval of annual strategy;
- budget consideration and approval;
- review and recommend for approval the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- reviewing a selection of external Treasury service providers and agreeing terms of appointment.;
- the review and challenge function of Treasury Management.

ii. **Treasurer**

- reviewing the treasury management strategy, policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (Responsible) Officer:

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

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management)): -

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees – our Authority doesn't have these.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.