West Yorkshire
Fire & Rescue Authority

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Mid Year Review of Treasury Management Activity of the Authority

Finance & Resources Committee

Date: 1 February 2019

Agenda Item: **5**

Submitted By: Chief Finance and Procurement Officer

Purpose To present a mid-year review of treasury management activity of the Authority

Recommendations That Members note report

Summary

This report presents the 6-monthly review of treasury management activity as required by the CIPFA Code of Practice on Treasury Management which has been adopted by this Authority. The report examines all treasury management activity to ensure that it is accordance with the Authority's treasury management strategy. In addition, it examines the outlook for the UK economy and the impact that it might have on the treasury management strategy of the Authority

Local Government (Access to information) Act 1972

Exemption Category: Nil

Contact Officer: Chief Finance and Procurement Officer

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Background papers open to inspection: The Prudential Code for Capital Finance in Local Authorities

Annexes: Appendix A Investments at the 30th September

Appendix B Debt Maturity Structure

Appendix C Prudential Indicators

1 Introduction

1.1 The Authority has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management service in compliance with this Code and various statutory requirements. The Code recommends monitoring reports on treasury management be submitted. Under Financial Procedure Rules, Full Authority is responsible for the implementation and monitoring of the treasury management policies. Finance & Resources Committee undertake a scrutiny role with regard to treasury management.

1.2 The report covers the period 1 April to 30 September 2018, and reports on interest rates, investment and borrowing activities, budget monitoring, prudential indicators, and risk/compliance issues. Reference will be made to the Treasury Management Strategy Report approved by the Authority on 16 February 2018.

2 Information

2.1 The Chief Finance & Procurement Officer believed that the borrowing and investment strategy for 2018/19 should continue to place emphasis on the security of the Authority's balances. Although credit conditions were steadily improving, the global recovery was still fragile and regulation changes were expected to increase local authority exposure in the event of a possible default of any financial institution.

2.2 It was expected that the Authority would have an overall Capital Financing Requirement (CFR) of £64.5m as at 31 March 2018. The CFR represents the Authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. The CFR within the strategy was to be financed via £45.8m of external borrowing after using £18.7m of internal borrowing. The repayment of any long term debt would be then financed via short term borrowing as rates were forecast to stay low. However, with long term rates forecast to rise in the coming years, any such short term savings would need to be balanced against potential longer term costs.

2.3 <u>Economic Context & Interest Rates</u>

2.3.1 On 2 August, the Bank of England raised the Bank Rate by 0.25%, taking Bank Rate to 0.75%, the highest level since March 2009. However, the Bank of England emphasised that future bank rate increases would be gradual. Kirklees treasury management consultants, Arlingclose, do not think that the bank rate would be increased before Brexit in March 2019.

2.3.2 The Bank of England also revised its growth forecasts for the UK economy in the August inflation report, with the latest predictions on growth now up to 1.5% (from 1.4%) in 2018 and up to 1.8% (from 1.7%) in 2019. CPI inflation increased to 2.5% in July 2018 (from 2.4% in June 2018) with the Bank of England projecting that inflation will reduce gradually to 2.2% in 2018 before reaching the target of 2.0% in 2021.

2.3.3 The uncertainty surrounding Brexit makes predictions around growth and inflation very difficult to predict. On 28 November 2018 Mark Carney, the governor of the Bank of England, in its Financial Stability Report press conference predicted that a scenario where the UK has a" no deal" Brexit without a period of transition could result in the economy contracting by 8% in 2019, leading to an increase in unemployment to 7.5% and a leap of interest rates to 6%. This jump of 5.5%

increase in interest rates could then have a knock-on effect on the housing market where property prices could fall by 30%.

2.4 Investment Performance

2.4.1 The Authority has invested an average balance of £24.5 million externally during the period, generating £0.082 million in investment income. The Authority is always 'cash rich' in the middle of the year due to the receipt of £34m of pension top-up grant in July as a single annual payment.

2.4.2 Monies have been invested in line with the Treasury Management Strategy using deposit accounts, money market funds and short term deposits. Appendix A shows where investments were held at the start of April and at the end of September by counterparty, by sector and by country.

2.4.3 The Authority's investment performance was monitored during the period, with the average lending rate of 0.64%, being above the weighted average 7 day London Interbank Offer rate of 0.61%.

2.5 Borrowing performance

2.5.1 In terms of borrowing, long-term loans at the end of September totalled £45.7 million (£45.8 million 31 March 2018). Repayments of EIP (equal instalments of principal) loans totalling £0.118 million will be made during the year, including an amount of £38k due in 2017/18 but not collected by PWLB until April 2018. Current forecasts indicate that there may not be a borrowing requirement for the remainder of the financial year.

2.5.2 One short-term loan (£1 million) was taken during July to ensure that investment balances were maintained at or above £10 million to comply with Mi-FIDII requirements. For information, the cost of the short term loan in interest payable was £145.

2.5.3 Public Works Loan Board (PWLB) loans total £43.7 million of long term loans, with the remaining £2.0m of external debt financed via a Lenders Option Borrowers Option (LOBO) loan. The maturity profile for fixed rate long-term loans is shown in Appendix B and shows that no more than 5% of fixed rate debt is due to be repaid in any one year. This is good practice as it reduces the Authority's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

2.6 Revenue Budget Monitoring

2.6.1 The revenue budget contains a sum of £7.572 million for interest and provision for debt repayment for 2018/19 and included provision for funding new borrowing in 2017/18 and 2018/19. However, no new borrowing was required in 2017/18 and latest cash flow projections show that is unlikely that any will be needed this year. It is therefore probable that a significant underspending will take place. The capital financing charges budgets have been reviewed as part of the budget setting process for 2019/20 taking into account future capital expenditure and projected potential increase in interest rates. The revised budgets will be presented to members for approval in the budget report at Full Authority in February.

2.7 Prudential Indicators

2.7.1 The Authority is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy. The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Authority's overall financial position. Other prudential indicators are reported as part of the monitoring of capital.

2.7.2 Appendix C provides a schedule of the indicators set for treasury management and the latest position.

2.8 Risk and Compliance Issues

Banking

2.8.1 There are no issues to report.

Treasury Management

2.8.2 The Authority is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's Treasury Management team, has proactively managed the debt and investments over the period.

Authority 'Professional Client Status'

2.8.3 A new regulatory update (Markets in Financial Instruments Directive – MiFID) came into force from 3 January 2018. The Authority has formally registered its status as a 'professional client' for the purposes of investing with or borrowing from regulated financial services firms, such as money market funds. The authority has plans in place in order to maintain the current investment opportunities.

2.8.4 Treasury Management Training

Fire Authority members were invited to a training session on Treasury Management by Arlingclose who are the treasury management consultants. Due to the importance of treasury management at a time of financial instability due to Brexit, it is intended that similar training will be provided to our senior management within the organisation.

3 Financial Implications

3.1 The financial implications of treasury management have been explained within the main body of this report.

4 Legal Implications

4.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting.

5 Human Resource and Diversity Implications

5.1 There are no human resource and diversity implications associated with this report

6 Health and Safety Implications

6.1 There are no health and safety implications associated with this report

7 Conclusions

7.1 Treasury management is the foundation for sound financial management and the monitoring of borrowings, investments and prudential indicator performance is essential. The authority has continued to manage its treasury management activities in line with the approved strategy and the CIPFA Prudential Code.

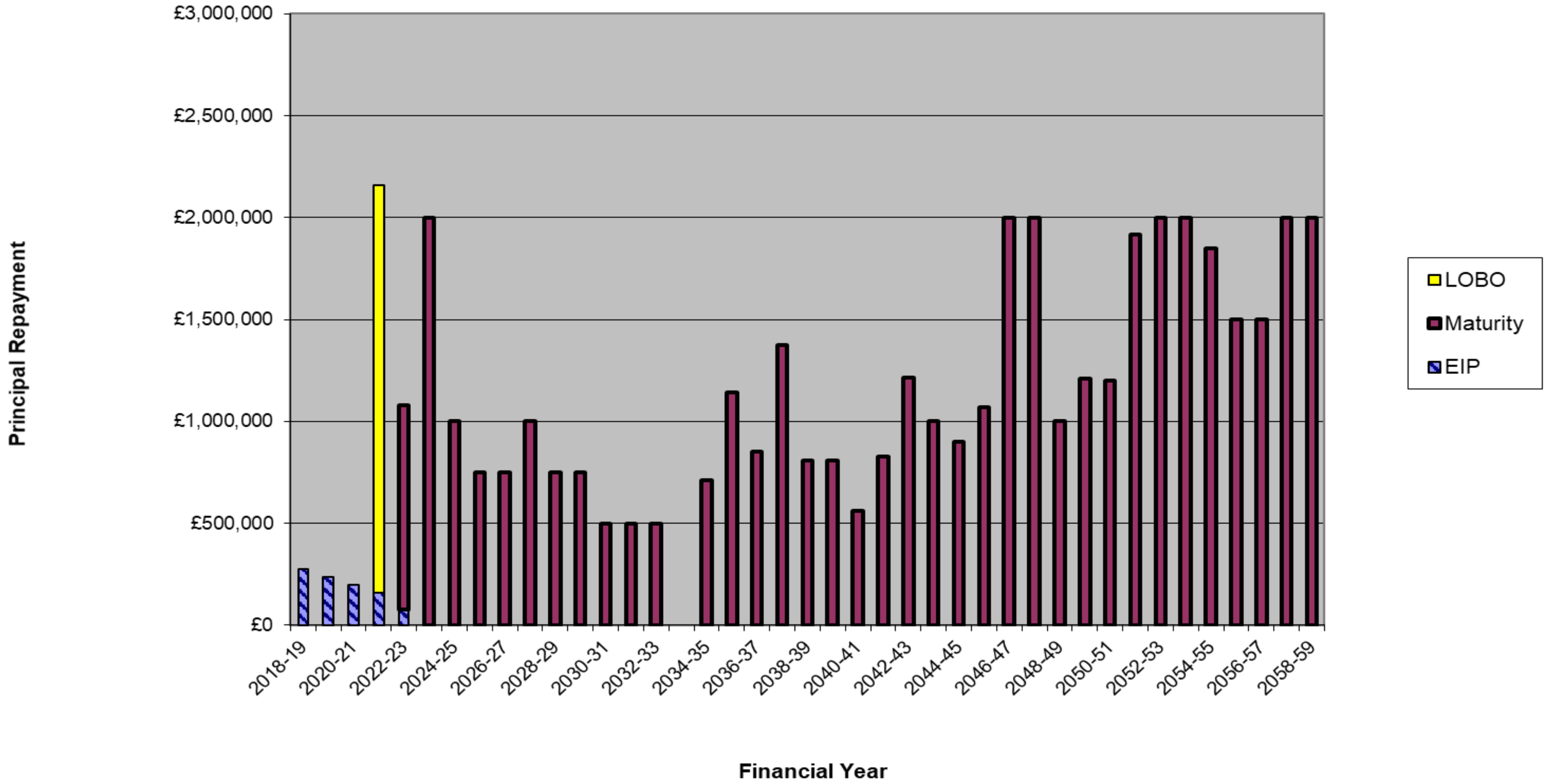
Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating*	Credit Rating Sept 2018	1 April 2018 £m	Interest Rate	Type of Investment	30 September 2018 £m	Interest Rate	Type of Investment
<u>Specified Investments</u>										
DMO	Gov't	Unlimited	-	-	0.588	0.25%	5 wks	0.589	0.51%	4 wks
Dundee City Council	LA	Unlimited	-	-	5.000	0.60%	6 mth	-	-%	-
Surrey County	LA	Unlimited	-	-	6.000	0.70%	3 mth	-	-%	-
Coventry BS	Bldg Soc	10.0	AAA - A	A	-	-%	-	6.000	0.70%	3 mth
Svenska Handelsbanken	Bank	6.0	AAA - A	AA	0.001	0.20%	Instant Access	0.001	0.64%	Instant Access
Svenska Handelsbanken	Bank	6.0	AAA - A	AA	0.006	0.30%	35 day notice	0.006	0.77%	35 day notice
Santander UK	Bank	10.0	AAA - A	A+	1.025	0.50%	35 day notice	0.000	-%	35 day notice
Santander UK	Bank	10.0	AAA - A	A+	-	-%	180 day notice	6.000	1.00%	180 day notice
Lloyds Bank	Bank	10.0	AAA - A	A	-	-%	35 day notice	6.000	0.75%	35 day notice
Aviva	MMF**	6.0	-	-	1.203	0.42%	MMF	3.492	0.67%	MMF
Goldman Sachs	MMF**	6.0	-	-	0.861	0.37%	MMF	1.243	0.64%	MMF
Standard Life	MMF**	6.0	-	-	0.912	0.41%	MMF	5.140	0.67%	MMF
<u>Non-specified investments</u>										
Nottingham BS	Bldg	6.0	Higher	Baa1	-	-	-	6.000	0.67%	2 mth
Yorkshire BS	Soc	6.0	than BBB	(Moody's)	-	-	-	6.000	0.69%	1 mth
					15.596			**40.471**		
<u>Sector analysis</u>										
Bank					1.032	6.6%		12.007	29.7%	
Building Society					0.000	0.00%		18.000	44.4%	
MMF**					2.976	19.1%		9.875	24.4%	
Local Authorities/Central Gov't					11.588	74.3%		0.589	1.5%	
					15.596	100.0%		**40.471**	100.0%	
<u>Country analysis</u>										
UK					12.613	80.1%		30.589	75.6%	
Sweden					0.007	0.8%		0.007	0.0%	
MMF**					2.976	19.1%		9.875	24.4%	
					15.596	100.0%		**40.471**	100.0%	

* Based on Fitch's credit ratings. See next page for key. ** MMF – Money Market Fund. These funds are domiciled in other EU countries for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK.

<u>Key – Fitch's credit ratings</u>: **Appendix A Continued**

		Long	Short
Investment Grade	Extremely Strong	AAA	
		AA+	
	Very Strong	AA	F1+
		AA-	
		A+	
	Strong	A	F1
		A-	
		BBB+	F2
	Adequate	BBB	
		BBB-	F3
Speculative Grade		BB+	
	Speculative	BB	
		BB-	
		B+	B
	Very Speculative	B	
		B-	
		CCC+	
		CCC	
	Vulnerable	CCC-	C
		CC	
		C	
	Defaulting	D	D

WYFRA Long-Term Debt Maturity Structure



APPENDIX C

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2018 – 19	Forecasted Actual 2018 - 19
Interest at fixed rates as a percentage of net interest payments	60% - 100%	100%
Interest at variable rates as a percentage of net interest payments	0% - 40%	0%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2018 - 19	Forecasted Actual 2018 - 19
Under 12 months	0% - 20%	0.5%
12 months to 2 years	0% - 20%	0.5%
2 years to 5 years	0% - 60%	5.5%
5 years to 10 years	0% - 80%	13.1%
More than 10 years	20% - 100%	80.4%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Authority will not invest sums for periods longer than 364 days.

West Yorkshire Fire & Rescue Authority

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Treasury Management Strategy 2019 - 20

Finance & Resources Committee

Date: 1 February 2019

Agenda Item: **6**

Submitted By: Chief Finance and Procurement Officer

Purpose

To present the Treasury Management Strategy 2019-2020

Recommendations

To recommend to the Full Authority the approval of the Treasury Management Strategy 2018 – 19 including;

a) the investment strategy in section 2.3 and Appendix A
b) the borrowing strategy outlined in section 2.4
c) the capital strategy outlined in section 2.5
c) the policy for provision of repayment of debt outlined in Appendix C
d) the Treasury Management indicators in Appendix D
e) the Capital Plan 2019 - 2022 at Appendix E

Summary

The Authority has formally adopted CIPFA's Code of Practice on Treasury Management, and is thereby required to consider a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (DCLG) issued guidance on local authority investments in March 2010, which requires the Authority to approve an Investment Strategy before the start of each financial year.

Local Government (Access to information) Act 1972

Exemption Category:	None
Contact Officer:	Alison Wood01274 655711 alison.wood@westyorksfire.gov.uk
Background papers open to inspection:	The Prudential Code for Capital Finance in Local Authorities
Annexes:	Appendix A – Investment strategy Appendix B – Credit rating scores Appendix C – Provision for repayment of debt Appendix D – Treasury Management indicators Appendix E – Capital Plan 2019 - 2022

1 Introduction

1.1 The Authority has formally adopted CIPFA's Code of Practice on Treasury Management, and is thereby required to consider a treasury management strategy before the start of each financial year. CIPFA released an updated version of the Prudential Code in December 2017 which has resulted in a new requirement for local authorities to produce a capital strategy. The capital strategy is included within section 2.5 of this report. In addition, the Department for Communities and Local Government (DCLG) issued guidance on local authority investments in March 2010, which requires the Authority to approve an Investment Strategy before the start of each financial year.

2 Information

2.1 Outlook for the economy, credit risk and interest rates

2.1.1 The major external influence on the Authority's treasury management strategy for 2019/20 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2019/20.

2.1.2 Although interest rates increased by 0.25% in August 2018, it is expected that the UK Bank of England Base Rate will remain at 0.75% until Spring 2019/20. Any future increases are expected to be gradual but the uncertainty of Brexit means that no increase cannot be guaranteed and rates may need to rise to combat any inflation pressures.

Forecasts for interest rates for the next three years is as follows:

Table 1: Interest Rate Forecasts

	Average Base Rate	20 Year PWLB Rate
2019/20 (June)	1.00%	2.90%
2019/20 (Dec)	1.25%	2.90%
2020/21	1.25%	2.80%
2021/22	1.25%	2.80%

2.2 Borrowing and Investment – General Strategy for 2018/19

As at 31 March 2019, the Authority is expected to have £45.6 million of external debt liabilities and £10.0 million of investments.

2.2.1 Forecasts for CFR as at 31 March are as follows:

	2019/20 **£m**	**2020/21** **£m**	**2021/21** **£m**
CFR	69.0	69.6	70.6

2.2.2 The Capital Financing Requirement (CFR) represents the Authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. An authority can choose to borrow externally to fund its CFR. If it does this, it is likely that it would be investing externally an amount equivalent to its total reserves, balances and net creditors. Alternatively, an authority can choose not to invest externally but instead use these balances to effectively borrow internally and minimise external borrowing. In between these two extremes, an authority may have a mixture of external and internal investments / external and internal borrowing.

2.2.3 The movement in the CFR can be further explained via the table below;

	2019/20 **£m**	**2020/21** **£m**	**2021/22** **£m**
CFR b/f previous year	67.4	69.0	69.6
Capital Expenditure	5.5	4.2	4.2
<u>CFR Debt Financed via;</u>			
Minimum Revenue Provision (MRP)	-3.9	-3.6	-3.2
CFR to c/f to next year	69.0	69.6	70.6

2.2.4 Prior to 2009/10 the Authority's policy had been to borrow up to its CFR and investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Authority's balances. This coincided with dramatic falls in investment returns making the budgetary benefit of maximising external borrowing more marginal. Over the past few years, the Authority has chosen to finance its capital expenditure by 'borrowing' internally. This has principally been because of the relatively low rates of interest receivable on investments, less than 0.5%, particularly when compared to the cost of borrowing longer term loans from the PWLB, the average rate for a 10-year maturity loan in 2018/19 has been around 2.25%. This practice is made more complicated by the Government's method of funding pension contributions – the year's funding plus any shortfall from the previous year, is paid as a lump sum in July each year. The grant in 2018/19 was £34.0 million.

2.2.5 The Chief Finance & Procurement Officer believes that the borrowing and investment strategy for 2019/20 must continue to place emphasis on the security of the Authority's balances.

2.2.6 As at 31 March 2019, the Authority is expected to have around £10.0 million invested externally, primarily in instant access accounts or short-term deposits, with the major British owned banks, building societies or Money Market Funds (MMFs). This will also ensure compliance with The Markets in Financial Instruments Directive II, whereby those maintaining a professional status must keep a minimum of £10 million invested at any point in time.

2.3 Investment Strategy

2.3.1 Investment guidance issued by MHCLG requires that an investment strategy, outlining the authority's policies for managing investments in terms of risk, liquidity and yield, should be approved by full Authority or equivalent level, before the start of the financial year. This strategy can then only be varied during the year by the same executive body.

2.3.2 The guidance splits investments into two types – specified and non-specified.

- Specified investments are those offering high security and liquidity. All such investments should be in sterling with a maturity of no more than a year. Investments made with the Government (DMADF) and a local authority automatically count as specified investments, as do investments with bodies or investment schemes of "high credit quality". It is for individual authorities to determine what they regard as "high credit quality".

- Non-specified investments have greater potential risk, being investments with: bodies that have a credit rating below "high credit quality"; bodies that are not credit rated at all; and investments over a year.

2.3.3 It is estimated that the Authority could have up to £35 million to invest at times during the year; a combination of cash received in advance, reserves and creditors.

2.3.4 It is proposed to continue with a low-risk strategy in line with previous years and where possible to borrow internally. This will help in reducing the amount of money the authority has invested at any one time and minimise the cost of borrowing.

2.3.5 The Authority's investment criteria has been slightly adapted over the years but is largely based on a strategy of when the Authority had relatively small investment balances. Since the pensions' payments have increased and the Government has chosen to provide the Authority with an annual grant to cover the costs, the Authority has found itself with more significant levels of investment. Officers carried out a review of the strategy prior to 2015/16 and are confident that it is fit for purpose in terms of the current strategy of prioritising security and liquidity while enabling returns above that offered by Government to be achieved.

Key features of the strategy are as follows:

Specified Investments

- The Authority is able to invest up to £6 million on an instant access basis with foreign based banks with a “high to upper medium grade” credit rating
- The Authority can invest up to £6 million in individual MMFs (instant access or two-day notice). MMFs are pooled investment vehicles, having the advantage of providing wide diversification of risk, coupled with the services of a professional fund manager.
- The Authority can invest in DMADF for up to 6 months

Non Specified Investments

- The Authority is able to invest up to £1 million and up to two months with individual UK banks and building societies with a “medium grade” credit rating.
- The Authority adopts an overall limit for non-specified investments of £2 million.

2.3.6 A maximum limit of £6 million applies to any one counterparty and this applies to a banking group rather than each individual bank within a group.
For illustrative purposes, the last column of Appendix A lists which banks and building societies the Authority could invest with based on credit ratings as at the beginning of January 2019.

2.3.7 The policy allowing the Authority to invest up to £6 million with part-nationalised UK banks with mid “medium grade” credit ratings has been removed. With the Government steadily divesting themselves of their stake in these banks and the recent bail-in legislation, it is unlikely that the Government would bail these banks out if they got into further trouble. Lloyds have strong enough ratings now to meet the Authority’s criteria for specified investments whereas RBS’s current ratings would mean that the bank only meets the non-specified criteria. However, the Authority has not invested with RBS for some time anyway as the rates of return offered have been relatively poor.

2.3.8 There may be opportunities in the future for local authorities to use collateralised products, in particular reverse repurchase agreements (REPOs). These products are secured on the borrower’s assets (such as gilts or corporate bonds) and are exempt from bail-in. The rates are currently comparable to unsecured investments but entry levels are likely to be for investments of £10 million plus. It is proposed that reverse repurchase agreements are available to use under the strategy at the higher level indicated above.

2.3.9 The Authority uses credit ratings from the three main rating agencies - Fitch, Moody’s and Standard & Poor’s to assess the risk of investment defaults

(Appendix B). The lowest credit rating of an organisation will be used to determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.3.10 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria:

- No new investments will be made;
- Any existing investments that can be recalled at no cost will be recalled;
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

2.3.11 Where a credit rating agency announces that a rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required criteria, then no further investments will be made in that organisation until the outcome is announced. This policy will not apply to negative outlooks.

2.3.12 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.3.13 Investments may be made using the following instruments:

- Interest paying bank accounts
- Fixed term deposits
- Call or notice deposits
- Callable deposits
- Shares in money market funds
- Reverse repurchase agreements

2.3.14 Annual cash flow forecasts are prepared which are continuously updated. This helps determine the maximum period for which funds may be prudently committed.

2.3.15 Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

2.4 Borrowing Requirement and Strategy

2.4.1 As at 31 March 2019, the Authority is expected to have £45.6 million of external debt liabilities and £10.0 million of investments. Forecast changes in these sums for the next three years are shown in the balance sheet analysis below:

Balance Sheet Forecast

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
CFR	67.4	69.0	69.6	70.6
Less: External borrowing	45.6	45.3	45.1	45.0
Internal Borrowing	21.8	23.7	24.5	25.6
Investments	10.0	10.0	10.0	10.0

2.4.2 When taking new borrowing, due attention will be paid to the authority's debt maturity profile. It is good practice to have a maturity profile for long-term debt which does not expose the Authority to a substantial borrowing requirement in years when interest rates may be at a relatively high level. In accordance with the requirements of the Code, the Authority sets out limits with respect to the maturity structure of its borrowing later in this report.

2.4.3 It is predicted that as at 31 March 2019, the Authority will have total external borrowing and other long-term liabilities of around £45.6 million. This is analysed as follows:

	Estimated Total debt as at 31 March 2019 £m	%
PWLB fixed loans	43.6	95.6
LOBOs	2.0	4.4
TOTAL	45.6	100.0

2.4.4 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and also flexibilities to restructure and make possible savings. Although, the Government decided to raise rates for new PWLB loans in October 2010 by around 0.90%, it has since introduced a discounted rate for local authorities joining the new "certainty rate" scheme. The Authority has joined the scheme and will have access to loans discounted by 0.20% in 2019/20.

2.4.5 The Authority also has a LOBO (Lender's Option, Borrower's Option) loan. The way this loan works is that the Authority pays interest at a fixed rate for an initial period and then the lender has the option in the secondary period to increase the rate. If the option is exercised, the Authority can either accept the new rate or repay the loan. The Authority's loan is in its secondary period with intervals of 5 years between options. The next option date is May 2021. There have been moves by some lenders to amend the terms of their LOBO loans to convert them to 'vanilla' fixed rate loans. No approach has yet been made by Dexia Credit Local, the lender to the Authority to amend any of the conditions of the loan.

2.4.6 The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative source of local authority finance. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable. The Company is not yet operational and officers will continue to monitor developments.

2.4.7 In terms of meeting the Authority's borrowing requirement over the next three years, as short-term rates are forecast to stay low, it may be opportune to take short-term loans either at fixed or variable rates. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against potential longer term costs.

2.4.8 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some of the higher rate loans with new loans at lower interest rates where this will lead to an overall saving or reduce risk.

2.4.9 Borrowing policy and performance will be continuously monitored throughout the year and will be reported to Members.

2.5 Capital Strategy

2.5.1 The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

2.5.2 The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

(a) Capital Expenditure

This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Authority's policies on capitalisation, and an overview of its capital expenditure and financing plans.

(b) Capital Financing and Borrowing

This section provides a projection of the Authority's capital financing requirement, how this is impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

(c) Chief Financial Officer's statement

This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy

Capital Expenditure

Capitalisation Policy

2.5.3 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and
- Are of continuing benefit to the Authority for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.5.4 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- Where the Authority has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets. For example, where a grant is provided by the Authority to an external body in order that the body can purchase an asset for its own use. The provision of the grant would be treated as capital expenditure in the accounts of the Authority.
- Where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules. For example, where the Government permits authorities, in special circumstances, to treat redundancy costs as capital costs therefore increasing flexibility as such costs can then be met using their existing borrowing powers or capital receipts.

2.5.5 The Authority operates a de-minimis limit for capital expenditure of £10,000. This means that items below these limits are charged to revenue rather than capital.

Governance

2.5.6 Capital expenditure is a necessary element in the development of the Authority's services since it generates investment in new and improved assets. Capital expenditure is managed through the four-year Capital Programme which is reviewed annually as part of the budget setting process and reviewed in year as part of financial monitoring arrangements.

2.5.7 The Authority's Financial Regulations and Contract Regulations provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Programme within defined resource parameters.

2.5.8 The Chief Finance and Procurement Officer shall determine the format of the Capital Programme and the timing of reports relating to it. The approved Capital Programme will comprise a number of individual schemes each of which will be quantified on an annualised basis. Each directorate will submit capital bids to the finance department which are then collated and presented to the Management Board Star Chamber for scrutiny and approval for inclusion on the proposed capital plan. The bids are then collated for submission to the Full Authority meeting in February.

2.5.9 The capital plan is monitored on a monthly basis with the provision of detailed budget monitoring reports to managers and is report quarterly to Finance and Resources Committee.

2.5.10 The Capital Monitoring Management Group meet on a quarterly basis whereby the capital plan is scrutinised and managers have to report on the progress of each capital scheme for which they are responsible. This is chaired by the Chief Finance and Procurement Officer.

Capital Expenditure and Funding Plans

2.5.11 The Authority's capital expenditure plans as per the Capital Programme are set out in **Appendix E** and will be presented in the Budget Report for approval**.**

2.5.12 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Authority is able to finance that expenditure from any of the following sources:

(a) **Capital grants and contributions** - amounts awarded to the Authority in return for past or future compliance with certain stipulations.

(b) **Capital receipts** - amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

(c) **Revenue contributions -** amounts set aside from the revenue budge in the earmarked capital funding reserve.

(d) **Borrowing** - amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

Chief Finance Officer Statement

2.5.13 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Chief Finance Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;
- submitting quarterly treasury management reports;
- submitting quarterly capital budget 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- 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

2.6 Statement of Policy on the Minimum Revenue Provision

2.6.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into effect on 31 March 2008, replaced the former statutory rules for calculating MRP with a requirement for each local authority to determine a "prudent" provision. The regulations require authorities to draw up a statement of their policy on the calculation of MRP which requires approval by full Authority in advance of the year to which it applies. The recommended policy statement is detailed at **Appendix C**.

2.7 Other Matters

2.7.1 The MHCLG Investment Guidance also requires the Authority to note the following matters each year as part of the investment strategy:

(i) Investment Consultants

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment decisions;
- Notification of credit ratings and changes;
- Other information on credit quality;
- Advice on debt management decisions;
- Accounting advice;
- Reports on treasury performance;
- Forecasts of interest rates; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) Investment Training

The needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, and formally on a 6-monthly basis as part of the staff appraisal process. Additionally, training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses, seminars and conferences as appropriate.

(iii) Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.

2.7.2 Banking

The Authority moved its current account banking to Barclays in July 2015. There is nothing to report on the operation of the accounts.

3 Financial Implications

3.1 Financial implications are included within the main body of the report.

4 Legal Implications

4.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting.

5 Human Resource and Diversity Implications

5.1 There are no human resource and diversity implications associated with this report.

6 Health and Safety Implications

6.1 There are no health and safety implications associated with this report.

7 Conclusions

7.1 The treasury management strategy determines the framework upon which the Authority manages its borrowing and investments during the year. This is essential to sound financial governance.

APPENDIX A

Specified

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Jan 2018
	Fitch	**Moody's**	**S & P**	**£m**	**Period (1)**	
Banks / Building Societies (Reverse Repurchase Agreements) (2)	F1	P-1	A-1	10	Up to 364 days	HSBC, Lloyds Group, Santander UK, Nationwide BS, Coventry BS, Close Bros, Svenska Handelsbanken
	AAA,AA+,AA, AA-,A+,A	Aaa,Aa1,Aa2, Aa3,A1,A2	AAA,AA+,AA, AA-,A+,A			
Banks / Building Societies (Deposit accounts, fixed term deposits)	F1	P-1	A-1	6	Up to 364 days	HSBC, Lloyds Group, Santander UK, Nationwide BS, Coventry BS, Close Bros, Svenska Handelsbanken
	AAA,AA+,AA, AA-,A+,A	Aaa,Aa1,Aa2, Aa3,A1,A2	AAA,AA+,AA, AA-,A+,A			
MMF (3)	-	-	-	6	Instant access/ up to 2 day notice	
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	Unlimited	Up to 364 days	

Non-Specified (4)

	Short-term Credit Ratings / **Long-Term Credit Ratings**			**Investment Limits per Counterparty**		**Counterparties falling into category as at Jan 2018**
	Fitch	**Moody's**	**S & P**	**£m**	**Period (1)**	
UK Banks / Building Societies (Fixed term deposits)	F1,F2 Higher than BBB	P-1,P-2 Higher than Baa2	A-1,A-2 Higher than BBB	6	<2mth	Barclays Nottingham BS Leeds BS Yorkshire BS RBS Group
Unrated Building Societies (Fixed term deposits)	-	-	-	1	<2mth	Cumberland, Darlington, Scottish, Furness, Vernon, Harpenden, Hinckley & Rugby, Leek, Marsden, Loughborough, Mansfield, Nat Counties, Mkt Harborough, Newbury, Melton Mowbray Tipton & Coseley, Stafford Railway

(1) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.
(2) These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
(3) Overall limit for investments in MMFs of £24 million.
(4) Overall limit of £18 million.

Credit ratings

Moody's		S&P		Fitch		
Long-term	**Short-term**	**Long-term**	**Short-term**	**Long-term**	**Short-term**	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1		CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
		C				
C		D	/	DDD	/	In default
/				DD		
/						

STATEMENT OF POLICY ON THE MINIMUM REVENUE PROVISION (REPAYMENT OF DEBT)

1. Background

1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 which came into force on 31 March 2008, replaced the detailed statutory rules for calculating MRP with a requirement to <u>make an amount of MRP which the authority considers "prudent"</u>.

2. Prudent Provision

2.1 The regulation does not itself define "prudent provision". However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

The guidance provides two basic criteria for prudent provision:-

- Borrowing not supported by government grant (prudential borrowing) – the provision for repayment of debt should be linked to the life of the asset.

- Borrowing previously supported by revenue support grant (supported borrowing) - the provision should be in line with the period implicit within the grant determination (4% reducing balance).

3. Proposed policy for 2019/20

3.1 The Authority has always been prudent when making provision for the repayment of debt. In addition to the minimum revenue provision of 4% of debt outstanding previously required, the Authority had regularly made additional voluntary contributions. These voluntary contributions have been calculated to reflect asset life. Thus, for example, debt used to finance vehicles and many types of operational equipment has been fully provided for over a 10 year period and all new buildings over 50. These additional voluntary contributions covered all debt, not just unsupported, and have been calculated using an annuity method with reference to asset lives.

3.2 It is recommended that this policy is continued for 2019/20. The features of the policy can be summarised as follows:

- Provision to be made over the estimated life of the asset for which borrowing is undertaken (maximum asset life of 40 years / 50 years on Land)
- To be applied to supported and unsupported borrowing
- Provision will increase over the asset life using sinking fund tables
- Provision will commence in the financial year following the one in which the expenditure is incurred

3.3 The continuation of the existing policy is fully accounted for in the proposed four-year treasury management budget.

TREASURY MANAGEMENT INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)

The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Authority as its gross debt will not exceed the CFR.

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Code requires the setting of upper limits for both variable rate and fixed interest rate exposure.

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures for 2019/20, 2020/21 and 2021/22 of 100% of its net interest payments. It is further recommended that the Authority sets an upper limit on its variable interest rate exposures for 2019/20, 2020/21 and 2021/22 of 40% of its net interest payments.

This means that fixed interest rate exposures will be managed within the range 60% to 100%, and variable interest rate exposures within the range 0% to 40%.

Maturity Structure of Borrowing

This indicator is designed to prevent the Authority having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	20	0
Between 1 and 2 years	20	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

*LOBOs are classed as fixed rate debt unless it is considered probable that the loan option will be exercised.

Total principal sums invested for periods longer than 364 days

The Authority is not intending to invest sums for periods longer than 364 days.

Summary Capital Plan

	TOTAL	2019/20	2020/21	2021/22	2022/23
Property	£12,310,000	£2,230,000	£3,080,000	£3,300,000	£3,700,000
ICT	£4,125,800	£1,695,500	£1,160,300	£1,015,000	£255,000
Transport	£3,381,500	£948,800	£576,300	£1,642,200	£214,200
Operations	£3,257,000	£1,757,000	£500,000	£500,000	£500,000
Fire Safety	£2,000,000	£500,000	£500,000	£500,000	£500,000
TOTAL	£25,074,300	£7,131,300	£5,816,600	£6,957,200	£5,169,200
Financed by					
Borrowing	£15,274,300	£5,031,300	£3,616,600	£4,457,200	£2,169,200
Reserves	£9,800,000	£2,100,000	£2,200,000	£2,500,000	£3,000,000
TOTAL	£25,074,300	£7,131,300	£5,816,600	£6,957,200	£5,169,200

Directorate	Location	Description	Estimated Total Capital Cost	Estimated Capital Cost 19/20	Estimated Capital Cost 20/21	Estimated Capital Cost 21/22	Estimated Capital cost 22/23
ICT	N/A	Paperless Meetings	£41,000	£41,000	£0	£0	£0
ICT	N/A	Operational risk information	£50,000	£50,000	£0	£0	£0
ICT	N/A	Protection Database	£50,000	£50,000	£0	£0	£0
ICT	N/A	Thin Client	£340,000	£0	£140,000	£100,000	£100,000
ICT	N/A	ID Cards	£15,300	£0	£15,300	£0	£0
ICT	N/A	Hydrant Management	£30,000	£30,000	£0	£0	£0
ICT	N/A	Equipment management & RHD tagging	£293,000	£293,000	£0	£0	£0
ICT	N/A	BYOD	£60,000	£60,000	£0	£0	£0
ICT	N/A	Command Support Software	£100,000	£0	£100,000	£0	£0
ICT	N/A	Firewalls at HQ	£100,000	£100,000	£0	£0	£0
ICT	N/A	Internet pipe for SDC	£40,000	£40,000	£0	£0	£0
ICT	N/A	Triton Force point update	£6,000	£6,000	£0	£0	£0
ICT	N/A	Internet pipe for HQ	£0	£0	£0	£0	£0
ICT	N/A	Network switch upgrades	£700,000	£0	£400,000	£300,000	£0
ICT	N/A	Printers on Stations	£16,000	£8,000	£8,000	£0	£0
ICT	N/A	Refresh of ICT training suite	£12,500	£12,500	£0	£0	£0
ICT	N/A	Refresh of IT in all training rooms	£207,000	£0	£107,000	£100,000	£0
ICT	N/A	Replacement computer hardware	£385,000	£115,000	£105,000	£90,000	£75,000
ICT	N/A	VoIP	£265,000	£100,000	£165,000	£0	£0
ICT	N/A	Silent Witness	£390,000	£390,000	£0	£0	£0
ICT	N/A	Media Storage Solution	£200,000	£200,000	£0	£0	£0
ICT	N/A	DMZ Virtual Servers	£80,000	£80,000	£0	£0	£0
ICT	N/A	MDT Hardware	£280,000	£0	£0	£280,000	£0
ICT	N/A	Pager Upgrade	£65,000	£0	£0	£65,000	£0
ICT	N/A	IRS Enhancements - dashboards	£0	£0	£0	£0	£0
ICT	N/A	IRS Enhancements - geode	£0	£0	£0	£0	£0
ICT	N/A	In-house systems development	£0	£0	£0	£0	£0
ICT	N/A	Replacement of station tannoy system	£400,000	£120,000	£120,000	£80,000	£80,000
		Subtotal ICT	**£4,125,800**	**£1,695,500**	**£1,160,300**	**£1,015,000**	**£255,000**
Operations	N/A	Replacement of Operational PPE	£1,000,000	£1,000,000	£0	£0	£0
Operations	N/A	Water Rescue	£10,000	£10,000	£0	£0	£0
Operations	N/A	Lay Flat Hose	£200,000	£50,000	£50,000	£50,000	£50,000
Operations	N/A	Fire Fighting helmets	£210,000	£210,000	£0	£0	£0
Operations	N/A	Gas tight suits	£10,000	£10,000	£0	£0	£0
Operations	N/A	MTFA Ear Defenders	£12,000	£12,000	£0	£0	£0
Operations	N/A	Hydrants	£1,800,000	£450,000	£450,000	£450,000	£450,000
Operations	N/A	MFTA - Headset	£15,000	£15,000	£0	£0	£0
		Subtotal Operations	**£3,257,000**	**£1,757,000**	**£500,000**	**£500,000**	**£500,000**
Transport	Transport	Vehicle replacement project - 2 Welfare Vehicles, appliance, prime movers, POD, cadet vehicles, aerials	£2,677,500	£244,800	£576,300	£1,642,200	£214,200
Transport	Transport	CLM Vehicle procurement	£704,000	£704,000	£0	£0	£0
		Subtotal Transport	**£3,381,500**	**£948,800**	**£576,300**	**£1,642,200**	**£214,200**
Fire Safety		Fire Alarms	£2,000,000	£500,000	£500,000	£500,000	£500,000
		Subtotal Fire Safety	**£2,000,000**	**£500,000**	**£500,000**	**£500,000**	**£500,000**
IRMP	Keighley	Build of new station	£2,200,000	£0	£2,200,000	£0	£0
IRMP	Halifax	Build of new station	£2,500,000	£0	£0	£2,500,000	£0
IRMP	Huddersfield	Build of new station	£3,000,000	£0	£0	£0	£3,000,000
IRMP	FSHQ	Build of FSHQ	£0	£0	£0	£0	£0
		Subtotal IRMP	**£7,700,000**	**£0**	**£2,200,000**	**£2,500,000**	**£3,000,000**

Directorate	Location	Description	Estimated Total Capital Cost	Estimated Capital Cost 19/20	Estimated Capital Cost 20/21	Estimated Capital Cost 21/22	Estimated Capital cost 22/23
Property	Leeds Fire Station	Replace Derv tank & general station refurbishments works	£30,000	£30,000	£0	£0	£0
Property	Moortown Fire Station	General refurb of facilities, including LED energy efficient lighting	£90,000	£90,000	£0	£0	£0
Property	Cookridge Fire Station	General refurb and upgrade of accommodation and facilities, including LED lighting in appliance bays	£90,000	£90,000	£0	£0	£0
Property	Huddersfield Fire Station	Install energy efficient lighting to external areas, wash bays, appliance bays and upgrade of deteriorated wash bay & external works	£50,000	£50,000	£0	£0	£0
Property	Holmfirth Fire Station	Install energy efficient lighting to Ext areas and appliance bays. Upgrade External fabric	£50,000	£50,000	£0	£0	£0
Property	Mirfield Fire Station	Upgrading of mains distribution. Electrical installation and general refurb	£30,000	£30,000	0	0	0
Property	Odsal Fire Station	General fabric upgrading , Replace windows and introduce LED Lighting	£80,000	£80,000	0	0	0
Property	Fairweather Green Fire Station	Kitchen upgrade, Improvements to rear entrance layout , Replace above ground Derv storage tank, general LED lighting and refurbishment works	£80,000	£80,000	£0	£0	£0
Property	Illingworth	General upgrade including external fabric and decorations	£90,000	£90,000	£0	£0	£0
Property	Todmorden Fire Station	Electrical rewire, LED Lighting and general re	£90,000	£90,000	£0	£0	£0
Property	FSHQ Training Centre	Adaptations rear of Multi purpose training Centre. Rear Ext stair case to upper levels	£100,000	£100,000	£0	£0	£0
Property	Ossett Fire Station	Conversion of designated former young firefighters vehicle and kit storage accommodation ground floor of Ossett to create a district meeting room	£100,000	£100,000	£0	£0	£0
Property	Various	Risk Register prioritised and general asbestos removal and general fabric upgrade at various locations	£100,000	£100,000	£0	£0	£0
Property	Various	Phased security, CCTV and Fire Alarm System installations and upgrading at various locations	£70,000	£70,000	£0	£0	£0
Property	Various	Phased upgrading of appliance bay doors , control Equip, automatic door and gate safety compliance improvements	£80,000	£80,000	£0	£0	£0
Property	Various	Phased installation and upgrading of surface water drainage interceptors	£80,000	£80,000	£0	£0	£0
Property	Various	Phased filling in of appliance bay pits and making good flooring to appliance bays	£60,000	£60,000	£0	£0	£0
Property	Various	Install of Energy efficient LED Lighting to appliance bays and wash bays	£60,000	£60,000	£0	£0	£0
Property	Various	Phased upgrade to fire station training towers including lightning protection and building fabric	£60,000	£60,000	£0	£0	£0
Property	Various	General electrical upgrade works.	£80,000	£80,000	£0	£0	£0
Property	Various	General mechanical and L8 Legionella prevention water management improvement and upgrading works as identified during services asset surveys and mechanical servicing regime	£100,000	£100,000	£0	£0	£0
Property	Various	Phased upgrade of fixed ladders and fire esc	£50,000	£50,000	£0	£0	£0
Property	Various	Phased minor equality /dignity alterations improvements & facilities	£30,000	£30,000	£0	£0	£0
Property	Oakroyd Hall	refurbishment	£550,000	£550,000	£0	£0	£0
Property	Various	Phased operational and training facility and welfare accommodation upgrades	£30,000	£30,000	£0	£0	£0
Property	Various	Estimated Capital	£2,380,000	£0	£880,000	£800,000	£700,000
		Subtotal Property	**£4,610,000**	**£2,230,000**	**£880,000**	**£800,000**	**£700,000**
		Total Capital Bids 2019/20	**£25,074,300**	**£7,131,300**	**£5,816,600**	**£6,957,200**	**£5,169,200**

West Yorkshire
Fire & Rescue Authority

OFFICIAL

Quarterly Financial Review

Finance & Resources Committee

Date: 1 February 2019 Agenda Item: **7**

Submitted By: Chief Finance and Procurement Officer

Purpose To present a quarterly review of the financial position of the Authority

Recommendations That Members note the report
That Members approve the revised capital plan

Summary The purpose of this report is to present an overview of the financial performance of the Authority to period 8 of 2018/19.

Local Government (Access to information) Act 1972

Exemption Category: Nil

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Background papers open to inspection: None

Annexes: Appendix A Capital Budget Monitoring

SECTION 1 – REVENUE EXPENDITURE MONITORING

1 Introduction

1.1 Expenditure is monitored throughout the year against the approved revenue budget with reports presented to departments, cost centre managers and directors. The purpose of the report is to monitor progress against the approved revenue budget; provide a forecast outturn for the financial year; provide an explanation of any major variations, and to show the impact of any variations on the revenue balances of the Authority.

2 Information

Revenue Budget Revision

2.1 When the revenue budget is approved an amount is included in contingencies for future pay and prices increases and other budget adjustments.

2.2 Since the last quarterly report presented to members in October, there has been £670k that has been transferred back from contingencies to employee budgets. This is for the grey book pay award of 2% that was paid in 31st October pay and backdated to the 1st July 2018.

3 Expenditure Monitoring

3.1 This report is based on expenditure to period 8 which is to the end of November 2018 and include eight salary payments. The projected outturn is based on current years' expenditure and is forecast to the end of the year based on previous expenditure profiles. Overall, the latest forecast indicates there will be an under spending of £414k in the current financial year, an additional under spend of £234k from that reported in October.

3.2 An improved budget monitoring report for managers has been introduced for 2018/19 which will highlight those areas of concern using a Red, Amber, Green (RAG) rating. A new rating was introduced in November monitoring which highlights to managers if budgets are underspending in excess of 5%. Although this is still in its infancy, I am pleased to report to Members that finance is receiving satisfactory explanations from budget holders for the RAG ratings and are working closely with managers to rectify any highlighted under and over spends. A series of training sessions are to be delivered to budget holders to further increase awareness in budgeting and finance. This is also reported Management Board on a monthly basis.

3.3 The table below summarises the forecast with an explanation of the causes detailed below.

	Revenue Budget £000	Forecast £000	Variance £000	October Forecast Variance £000
Employees				
Whole time	46,255	45,946	-309	-197
Retained	1,741	1,627	-114	31
Control	1,890	1,817	-73	-38
Support Staff	9,335	9,475	140	120
Pensions	2,157	2,157	0	0
Training	787	772	-15	0
Other Employee	191	139	-52	0
TOTAL	62,356	61,933	-423	-84
Premises	4,121	4,130	9	-16
Transport	2,282	2,220	-62	46
Supplies and Services	4,969	4,999	30	-126
Contingency Pay and Prices	137	137	0	0
Contingency Directorates	2,079	2,079	0	0
Insurance	919	919	0	0
Support Services	294	294	0	0
Capital Charges	7,572	7,572	0	0
Income	-2,817	-2,785	32	0
Net Expenditure	81,912	81,498	-414	-180

Employees -£423,000

Whole time Fire Fighters -£309,000

There is currently a forecast underspending of £309k in whole time fire fighter employee budgets.

This underspend can be attributable to the following factors;

a) An underspend due to a saving on the salary of 15 employees who have retired from the service before their retirement profile due date to which there is budget provision. This has saved the Authority £227k on its ongoing revenue budget during the year.
b) There is a saving on the third recruits course of 2018/19 which started in January 2019, there is budget provision for 24 recruits but the course cohort is sixteen resulting in a saving of £70k. in this financial year.

Retained Fire Fighters -£114,000

There is a forecast underspend of £114k on retained pay, this is due to activity being lower than in previous forecasts. Moreover, the retained review in which retained firefighters are paid a guaranteed number of turnouts each pay period has just been implemented. As a result, it is expected that retained outturn will be expended in full.

Control -£73,000

The projected underspend is due to control staff vacancies, these are now in the process of been filled but due to the delay in appointment it expected that the budget will be underspent at the end of the financial year.

Support Staff (non-operational) £140,000

As explained in previous budget reports, the forecast over spend is due to the extension of the leaving date of employees on fixed term contracts. This is also reported and approved at Management Board

3.4 **Premises** **£9,000**

The projected outturn is in line with budget provision.

3.5 **Transport** **-£62,000**

The projected under spend on transport is due to savings in external transport repairs, tyre purchase and public transport.

3.6 **Supplies and services** **£30,000**

The forecast overspending is due to the following:

- There are over spends of £38k on training and gym equipment and £18k on food and training meals.
- Expenditure on ICT communications is forecast to over spend by £41k.
- This is partly offset by under spends on clothing, laundry, and consumables.

3.7 **Income** **£32,000**

This is a forecast under achievement of income of £32k which is due to an overestimation of income from false alarm activation. The budget will be revised accordingly for 2019/20

4 Impact on Revenue Balances

4.1 The projected under spending will have the effect of increasing the general fund balance which is detailed in the table below.

Description	General Fund £000
Balance at 1 October 2018	5,000
Impact of forecast	414
Transfer to Balances in year	
Planned use of balances	-1,998
Forecast Balance at 31/3/2019	3,416

5 Capital Expenditure Monitoring

5.1 Introduction

At its meeting on 16 February 2018 the Authority approved a five-year capital programme of £22.595m which included schemes to the value of £8.792m for the current financial year.

5.2 At the Authority AGM in 2010, Management Board was given delegated power to approve individual virement between capital schemes of up to £100,000. Details of any approvals will be reported to committee throughout the year as part of this report. In October virement of £19,499 was approved for the replacement of the BA compressor which was funded by an under spend on the property capital scheme for the upgrade to the BA classroom.

5.3 Capital Payments 2018/19

5.3.1 The actual capital payments and commitments to date total £4.315m which represents 53% of the revised capital plan. Due to the procurement process for capital schemes, a large proportion of capital expenditure occurs in the latter part of the financial year.

5.3.2 A summary of the capital plan including slipped schemes is attached to this report in Appendix A which shows details of expenditure on each individual scheme.

5.3.3 In line with revenue budget monitoring a RAG rating system has been introduced to capital monitoring reports with the aim to improve budget holder accountability.

5.4 Approvals under financial procedure 3.11

5.4.1 Under financial procedures 3.11 the Management Board can approve expenditure on schemes in the approved capital plan up to an amount of £100,000 along with a requirement to report these approvals to the Finance and Resources Committee.

5.4.2 In this financial year, the Management Board have approved schemes totalling £498,700 and details of approvals since the last report are shown in the table below.

Date	Directorate	Scheme	Approval	Virement
October	Service Delivery	BA Compressor Replacement		£19,499
November	Service Support	TRANMAN Upgrade	£80,000	
			£80,000	£19,499

5.4.3 The Tranman upgrade is a capital scheme that was included within the 2019/20 capital plan, approval is thus required to transfer the scheme into the current capital plan which will increase the plan in 2018/19 to £8.872m.

5.5 Capital Receipts

The only single substantial capital receipt expected in 2018/19 will be for the sale of the WY1 number plate which is currently on an auction site with a reserve value of £160,000. Since April 2018, the Authority has sold five vehicles generating total capital receipts of £72,375.

6 Treasury Management

6.1 The Authority approved its Treasury Management Strategy on the 16th February 2018 in accordance with the CIPFA Code of Practice on Treasury Management. Under this strategy the Authority receives a six-month review of the strategy which is the subject of a further report on this agenda

7 Debtors

7.1 The Authority receives income for services provided; these include special services, training courses, fire safety certificates, and licences for telecom masts on premises. In most cases the services provided are a result of an emergency which means that it is not possible to raise a charge in advance of the service and as a consequence debtor accounts are raised.

7.2 The level of outstanding debt owed to the Authority to the end of November 18 is £151,414 which can be profiled as follows:

Less than 60 days -	£ 67,466
Greater than 60 days -	£ 83,948

7.3 The procedure for issuing accounts and debt collection is provided by Kirklees Council under a Service Level Agreement. A summary of the procedure for collecting outstanding debt is detailed below:

21 days	first reminder letter
28 days	second reminder letter
35 days	instigation of debt recovery system

As detailed above, there is currently £151,414 of debt which is at the recovery stage. However, previous experience suggests that the Authority will recover all of the outstanding debts.

8 Creditors

8.1 The Authority is required to pay all non disputed invoices within 28 days of receipt. In the first 8 months of the current financial year the Authority has received 6,059 invoices and paid 99.1 % of them within 28 days.

9 Financial Implications

9.1 The financial implications have been detailed in each section of the report.

10 Legal Implications

10.1 The Chief Legal & Governance Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by members for legal advice made at the meeting.

11 Human Resource and Diversity Implications

11.1 There are no human resource and diversity implications associated with this report

12 Health and Safety Implications

12.1 There are no health and safety implications associated with this report

Appendix A

Directorate	Capital Plan 18/19				Capital Expenditure 18/19			
	2018/19	2017/18	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19
	Original Capital Plan	Slippage b/f	Reduction	Total	Commitments Opex	Actual Exp	Total including commitments	Over/(Under) spend to date
Property services	£1,650,000	£271,472	£0	£1,921,472	£723,517	£365,862	£1,089,380	-£832,092
IRMP	£1,500,000	£700,000	-£1,200,000	£1,000,000	£126,765	£85,315	£211,945	-£788,055
ICT	£1,540,200	£708,938	-£694,265	£1,554,873	£179,562	£70,191	£249,752	-£1,305,121
HR	£18,000	£37,700	£0	£55,700	£743	£52,241	£52,983	-£2,717
Transport	£1,500,000	£64,738	£0	£1,564,738	£1,299,169	£36,708	£1,335,878	-£228,860
Operations	£2,084,000	£510,476	£0	£2,594,476	£699,564	£502,902	£1,202,466	-£1,392,010
Fire Safety	£500,000	£0	£0	£500,000	£0	£190,769	£190,769	-£309,231
Finance	£0	£26,530	£0	£26,530	£0	£11,671	£11,671	-£14,859
	£8,792,200	**£2,319,854**	**-£1,894,265**	**£9,217,789**	**£3,029,320**	**£1,315,659**	**£4,344,844**	**-£4,872,945**

CAPITAL BUDGET MONITORING 2018/19

IRMP

Details of Scheme	Asset Life	Capital Outlay Ref	Capital Plan 18/19					Capital Expenditure 18/19	
			2018/19	2017/18	2018/19	2018/19	2018/19	20/18/19	2018/19
			Original Capital Plan	Slippage b/f	Slippage c/f	Virement	Total	Total	Over/(Under) spend to Date
Wakefield rebuild	40	COR954	£1,500,000	£0	-£1,200,000	£0	£300,000	£162,058	-£137,942
TOTAL NEW CAPITAL SCHEMES 18/19			**£1,500,000**	**£0**	**-£1,200,000**	**£0**	**£300,000**	**£162,058**	**-£137,942**
SLIPPED SCHEMES									
Dewsbury	40	COR800	£0	£100,000	£0	£0	£100,000	£2,370	-£97,630
Shipley	40		£0	£500,000	£0	£0	£500,000	£47,652	-£452,348
Ossett	40		£0	£100,000	£0	£0	£100,000	£0	-£100,000
TOTAL SLIPPED SCHEMES			**£0**	**£700,000**	**£0**	**£0**	**£700,000**	**£50,022**	**-£649,978**
TOTAL EXPENDITURE APPROVED			**£1,500,000**	**£700,000**	**-£1,200,000**	**£0**	**£1,000,000**	**£212,080**	**-£787,920**
SCHEMES - NO APPROVAL									
Mytholmroyd Flood			£0	£0	£0	£0	£0	-£135	-£135
South Kirby			£0	£0	£0	£0	£0	£0	£0
TOTAL SCHEMES - NO APPROVAL			**£0**	**£0**	**£0**	**£0**	**£0**	**-£135**	**-£135**
TOTAL CAPITAL 18/19			**£1,500,000**	**£700,000**	**-£1,200,000**	**£0**	**£1,000,000**	**£211,945**	**-£788,055**

CAPITAL BUDGET MONITORING 2018/19

SERVICE SUPPORT

PROPERTY

Details of Scheme	Capital Outlay Ref	Capital Plan 18/19				Capital Expenditure 18/19	
		2018/19	2017/18	2018/19	2018/19	2018/19	2018/19
		Original Capital Plan	Slippage b/f	Virement	Capital total	Total	Over/(Under) spend to Date
Cookridge/Moortown	COR1000	£100,000	£0	£50,000	£150,000	£83,630	-£66,370
FSHQ Works 18/19	COR1001	£185,000	£0	£0	£185,000	£91,101	-£93,899
New Car Park Training Centre	COR1002	£150,000	£0	-£100,000	£50,000	£423	-£49,578
FSHQ Retaining and Boundary Walls	COR1003	£120,000	£0	£0	£120,000	£91,067	-£28,933
Upgrade FSHQ - Breathing Acc, Classroom, TC	COR1004	£100,000	£0	-£20,000	£80,000	£8,570	-£71,430
General Upgrading Morley	COR1005	£80,000	£0	£0	£80,000	£8,508	-£71,492
General Upgrading Odsal	COR1006	£100,000	£0	£0	£100,000	£0	-£100,000
Fire Alarm upgrade, Security Gate Fairweather Green	COR1007	£50,000	£0	£0	£50,000	£267	-£49,733
Tarmac, Lighting, smoke training House - Bingley	COR1008	£45,000	£0	£0	£45,000	£14,498	-£30,502
Security gate, fencing, LED Lighting - Illingworth	COR1009	£50,000	£0	£0	£50,000	£9,328	-£40,672
LED Lighting, Ext lighting CCTV, Security Todmorden	COR1010	£30,000	£0	£0	£30,000	£20,992	-£9,008
Roof drainage, LED lighting, General Works Cleckheaton	COR1011	£45,000	£0	£0	£45,000	£38,440	-£6,560
Upgrade AFS garage/gym, LED Lighting, Asbestos - Slaithwaite	COR1012	£30,000	£0	£0	£30,000	£15,485	-£14,515
Boiler, Lighting, car parking, wall repairs - Meltham	COR1013	£55,000	£0	£0	£55,000	£44,046	-£10,954
LED Lighting, Replace glazing - Rawdon	COR1014	£80,000	£0	£0	£80,000	£16,546	-£63,454
LED Lighting, Decorating - Leeds	COR1015	£50,000	£0	£0	£50,000	£20,946	-£29,054
Kitchen & Facility improvements - Stanningley	COR1016	£20,000	£0	£0	£20,000	£3,750	-£16,250
Security systems, fire alarm, LED lighting - Garforth	COR1017	£40,000	£0	£0	£40,000	£13,476	-£26,524
LED Lighting - Bradford	COR1018	£25,000	£0	£0	£25,000	£18,480	-£6,520
Upgrade Shower installations - Normanton	COR1019	£25,000	£0	£0	£25,000	£0	-£25,000
Upgrade to various Training Towers	COR1020	£50,000	£0	£0	£50,000	£8,765	-£41,235
Security systems, Fire Alarms & upgrades	COR1021	£100,000	£0	£0	£100,000	£58,307	-£41,693
Filling in Appliance Bay & making good	COR1022	£60,000	£0	£25,000	£85,000	£80,213	-£4,787
Asbestos removal	COR1023	£40,000	£0	£0	£40,000	£4,050	-£35,950
Minor Equality & dignity facility improvements	COR1024	£20,000	£0	£0	£20,000	£19,724	-£276
BA Equipment		£0	£0	£20,000	£20,000	£0	-£20,000
TOTAL NEW CAPITAL SCHEMES 18/19		**£1,650,000**	**£0**	**-£25,000**	**£1,625,000**	**£670,611**	**-£954,389**
SLIPPED SCHEMES							
Roof replacement - Skelmanthorpe	COR908	£0	£2,000	£0	£2,000	£1,652	-£348
Training Centre boiler replacement	COR907	£0	£3,235	£0	£3,235	-£1,380	-£4,615
Emergency generator - Slaithwaite	COR943	£0	£2,860	£0	£2,860	£449	-£2,412
Additional Security, CCTV and intruder alarms	0	£0	£0	£0	£0	£0	£0
Upgrade training fac - new steel training tower, fees, concrete surface replacement, installation of new water hydrant supply for drill yard	COR944	£0	£16,000	£25,000	£41,000	£119,463	£78,463
Refurbishment - Wetherby	COR945	£0	£57,263	£0	£57,263	£60,332	£3,069
Tarmac hard standing and Interceptors and Tanks - Silsden	COR946	£0	£7,991	£0	£7,991	£0	-£7,991
Training Centre - Internal conversion works	COR944	£0	£0	£0	£0	£0	£0
Training Centre - IT Suite heating, cooling and ventilation	COR944	£0	£0	£0	£0	£0	£0
External decorations District Smoke Houses - Bingley	COR953	£0	£50,000	£0	£50,000	£49,282	-£718
Phased programme to install essential security systems including PAC access, CCTV monitoring and recording, intruder alarms and fire detection - Keighley, Bingley, Fairweather Green, Odsal, Halifax, Cleckheaton, Huddersfield, Meltham, Otley, Morley, SDC	COR955	£0	£59,758	£0	£59,758	£63,454	£3,696
Boiler replacement - Bradford	COR956	£0	£46,459	£0	£46,459	£55,135	£8,676
Roof replacements - Fairweather Green	COR957	£0	£1,093	£0	£1,093	£3,547	£2,454
Upgrade to brick built towers including structural repairs and upgrade of existing electrical system - Meltham	COR958	£0	£1,940	£0	£1,940	£1,916	-£25
Leeds - Ablutions & Tarmac hard standing	#N/A	£0	£22,873	£0	£22,873	£29,006	£6,133
TOTAL SLIPPED SCHEMES		**£0**	**£271,472**	**£25,000**	**£296,472**	**£382,856**	**£86,384**
TOTAL EXPENDITURE APPROVED		**£1,650,000**	**£271,472**	**£0**	**£1,921,472**	**£1,053,467**	**-£868,005**
SCHEMES - NO APPROVAL							
Rothwell		£0	£0	£0	£0	£20,395	£20,395
Capital - General Equipment		£0	£0	£0	£0	£15,517	£15,517
TOTAL SCHEMES - NO APPROVAL		**£0**	**£0**	**£0**	**£0**	**£35,912**	**£35,912**
TOTAL CAPITAL 18/19		**£1,650,000**	**£271,472**	**£0**	**£1,921,472**	**£1,089,380**	**-£832,092**

CAPITAL BUDGET MONITORING
2018/19
SERVICE SUPPORT
HUMAN RESOURCES

Details of Scheme	Asset Life	Year	Capital Outlay Ref	Capital Plan 18/19			Capital Expenditure 18/19	
				2018/19	2017/18	2018/19	20/18/19	2018/19
				Original Capital Plan	Slippage b/f	Total	Total	Over/(Under) spend to Date
HQ Gym Equipment		2018/19	COR1033	£18,000	£0	£18,000	£15,988	-£2,012
TOTAL CAPITAL PLAN 2018/19				**£18,000**	**£0**	**£18,000**	**£15,988**	**-£2,012**
SLIPPED SCHEMES								
Casualty Care Training		2017/18	COR994	£0	£37,700	£37,700	£36,995	-£705
TOTAL EXPENDITURE APPROVED				**£0**	**£37,700**	**£37,700**	**£36,995**	**-£705**
TOTAL EXPENDITURE APPROVED				**£18,000**	**£37,700**	**£55,700**	**£52,983**	**-£2,717**

CAPITAL BUDGET MONITORING 2018/19
SERVICE SUPPORT
TRANSPORT

Details of Scheme	Capital Outlay Ref	Capital Plan 18/19			Capital Expenditure 18/19	
		2018/19	2017/18	2018/19	20/18/19	2018/19
		Original Capital Plan	Slippage b/f	Total	Total	Over/(Under) spend to Date
Aerial Appliances	COR1034	£1,500,000	£0	£1,500,000	£1,312,297	-£187,703
Appliances		£0	£0	£0	£0	£0
TOTAL CAPITAL PLAN 2018/19		**£1,500,000**	**£0**	**£1,500,000**	**£1,312,297**	**-£187,703**
SLIPPED SCHEMES						
POD Refurbishments	COR925	£0	£40,000	£40,000	£93	-£39,908
Vehicle Replacement - Appliances	COR978	£0	£24,738	£24,738	£24,738	-£0
TOTAL SLIPPED SCHEMES		**£0**	**£64,738**	**£64,738**	**£24,830**	**-£39,908**
TOTAL EXPENDITURE APPROVED		**£1,500,000**	**£64,738**	**£1,564,738**	**£1,337,128**	**-£227,610**
Expenditure no approvals						
Ladders 13-14		£0	£0	£0	£0	£0
Silent Witness		£0	£0	£0	£0	£0
Cold Cut Cobra		£0	£0	£0	£0	£0
Vehicle Telematics		£0	£0	£0	-£1,250	-£1,250
TOTAL SLIPPED SCHEMES		**£0**	**£0**	**£0**	**-£1,250**	**-£1,250**
TOTAL CAPITAL 18/19		**£1,500,000**	**£64,738**	**£1,564,738**	**£1,335,878**	**-£228,860**

CAPITAL BUDGET MONITORING 2018/19
SERVICE DELIVERY
FIRE SAFETY

Details of Scheme	Capital Outlay Ref	Capital Plan 18/19			Capital Expenditure 18/19	
		2018/19	2017/18	2018/19	20/18/19	2018/19
		Original Capital Plan	Slippage b/f	Total	Total	Over/(Under) spend to Date
Home Fire Safety Checks	X	£500,000	£0	£500,000	£190,769	-£309,231
TOTAL CAPITAL PLAN 2018/19		**£500,000**	**£0**	**£500,000**	**£190,769**	**-£309,231**
SLIPPED SCHEMES						
Home Fire Safety Checks	X	£0	0	£0	£0	£0
TOTAL SLIPPAGE		**£0**	**£0**	**£0**	**£0**	**£0**
TOTAL EXPENDITURE APPROVED		**£500,000**	**£0**	**£500,000**	**£190,769**	**-£309,231**

CAPITAL BUDGET MONITORING 2018/19
SERVICE DELIVERY
OPERATIONS

Details of Scheme	Capital Outlay	Capital Plan 18/19			Capital Expenditure 18/19	
		2018/19	2017/18	2018/19	20/18/19	2018/19
		Original Capital Plan	Slippage b/f	Total	Total	Over/(Under) spend to Date
PPE - RTC jackets	COR1040	£215,000	£0	£215,000	£14,537	-£200,463
Line Rescue	COR1025	£12,000	£0	£12,000	£0	-£12,000
Lay Flat Hose	COR1026	£50,000	£0	£50,000	£39,215	-£10,785
Gas Tight Suits	COR1027	£14,000	£0	£14,000	£0	-£14,000
Water Rescue	COR1028	£12,000	£0	£12,000	£111	-£11,889
Respiratory Protection Equipment	COR1029	£50,000	£0	£50,000	£39,994	-£10,006
Hydraulic Rescue Tools	COR1030	£1,250,000	£0	£1,158,000	£820,775	-£337,225
Ballistic PPE Ensemble	COR1031	£31,000	£0	£31,000	£34,784	-£4,216
Hydrants	0	£450,000	£0	£450,000	£174,024	-£275,976
Aerial Vehicle Drone	COR1037	£0	£0	£32,000	£7,995	-£24,005
Method of Entry	COR1038	£0	£0	£60,000	£0	-£60,000
PPE		£0	£0	£0	£0	£0
Fire Helmets		£0	£0	£0	£0	£0
TOTAL CAPITAL PLAN 2018/19		**£2,084,000**	**£0**	**£2,084,000**	**£1,131,435**	**-£960,565**
SLIPPED SCHEMES						
ULPP - Ultra Lightweight Portable Pumps	0	£0	£45,000	£45,000	£44,412	-£588
PPE	0	£0	£34,476	£34,476	£15,353	-£19,123
Gas Tight Suits	COR959	£0	£14,000	£14,000	£8,556	-£5,444
Gas Detectors	COR951	£0	£25,000	£25,000	£0	-£25,000
New Control Project Contingency	0	£0	£338,000	£338,000	£2,710	-£335,290
New Control Project (Premises costs)	0	£0	£54,000	£54,000	£0	-£54,000
TOTAL SLIPPAGE		**£0**	**£510,476**	**£510,476**	**£71,031**	**-£439,445**
TOTAL EXPENDITURE APPROVED		**£2,084,000**	**£510,476**	**£2,594,476**	**£1,202,466**	**-£1,400,010**
Expenditure no approvals						
Water Rescue		£0	£0	£0	£0	£0
Flood Response Vehicles		£0	£0	£0	£0	£0
TOTAL SCHEMES - NO APPROVAL		**£0**	**£0**	**£0**	**£0**	**£0**
TOTAL CAPITAL 18/19		**£2,084,000**	**£510,476**	**£2,594,476**	**£1,202,466**	**-£1,400,010**

CAPITAL BUDGET MONITORING
2018/19
FINANCE

Details of Scheme	Capital Outlay Ref	Capital Plan 18/19			Capital Expenditure 18/19	
		2018/19 Original Capital Plan	2017/18 Slippage b/f	2018/19 Total	20/18/19 Total	2018/19 Over/(Under) spend to Date
		£0	£0	£0	£0	£0
TOTAL CAPITAL PLAN 2018/19		**£0**	**£0**	**£0**	**£0**	**£0**
SLIPPED SCHEMES						
Photocopiers	COR887	£0	£26,530	£26,530	£11,671	-£14,859
TOTAL SLIPPAGE		**£0**	**£26,530**	**£26,530**	**£11,671**	**-£14,859**
TOTAL EXPENDITURE APPROVED		**£0**	**£26,530**	**£26,530**	**£11,671**	**-£14,859**

CAPITAL BUDGET MONITORING 2018/19
SERVICE SUPPORT
ICT

Details of Scheme	Capital Outlay	Capital Plan 18/19						Capital Expenditure 18/19	
		2018/19	2017/18	2018/19	2018/19	2018/19	2018/19	20/18/19	2018/19
		Original Capital Plan	Slippage b/f	Reduction	Slippage c/f	Virement	Total	Total	Over/(Under) spend to Date
Computer Hardware	COR997	£70,000	£0	£0	£0	£0	£70,000	£8,533	-£61,467
GPS Repeaters	COR999	£98,700	£0	£0	£0	£0	£98,700	£87,025	-£11,675
Voice Over IP Telephony	0	£265,000	£0	£0	-£265,000	£0	£0	£0	£0
Silent Witness	0	£390,200	£0	£0	-£390,200	£0	£0	£0	£0
Mobile Phone	COR998	£25,000	£0	£0	£0	£0	£25,000	£19,095	-£5,905
Protection Database	0	£50,000	£0	£0	-£50,000	£0	£0	£0	£0
ID Cards	0	£15,300	£0	£0	-£15,300	£0	£0	£0	£0
Bring Your Own Device Policy and Software Solution	0	£116,000	£0	-£56,000	-£60,000	£0	£0	£0	£0
Command Support	0	£100,000	£0	£0	-£100,000	£0	£0	£0	£0
Operational Risk Information	0	£50,000	£0	£0	-£50,000	£0	£0	£0	£0
Additional resource for HR & Rostering	0	£150,000	£0	-£50,000	£0	£0	£100,000	£0	£0
Mobile Working	COR1035	£150,000	£0	-£99,000	£0	£0	£51,000	£5,790	-£45,210
Hydra command training	0	£60,000	£0	£0	£0	£0	£60,000	£0	£0
Thin Client		£0	£0	£0	£0	£0	£0	£0	£0
Hydrant Management		£0	£0	£0	£0	£0	£0	£0	£0
Equipment Management & RFID		£0	£0	£0	£0	£0	£0	£0	£0
Transport Upgrade		£0	£0	£0	£0	£80,000	£80,000	£0	£0
Electronic Forms		£0	£0	£0	£0	£25,000	£25,000	£0	£0
TOTAL NEW CAPITAL SCHEMES 18/19		**1,540,200**	**0**	**-205,000**	**-930,500**	**105,000**	**509,700**	**120,443**	**-124,257**
SLIPPED SCHEMES									
Communications Test Equipment	COR969	£0	£36,266	£0	£0	£0	£36,266	£16,660	-£19,606
ICTSP2 Information Management Strategy	0	£0	£10,000	-£3,200	£0	£0	£6,800	£0	-£6,800
ICTSP8 Paperless Meetings	0	£0	£41,000	£0	£0	£0	£41,000	£0	-£41,000
ICTSP4 System Security	COR993	£0	£217,765	-£69,765	£0	£0	£148,000	£0	-£148,000
ICTSP3 HR & Rostering	COR1035	£0	£300,000	-£200,000	£0	£0	£100,000	£58,297	-£41,703
Asset Management Software	COR1039	£0	£40,000	£0	£0	£0	£40,000	£17,410	-£22,590
Additional Hardware 17-18	N/A	£0	£4,308	£0	£0	£0	£4,308	£5,382	£1,074
ICT Hardware for Trainee Firefighters	COR961	£0	£3,751	£0	£0	£0	£3,751	£1,580	-£2,171
Retained Pagers	COR996	£0	£25,848	£0	£0	£0	£25,848	£29,980	£4,132
MDT	COR820	£0	£30,000	£0	£0	£0	£30,000	£0	-£30,000
TOTAL SLIPPED SCHEMES		**£0**	**£708,938**	**-£272,965**	**£0**	**£0**	**£435,973**	**£129,309**	**-£306,664**
TOTAL EXPENDITURE APPROVED		**£1,540,200**	**£708,938**	**-£477,965**	**-£930,500**	**£105,000**	**£945,673**	**£249,752**	**-£430,921**
SCHEMES - NO APPROVAL									
Server Room Equipment		£0	£0	£0	£0	£0	£0	£0	£0
New Control Project ICT		£0	£0	£0	£0	£0	£0	£0	£0
Computer Hardware 15-16		£0	£0	£0	£0	£0	£0	£0	£0
New Wan Enabling Work		£0	£0	£0	£0	£0	£0	£0	£0
Sap Upgrade		£0	£0	£0	£0	£0	£0	£0	£0
New WAN (Enabling work)		£0	£6,916	£0	£0	£0	£6,916	£2,012	-£4,904
Networking Hardware		£0	£0	£0	£0	£0	£0	-£1,580	-£1,580
Telephone Systems		£0	£0	£0	£0	£0	£0	-£20	-£20
Computer Hardware		£0	£0	£0	£0	£0	£0	-£375	-£375
TOTAL EXPENDITURE NO APPROVAL		**£0**	**£6,916**	**£0**	**£0**	**£0**	**£6,916**	**£37**	**-£6,879**
TOTAL CAPITAL 18/19		**£1,540,200**	**£715,854**	**-£477,965**	**-£930,500**	**£105,000**	**£952,589**	**£249,789**	**-£437,800**

West Yorkshire
Fire & Rescue Authority

OFFICIAL

Draft Capital Investment Plan/Draft Revenue Budget and Medium Term Financial Plan 2019/20

Finance & Resources Committee

Date: 1 February 2019 — Agenda Item: **8**

Submitted By: Chief Finance and Procurement Officer

Purpose

To present a draft capital investment plan, a draft revenue budget and Medium Term Financial Plan
To seek member approval for the amalgamation of the Capital Financing Reserve and the Major Projects Reserve.

Recommendations

That the report be noted as the basis for the political groups to consider their budget proposals
That members approve the amalgamation of two earmarked capital reserves

Summary

This report presents details of the draft revenue budget for 2019/2020 along with the four-year medium term financial plan and capital programme. Included within the report are details of the Draft Local Government Finance Settlement 2019/20, a standstill budget, and a summary of activity in the 2018/2019 financial year.

Local Government (Access to information) Act 1972

Exemption Category:	None
Contact Officer:	Alison Wood, Chief Finance and Procurement Officer T: 01274 655711 E: Alison.wood@westyorksfire.gov.uk
Background papers open to inspection:	None
Annexes:	Appendix A -Draft Capital Plan 2019/20 to 2021/2022 Appendix B – Standstill Revenue Budget 2019/20

1 Introduction

1.1 This is a consolidated report which presents the Management Board's proposals for: -

(i) a Capital Investment Plan for the four years to 2022/2023;
(ii) the Prudential Indicators to support the financing of the Capital Plan;
(iii) a Revenue Budget and Medium Term Financial Plan for the same period.

2 Proposed Capital Investment

The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004, CIPFA developed the Prudential Code to support authorities' decision making in the areas of capital investment and financing. In December 2017, CIPFA updated the prudential code, whilst the majority of the code remains unchanged, there is now a requirement to produce a capital strategy in order to demonstrate that it takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. This is detailed in the Treasury Management Strategy which is subject to a separate report on this agenda.

CAPITAL PLAN

2.1 The Management Board are proposing a four-year capital investment plan of £25.074m. including expenditure of £7.131m in 2019/2020. Over the past five years the Authority has invested heavily in a station relocation programme which has generated long term revenue savings of over £10m per annum.

2.2 Following detailed feasibility studies, the plan includes £9.8m for the rebuilding of Keighley, Halifax and Huddersfield Fire Stations from 2020 to 2023. There is also provision of £800k per annum for station refurbishments. The plan includes investment in new PPE and fire helmets, the replacement of fire appliances and the purchase of cars for the Command, Leadership and Management programme which was approved at Authority in December 2018. All schemes will be subject to a detailed business case that will be presented either to Management Board or Finance and Resources Committee.

	TOTAL	2019/20	2020/21	2021/22	2022/23
Property	£12,310,000	£2,230,000	£3,080,000	£3,300,000	£3,700,000
ICT	£4,125,800	£1,695,500	£1,160,300	£1,015,000	£255,000
Transport	£3,381,500	£948,800	£576,300	£1,642,200	£214,200
Operations	£3,257,000	£1,757,000	£500,000	£500,000	£500,000
Fire Safety	£2,000,000	£500,000	£500,000	£500,000	£500,000
TOTAL	£25,074,300	£7,131,300	£5,816,600	£6,957,200	£5,169,200
Financed by					
Borrowing	£15,274,300	£5,031,300	£3,616,600	£4,457,200	£2,169,200
Reserves	£9,800,000	£2,100,000	£2,200,000	£2,500,000	£3,000,000
TOTAL	£25,074,300	£7,131,300	£5,816,600	£6,957,200	£5,169,200

2.3 Details of the individual schemes included in the draft capital plan is included in Appendix A to this report.

CAPITAL FINANCING

2.4 There are four main sources of capital finance available; capital grants, capital receipts, internal and external borrowing and the use of reserves, all of which are explained below.

2.5 **Capital Grants**

The Authority does not anticipate the receipt of any capital grants in 2019/2020.

2.6 **Capital Receipts**

Capital receipts are used to either purchase new capital assets or repay outstanding loans. Because the station rationalisation programme is complete the only anticipated receipts are from the sale of fire appliances.

2.7 **Borrowing**

The balance of the expenditure will be funded by borrowing and the use of internal reserves, the table shows a total borrowing requirement of £15.274m. over the period.

Over recent years the Authority has been borrowing internally to fund capital expenditure using its revenue balances and reserves, no new external long term borrowing has been taken out since December 2011.

The Authority will use the pension grant in the early months of the financial year to support the capital programme.

2.8 **Reserves**

The Authority has an earmarked reserve which is specifically for the funding of capital projects. Due to the nature of capital financing charges in the form of Minimum Revenue Provision (MRP) it is proposed that the purchase of long life assets is funded from the capital earmarked reserve. This means that the only cost to revenue will be the interest charge and tax payers of West Yorkshire will not be subject to MRP charges over the next forty years. For example, an asset costing £2m with an estimated life of 40years the average annual charge of MRP in revenue would be £50k.

3 Prudential Indicators

3.1 The CIPFA Prudential Code requires that local authorities produce a number of prudential indicators before the beginning of each financial year and have them approved by the same executive body that approves the budget. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting the level of capital expenditure, the impact on borrowing levels, and the overall controls in place to ensure the activity remains affordable, prudent and sustainable. Fundamentally, the objective of the Code is that the total of an Authority's capital investment remains within sustainable limits, following consideration of the impact on the "bottom line" Council Tax

Some of the indicators are specific to the Authority's treasury management activity and are set out in the Treasury Management Report. The rest of the indicators are set out below.

3.2 **Capital Expenditure, Capital Financing Requirement and External Debt**

The Authority's capital expenditure projections, detailed in paragraph 2, impacts directly on the Capital Financing Requirement (CFR) and the Authority's debt position. The CFR is a calculation of the Authority's underlying need to borrow for a capital purpose. When external borrowing is below the CFR, this reveals that the Authority is using some internal balances, such as reserves/creditors, to temporarily finance capital expenditure as is currently the case. The authority is currently £16.8m under borrowed.

	2017/18 Actual	2018/19	2019/20	2020/21	2021/22
Capital Financing Requirement	62.4	67.4	68.9	69.6	70.6

The table shows an estimated borrowing requirement of £70.6m by 2021/22. For information the capital financing requirement actual in 2017/18 was £62.4m.

3.3 **Limits to Borrowing Activity**

The first key control over the Authority's borrowing activity is a Prudential Indicator to ensure that, over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year, plus the estimates of any additional capital financing requirement for 2019/20 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

The Authority comfortably complied with the requirement to keep net borrowing below the relevant Capital Financing Requirement in 2017/18, and no difficulties are envisaged for the current or future years.

A further two Prudential Indicators control the overall level of borrowing. These are the Authorised Limit and the Operational Boundary. The Authorised Limit represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

3.4 The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during this year.

The Authority is asked to approve the following limits for its total external debt, gross of any investments. These limits separately identify borrowing from other long term liabilities such as finance leases.

	2019/20	2020/21	2021/22	2022/23
Authorised Limit for external debt	58	56	58	56
Operational Boundary for external debt	53	51	53	51

3.5 **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. The following two indicators provide an indication of the capital investment plans on the overall finances of the Authority:

3.5.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream (amounts met from Revenue Support Grant, local taxpayers and balances):

	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
Ratio of Financing costs to net revenue stream	8.51	7.86	7.49	7.28

4 Revenue Budget and Medium Term Financial Plan

4.1 Whilst the Authority will only be required to approve the precept for 2019/20 it is important that the Authority consider the medium term impact of the decision.

This section is split into 4 key areas: -

1. Review of the current year's budget and financial performance;
2. The cost of a standstill budget for 2019/20;
3. Revenue balances
4. Medium Term Financial Plan

4.2 Review of 2018/19

National Context

4.2.1 The Governments' aim is to achieve a balanced position on the economy with no underlying deficit by the middle of the next decade. The Office for Budget Responsibility in its economic and fiscal outlook released in October 2018 indicated that due to an upward revision of cumulative GDP of an average of 0.6% to 2022/23, this would have been sufficient to achieve a budget surplus of £3.5bn in 2023/24, thus meeting the governments' fiscal objective of balancing the budget by 2025. However, in the Autumn budget 2018 the Chancellor committed to spend this projected windfall on areas including the NHS, increased spending on public services and tax reductions meaning that the deficit will be £19.8bn in 2023/24 leaving just two years to meet the balanced budget objective.

4.2.2 On the 2nd August, the Bank of England raised the Bank Rate by 0.25%, taking Bank Rates to 0.75%, the highest level since March 2009. The Bank of England also revised its growth forecasts for the UK economy in the August inflation report, with the latest predictions on growth now up to 1.5% (from 1.4%) in 2018 and up to 1.8% (from 1.7%) in 2019. CPI inflation increased to 2.5% in July 2018 (from 2.4% in June 2018) with the Bank of England projecting that inflation will reduce gradually to 2.2% in 2018 before reaching the target of 2.0% in 2021.

4.2.3 The Bank of England also revised its growth forecasts for the UK economy in the August 2018 inflation report, with latest predictions on growth now up to 1.5% (from 1.4%) in 2018 and up to 1.8% (from 1.7%) in 2019. CPI inflation increased to 2.5% in July 2018 (from 2.4% in June18) with the Bank of England projecting that inflation will reduce gradually to 2.2% in 2018 before reaching a target rate of 2.0% in 2021.

4.2.4 The UK's exit from the European Union may potentially have a significant impact on local government which cannot be factored in at this time and thus adds more uncertainty to the budget planning process. The economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal.

4.3 Impact on West Yorkshire

4.3.1 The Authority received a draft 4-year financial settlement as part of the 2016/2017 budget showing a loss of grant of £7.9m to 2019/2020. The Authority were given the option to fix this settlement by submitting a four-year efficiency plan to the Home Office by October 2016 which was duly approved.

4.3.2 The Authority considered its revenue budget and precept strategy on 16th February 2018 and approved a precept increase of 2.99% requiring a package of revenue savings totalling £1.9m. In 2018/19 a Band D property precept of £62.72.

4.3.3 The removal of the public sector pay cap at 1% on public sector pay in Autumn 2017 will continue to put the Authority under financial pressure. A pay award of 3% for grey book employees in 2019 and each year after has been built into the Medium Term Financial Plan, if pay rises exceed these then funds will have to be found from within existing budgets or earmarked reserves. To put this into context each additional 1% pay increase will cost an additional £500k per annum for grey book employees.

4.3.4 In the March 2016 budget the Chancellor announced that the discount rate that is used to determine the employers' contribution for firefighters' pension schemes would be reduced from 3.0% to 2.8%. This has the effect of increasing employers' contributions rates, the additional cost of which was estimated be £1m per annum which was built into the Medium Term Financial Plan from April 2020. Following an actuarial review of the pension schemes by the Governments Actuary Department (GAD), the actual reduction in discount rate would be from 3.0% to 2.4% which translates into an average employer pension contribution increase of 12.6%. This equates to an increase in an ongoing firefighter pension contributions of £4.5m. The government has agreed to fund the majority of the increase in 2019/20 but has not committed to funding beyond this.

4.3.5 In terms of the financial outturn, the Authority is forecast to under-spend the budget by around £0.4m for the current financial year.

4.4 A Standstill Budget for 2019/20 – Maintaining the current level of service

A standstill budget has been prepared for 2019/20, for the purpose of providing a baseline from which to measure changes in the proposed budget. This is calculated by updating the 2018/19 budget for increases in pay and prices, new financing charges and other adjustments. A standstill budget for 2019/20 would amount to £82.153m. The changes from the 2018/19 budget are detailed in the table below.

	£m
2018/19 approved revenue budget	**£81.912**
Pay and price increase 2018/19	£1.719
Movements to contigencies	-£0.530
Support staff Pay Spine Review	£0.507
Support staff new posts/conversion grey to green	£0.182
Support staff vacancy factor variance	£0.305
Budget calculations	-£0.203
Full year effect of 2018/19 leavers	-£2.299
Increase in pay award provision fron 2% to 3%	£0.504
Change in income	£0.055
2019/2020 standstill budget	**£82.153**

The main changes to the 2018/19 budget are explained below:

a) **Pay increases 2018/19** This is the full year cost of the 2018/19 pay award for both grey and green book staff.

b) **Movement to Contingencies** F&R committee in July 2018 approved the transfer of £531k from revenue budgets to contingencies.

c) **Support staff pay spine review** This is the increase to the base budget for the implementation of the pay spine review from the 1st April 2019

d) **Support staff new posts** This is the full year effect of the increase in green book establishment for new posts and the conversion of grey to green book posts which was approved in 2018/19.

e) **Support staff vacancy factor** This is the variance between 2018/19 and 2019/20 in relation to the amount deducted from the base budget for posts that become vacant during the year.

f) **Budget Calculations** This is the variance in non-employee budgets as a result of detailed budget calculations for the 2019/20 budget

g) **Full year effect of leavers** this is the full year effects of savings generated through firefighter retirements.

h) **Increase in pay award provision** The provision for grey book pay awards in 2019/20 is 3%, an increase of 1% from the 2018/19 budget

i) **Change in levels of income** This increase in income is due to the recalculation of income budgets so that they reflect income actually receivable during the year

A subjective analysis of the Standstill budget for 2018/19 is shown in Appendix 2 to this report

Revenue Balances

4.4.1 The Authority maintains both earmarked reserves and a general fund reserve, earmarked reserves are amounts set aside for a specific purpose and the general fund reserve is used to manage fluctuations in revenue budgets. The Authority's reserves strategy was approved at F&R in October and is published on the Authority's website.

A full list of earmarked reserves and their purpose is detailed in Appendix 3 to this report. The strategy for the use of reserves to support the Medium Term Financial Plan is detailed in section 7 of this report

4.4.2 Minimum Revenue Balance

The Authority needs to maintain a level of General Fund reserves as a safety net to meet any unforeseen and/or unplanned expenditure. This would include changes in interest rates, greater than budgeted pay awards, legal challenges and increases in activity.

As at the 1st April 2018 the Authority had £14.4m of general fund reserves and £21m in earmarked reserves.

The minimum level of balances required is calculated using the Authority's corporate risk register. This document identifies all the major risks to business continuity the Authority may face, evaluates the potential cost and looks at measures to control or limit the risk. The risk register is maintained by the Risk Management Group, which is chaired by the Deputy Chief Fire Officer and reports annually to the Audit Committee. The current risk matrix was approved by the Audit Committee in September 2018 and identifies a requirement to maintain a minimum revenue balance of £5.0m.

5 Provisional Local Government Finance Settlement

5.1 Background

The Local Government Finance Settlement released on the 13th December details the funding for local government and fire for 2019/20, this is the final year of the four-year funding deal and as such the methodology of distribution is the same as that agreed in 2016/17. In order to guarantee funding to 2019/20 authorities had to submit a four-year efficiency plan which West Yorkshire did and was subsequently approved. The amount of funding reduction is £0.41m in 2019/20.

The government is working towards significant reform in the local government finance system in 2020/21, including

a) The Fair Funding Review - this is a review of the relative needs and resources of local authorities with the outcome being to determine new baseline funding allocations from 2020/21.

b) Reforms to business rates retention including the resetting of business rates baselines and increase business rate retention from its current 50% to 75% by 2020/21. The aim is to give greater control locally over the money it raises as local authorities are best placed to understand and decide local priorities. North and West Yorkshire region have been chosen to pilot 75% business rates in 2019/20.

It is unknown what the impact of the Fair Funding Review and the reform to business rate retention will have on the Authority. In addition, the Comprehensive Spending Review is due in Autumn 2019 which will determine the proportion of funding allocated to the fire sector. Unfortunately, it is likely that fire will suffer funding reductions as other areas in the public sector has a higher priority, for example, the National Health Service to which the government has committed additional resources.

5.1.1 Draft Settlement

West Yorkshire Fire and Rescue receives an annual Settlement Funding Assessment which is composed of Revenue Support Grant and the Business Rates Top Up Grant.

The provisional grant allocations for 2019/20 are shown in the table below.

	2018/19 Actual £m	**2019/20 Draft £m**	**2019/20 Provisional £m**
Top Up Grant central pool	16.28	16.63	16.65
Top Up local	7.51	7.69	7.69
Section 31 grant adjustment		0.37	0.37
Growth in business rates			
Base line funding (business rates)	**23.79**	**24.69**	**24.71**
Revenue Support Grant	14.67	13.34	13.34
Local Government Finance Settlement	**38.46**	**38.03**	**38.05**
Grant Loss		0.43	0.41

The settlement shows a small increase in central top up grant from £16.63m to £16.65m which is due to an increase in inflation from the previous year. The overall cut in central government funding is £0.41m in 2019/20.

Referendum Principles

5.1.2 The Local Government Finance Settlement has set the referendum limit at 2.99% for 2019/20 and it will reduce back to 1.99% from 2020 unless further allowances are made in the settlement next Autumn. If authorities wish to exceed this limit they are required to hold a referendum of all council tax payers and are bound by the results.

5.1.3 Dispensations to increase precept above the referendum limit have been granted to Police and Crime Commissioner who are allowed precept increases of £24 in 2019/20. Also, local authorities are able to increase the precept by an additional 2% for adult social care, and shire district councils in two-tier areas will be allowed increases of up to 2.99% or up to and including £5 whichever is higher. None of these additional increases are applicable to fire.

Business Rates

5.1.4 The settlement indicates the Authority will receive £24.34m in business rate income with £16.65m paid directly from central government in the form of top up grant and the balance of £7.69m being paid by the five district councils which equates to 1% of the income they collect.

The authority in addition receives Section 31 grant to compensate for any policy changes introduced around local business rates. The change in the uplift of business rates from RPI to CPI in 2019/20 which was announced in the Autumn Statement has in effect resulted in a business rates levy account surplus which means the authority is to receive an additional payment of £0.37m of Section 31 grant.

The authority receives Section 31 grant for the under indexing of Business Rates income, the amount for 2019/20 is £0.793m. Any variations on this grant is managed via the business rates income earmarked reserve.

5.2 Precept Income

5.2.1 As Members are aware, the Authority is also dependent upon precept income from the five districts which will provide £40.34m of its income in 2018/19. This income is dependent upon two factors:

j) The precept set by the Authority;

k) The tax base set by the five district councils. The districts have not yet notified the Fire Authority of the provisional tax base for 2019/20 although it is anticipated that there will be some growth.

The Authority has yet to be notified from the district councils of its share of council tax surplus in 2019/20. Any surplus will be used to support the revenue budget.

6 Positive Assurance Statement

6.1 Under Section 25 of the Local Government Act (2003) the statutory Chief Financial Officer is required to give positive assurance statements in the robustness of budget estimates and the adequacy of reserves and balances.

6.2 If Members approve the recommendations in this report on the level of specific reserves and the strategy for use of balances, I can give the Authority positive assurance on the adequacy of reserves and balances. This assurance is given having considered the following matters: -

a) This Authority has robust risk management arrangements and the Chief Finance and Procurement Officer uses a Risk Management Matrix to calculate the minimum level of balances.

b) The Authority is single purpose and does not face a full a range of risks to manage as a multi-purpose authority.

c) The Authority's revenue reserves have not generally been consumed during the year by overspendings but have been maintained throughout the year.

6.3 I can also give you positive assurance on the accuracy and robustness of all the forecasts and estimates in the budget proposals.

In giving these assurances I have considered the following matters: -

(i) The internal control environment and, in particular, the checks and balances within our budget process and our arrangements for budgetary control. In addition, I am satisfied that the Authority's financial systems provide a sound basis for accurate financial information.

(ii) The detailed work on risk assessments.

(iii) The long-term tradition and track record of the Authority in managing its overall budget Financial Implications

7 Medium Term Financial Planning

The Medium Term Financial Plan (MTFP) sets out the framework for understanding the financial challenges faced by the Authority over the medium term. Although the MTFP is a four year plan it is updated at least annually to take into account financial forecasts and factors external to the organisation.

7.1 As mentioned in the introduction to the report, the Authority will be asked to approve a four-year Medium Term Financial Plan, including the Revenue Budget for 2019/20, however as mentioned previously there is great financial uncertainty regarding funding from 2020 onwards.

7.2 The Medium Term Financial Plan will address the key issues of grant cuts, precept strategy, service delivery and use of balances. This will be discussed with political groups and presented to the Authority within the final budget report to the Authority in February.

7.3 The table below shows the revenue budget for 2019/20 and shows that the authority has a projected budget deficit of £0.176m. Estimated shortfalls from 2020 onwards are detailed later in the report.

	2019/20
Revenue Budget	
Standstill Budget	**82.153**
Recruitment and Retirements	-0.984
Growth and Savings	-1.605
Pensions increase	4.633
Total Budget	**84.197**
Funding	
Revenue Support Grant	13.339
Top Up Grant	7.689
Local Business Rates	16.650
Section 31 Grant	0.500
Precept Income	42.171
Pensions Increase funding	3.672
Total Funding	**84.021**
Budget Shortfall	-0.176

7.4 Budget Calculations

It was estimated that the Authority would need to use £3.2m of balances in 2019/20 but due to detailed budget calculations the projected deficit has been reduced to £0.176m. The methodology is explained in more detail below.

A more detailed budget monitoring system was introduced in 2018/19 which is based on a RAG rating method of reporting. The intention being to make budget holders and managers more accountable for their budgets. Explanations for the variances on the RAG ratings have to be reported to the Chief Finance and Procurement Officer accompanied with an action plan for correction or re-alignment.

The Authority has consistently underspent the revenue budget in a range of areas for a number of years which has contributed to the current size of usable reserves. It thus seems an opportune time to revise these budgets accordingly and ensure they reflect actual expenditure. These areas are:

a) Grey book employee budgets - £0.611m has been removed from the base budget 2019/20 (which was included within the base budget for 2018/19), for the recruitment of external watch and crew managers. This cost has been managed through the recruitment budget.
b) Ill Health Pensions – a further £0.157m has been removed from this budget, revising the budget to £2m. For added financial resilience there is an earmarked reserve for ill health pensions that would fund any an unexpected increase in cost.
c) General contingency – the contingency budget has been reduced by £0.5m to a revised sum of £0.361m. The revenue contingency is used to fund any unexpected increases in cost during the year that are not included in the base budget. As with ill health pensions, there is an earmarked reserve for pay and price increases should any unplanned expenditure be required.
d) Capital Financing Charges – a reduction of £0.574m in 2019/20 and reductions of £0.692m from 2020 onwards. This budget heading has been over inflated for a number of years, hence the large reduction. Moreover, the move to fund long life capital schemes from the capital earmarked reserve will mean that no Minimum Revenue Provision costs will be incurred. A contingency for potential interest rate rises in the future has been factored into the calculation.
e) Reductions to base budgets during 2018/19- £0.531m was reduced from base budgets and approved at F&R in July 2018 and it was the intention that if these budgets were not called upon during the financial year, they would be removed from the base budget permanently.

The reductions above total £2.4m and are in addition to savings as a result of IRMP and reductions due to the retirement profile These are already included within the revenue budget 2019/20 and Medium Term Financial Plan.

7.5 Budget Growth and Savings 2019/20

In addition to the budget reductions explained above there are a number of areas of growth and savings that have been identified as part of the budget planning process.

a) (£0.685m) has been deducted from employee budgets for vacancy management for both grey book and support staff.

b) £0.161m has been added to grey book employee budgets to cover the cost of four employees returning from career breaks during the year. There are currently nine employees on career breaks.

c) £0.05m has been added to retained employee budgets in order to increase community safety work.
d) £0.100m has been included within supplies and services to enable the authority to commission feasibility surveys on capital projects before work is progressed. If the scheme is approved and progressed the cost of the feasibility study can then be capitalised.

7.6 Budget Calculation Assumptions

The following assumptions have been used in the calculation of the Medium Term Financial Plan and any deviations from these can increase or decrease the projected deficit.

a) Precept increase of 2.99% in 2019/20 and 1.99% each year thereafter
b) Tax base growth of 1.5%
c) Pay increases for grey book staff of 3% and 2%for support staff
d) General price inflation of 2%
e) Employees retire as per their projected retirement date and the authority continues to recruit in order to maintain establishment at 900 whole time employees.

7.7 Financial Planning April 2020 Onwards

In order to enable members to understand the financial uncertainty from 2020 a range of scenarios have been drawn up which shows the impact of a:

a) No cut in central government funding
b) A 5% cut in funding
c) A 10% cut in funding

These are potential scenarios at this stage, once more information is received on funding from 2020 onwards the Medium Term Financial Plan will be updated and reported to members.

The table overleaf shows the impact of these scenarios

	2019/20	2020/21	2021/22	2022/23
Revenue Budget				
Standstill Budget	**82.153**	**84.517**	**86.675**	**88.784**
Recruitment and Retirements	-0.984	-2.005	-1.582	-1.208
Growth and Savings	-1.605	-1.722	-1.720	-1.719
Pensions increase	4.633	4.601	4.661	4.703
	84.197	**85.391**	**88.034**	**90.560**
Funding				
Revenue Support Grant	13.339	13.339	13.339	13.339
Top Up Grant	7.689	7.689	7.689	7.689
Local Business Rates	16.650	16.650	16.650	16.650
Section 31 Grant	0.500	0.500	0.500	0.500
Precept Income	42.171	43.636	45.159	46.735
Pensions Increase funding	3.672	0.000	0.000	0.000
Total Funding	**84.021**	**81.814**	**83.337**	**84.913**
No grant cut	**84.021**	**81.814**	**83.337**	**84.913**
5% cut to grant	84.021	79.906	81.429	81.192
10% cut to grant	84.021	77.997	79.520	77.660
Budget Shortfall				
No cut to grant	-0.176	-3.577	-4.697	-5.647
5% cut to grant	-0.176	-5.485	-6.605	-9.368
10% cut to grant	-0.176	-7.394	-8.514	-12.900

The above table assumes that the authority will not receive any additional funding for the increase in employers' pension contribution.

In summary, as at April 2020, the authority could be faced with finding ongoing revenue savings between £3.577m and £12.90m in order to achieve a balanced budget depending on the level of grant cut.

If the government was to provide funding for the burden of the increase in pension contributions at the same proportion as in 2019/20 in the Comprehensive Spending Review the budget shortfall would be reduced to a deficit of between £0.071m and £9.317 as shown in the table below:

With Pension Contribution Funding

	2019/20	2020/21	2021/22	2022/23
Budget Shortfall				
No cut to grant	-0.176	-0.071	-1.146	-2.064
5% cut to grant	-0.176	-1.979	-3.054	-5.785
10% cut to grant	-0.176	-3.888	-4.963	-9.317

7.8 As Chief Finance and Procurement Officer and as Section 73 officer there is a statutory duty to present a balanced budget as the use of reserves cannot be sustained over the longer term. The Strategic Development team is currently working closely with the finance team to identify savings and growth in accordance with the funding scenarios highlighted in the tables above. These will be presented to Management Board and the Fire Authority during 2019.

7.9 Reserves

The Finance and Resources Committee in October 2018 approved the movement of £9.38m from general fund balances to three new earmarked reserves, namely, the Major Projects Reserve, Medium Term Funding Impact Reserve and the Operational Equipment Reserve. Following this transfer, the General Fund reserve is now £5m and earmarked reserves are £31m. The Reserves Strategy is attached at Appendix C.

It is proposed that members approve the amalgamation of two current earmarked reserves, the capital financing reserve and the major projects reserve. Both have the same objective so for simplification it is proposed they are combined and renamed capital projects reserve. This would give a combined earmarked reserve to spend on capital projects of £17.47m. It is important to note that earmarked reserves cannot be spent until a full business case has been presented to committee for approval in line with the current capital approval process.

It is proposed that reserves will be used to support the Medium Term Financial Plan over the next four years as summarised in the table below:

Reserve	Projected Balance 31/03/2018 £m	Use of Reserve 2019/20 £m	Use of Reserve 2020/21 £m	Use of Reserve 2021/22 £m	Use of Reserve 2022/23 £m	Balance £m
Transparancy	31					31
Regional Control Funding	563	-563				0
Enhanced Logistical Support	202					202
Decontamination of Body Bags	40					40
Council Tax Reform	27					27
Business Rate Appeals	1,101					1,101
Government Grant Reserves	1,964	-563	0	0	0	1,401
General Fund	5,000					5,000
Leap Year Fund	121	80	-201	40	40	80
Insurance Claims	406					406
Service Support Reserve	546	-220				326
Pension Equalisation Reserve	2,961					2,961
Provision for pay and prices	4,627		500	500	500	6,127
ESMCP	258					258
Capital Financing Reserve	10,472	-2,100	-2,200	-2,500	-3,000	672
Major Projects Reserve	7,000				-7,000	0
Medium Term Funding Impact	2,000		-2,000			0
Operational Equipment Reserve	388					388
Usable Reserves	28,779	-2,240	-3,901	-1,960	-9,460	11,218
TOTAL RESERVES	35,743	-2,803	-3,901	-1,960	-9,460	17,619

It is worth pointing out that those earmarked reserves highlighted in orange in the table are the result of the receipt of a government grant and as such will have to be spent on the purpose specified in the grant terms and conditions. These reserves cannot be used to fund expenditure in other areas.

The rest of the earmarked reserves will be used to support the Medium Term Financial Plan as follows.

a) It is proposed that the capital reserves are used to fund the rebuilding of the three fire stations detailed in section 1 of this report and the already approved rebuild of Wakefield Fire Station in 2019/20. This will mean that capital financing charges in the form of statutory Minimum Revenue Provision is not charged to this £9.8m of capital investment resulting in a revenue saving over many years. This is because Minimum Revenue Provision is chargeable to revenue over the life of the asset, in the case of a new fire station, 40 years.

b) The proposed development of the FSHQ site will also be funded from the major projects reserve saving capital charges as in (a) above.

c) It is also recommended that costs associated with the Procurement Review and the Lean Working Review during 2019/20 are met from the Service Development Reserves. It is expected that both reviews will generate ongoing revenue savings over the longer term even though they will need initial investment in the first instance.

d) Any implementation costs associated with the HR and Rostering system and CLM will also be charged to the service support reserve. Once again these projects are expected to deliver savings over the longer term.

e) A leap year fund is maintained to manage the cost of the extra day every leap year, the movement in the table above show the transfer to and from this reserve.

f) Due to the uncertainty regarding pay awards following the ending of the public sector pay freeze, provision has been made for the funding of a 1% pay increase costing an estimated £500k from the provision for pay and prices reserve until savings to fund this can be found in the longer term. If there were higher increases in pay awards there would be a greater demand on this reserve.

g) As explained in section 7.5 of this report there is significant financial uncertainty facing the fire authority from 2020, making accurate budget planning difficult. As a result, it is expected that the Medium Term Funding Impact reserve will be called upon if the funding cut is higher than expected. This reserve will be used to fund the implementation and bridge the timing gap of initiatives identified in section 7.5.

8 Proposed Revenue Budget

8.1 Recommendations on the budget strategy will be included in the report to the Full Authority.

9 Officer Recommendations and Reasons

9.1 Members are asked to note the contents of this report as the basis for the political groups to consider their budget proposals.

Directorate	Description	Total Estimated Capital	2019/20	2020/21	2021/22	2022/23
Fire Safety	Smoke Aalrms	£2,500,000	£500,000	£500,000	£500,000	£500,000
Fire Safety Total		£2,500,000	£500,000	£500,000	£500,000	£500,000
ICT	ICT Strategy	£879,300	£524,000	£155,300	£100,000	£100,000
	ICT Upgrades	£1,181,500	£166,500	£615,000	£400,000	£0
	DMZ Virtual Servers	£80,000	£80,000	£0	£0	£0
	In-house systems development	£0	£0	£0	£0	£0
	IRS Enhancements - dashboards	£0	£0	£0	£0	£0
	IRS Enhancements - geode	£0	£0	£0	£0	£0
	MDT Hardware	£280,000	£0	£0	£280,000	£0
	Media Storage Solution	£200,000	£200,000	£0	£0	£0
	Pager Upgrade	£65,000	£0	£0	£65,000	£0
	Replacement computer hardware	£455,000	£115,000	£105,000	£90,000	£75,000
	Replacement of station annoy system	£400,000	£120,000	£120,000	£80,000	£80,000
	Silent Witness	£390,000	£390,000	£0	£0	£0
	VoIP	£265,000	£100,000	£165,000	£0	£0
ICT Total		£4,195,800	£1,695,500	£1,160,300	£1,015,000	£255,000
IRMP	Keighley new build	£2,200,000	£0	£2,200,000	£0	£0
	Halifax new build	£2,500,000	£0	£0	£2,500,000	£0
	Huddersfield new build	£3,000,000	£0	£0	£0	£3,000,000
	FSHQ new build	£13,000,000	£0	£0	£0	£0
IRMP Total		£20,700,000	£0	£2,200,000	£2,500,000	£3,000,000
Operations	Fire Fighting helmets	£210,000	£210,000	£0	£0	£0
	Gas tight suits	£10,000	£10,000	£0	£0	£0
	Hydrants	£2,250,000	£450,000	£450,000	£450,000	£450,000
	Lay Flat Hose	£50,000	£50,000	£0	£0	£0
	MFTA - Headset	£15,000	£15,000	£0	£0	£0
	MTFA Ear Defenders	£12,000	£12,000	£0	£0	£0
	Replacement of Operational PPE	£1,000,000	£1,000,000	£0	£0	£0
	Water Rescue	£10,000	£10,000	£0	£0	£0
Operations Total		£3,557,000	£1,757,000	£450,000	£450,000	£450,000
Property	FSHQ	£550,000	£550,000	£0	£0	£0
	General	£3,030,000	£0	£880,000	£800,000	£700,000
	Station Refurbishments	£1,680,000	£1,680,000	£0	£0	£0
Property Total		£5,260,000	£2,230,000	£880,000	£800,000	£700,000
Transport	CLM Vehicle procurement	£704,000	£704,000	£0	£0	£0
	Vehicle Replacement project	£6,823,800	£244,800	£576,300	£1,642,200	£214,200
Transport Total		£7,527,800	£948,800	£576,300	£1,642,200	£214,200
Grand Total		£43,740,600	£7,131,300	£5,766,600	£6,907,200	£5,119,200

Appendix B

2018/19	STANDSTILL REVENUE BUDGET	2019/20
£50,434,890	Firefighters	£50,456,874
£9,520,057	Support Staff	£10,264,134
£2,406,600	Pensions	£2,156,600
£1,657,800	Other Employees	£1,177,200
£3,752,150	Premises	£4,416,600
£2,719,900	Transport	£2,566,700
£5,076,210	Supplies and Services	£5,094,400
£287,600	Lead Authority Charges	£332,300
£7,418,400	Capital Financing	£7,572,400
£861,000	Contingency	£861,000
£84,134,607	GROSS EXPENDITURE	£84,898,208
-£2,680,150	Less Income	-£2,745,067
£81,454,457	NET EXPENDITURE	£82,153,141

WEST YORKSHIRE FIRE AND RESCUE SERVICE

RESERVES STRATEGY 2018/19 TO 2022/23

What are Reserves

Reserves are an essential part of good financial management in that they help the fire authority manage with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors in developing the Medium Term Financial Plan and setting the annual budget. In setting the budget the fire authority decides what it will spend and how much income it needs from council tax to supplement government funding. The fire authority may choose to fund some of its spending from its reserves and balances in the short term until long term savings initiatives are realised.

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

The requirement for a local authority to maintain financial reserves is acknowledged in legislation and thus preventing the authority to over committing financially. These are

- The requirement to set a balanced budget as set out within the Local Government Finance Act 1992
- The requirement of the authority to make arrangements for the proper administration of their financial affairs and the appointment of a Chief Finance Officer (section 151 officer) to take responsibility for the administration of those affairs.
- In accordance with the Local Government Finance Act 1988 (Section 114), the Chief Finance Officer must report if there is or is likely to be unlawful expenditure or an unbalanced budget.
- The Local Government Act 2003, places a duty on the Chief Finance Officer to give positive assurance as part of the budget setting process of the adequacy of balances.
- The Local Government Finance Act 1992 requires fire authorities as a precept authority to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- The external auditors' responsibility to review and report on the authority's financial standing as per the annual external audit report.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published LAAP Bulletin 99 in July 2014 which provides guidance on the management of reserves which has been adopted by the authority.

National Framework

The National Framework which was published in May 2018 includes a section on reserves, the main components of which are:

- General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. These should be established as part of the medium term financial planning process.
- Each fire and rescue authority should publish their reserves strategy on their website. The 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 provide information for at least two years ahead.
- Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan.
- Information should be set out in a way that is clear and understandable for members of the public and should include:
    - How the level of general reserve has been set.
    - Justification for holding a general reserve larger than five percent of budget
    - Whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is committed and,

- A summary of what activities or items will be funded by each earmarked reserve and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

Determining the Level of Reserves

In accordance with the authority's financial regulations, the authority holds reserves which fall into two distinct categories

- General Reserves – these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies; and
- Earmarked Reserves – these have been created foe specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves, it will smooth the expenditure profile and avoid liabilities being met from Council Tax in the year that payments are made.

There is not a recognised formula for determining the level of reserves that each fire authority should maintain. It is up to each authority to consider the local circumstances and the potential issues/risks that may occur across the medium term. In determining the level of reserves for the Authority the risks and issues that should be taken into account will include the following:

- The possibility of savings not being delivered; as austerity levels of funding continue, the need for annual reductions in spending is expected to increase in magnitude. This is likely to mean the identification of savings proposals carry a potentially greater risk of not being delivered.
- To provide cover for extraordinary or unforeseen events occurring: given the purpose of the fire and rescue service is to respond to emergency situations, there is always the potential for additional, unexpected and unbudgeted expenditure to occur.
- The commitments falling on future years as a result of capital plans and proposals to improve the asset base. Having reserves mitigate the impact on the revenue budget of borrowing and/or revenue contributions to capital and would support projects/programmes that will support revenue efficiencies.
- The risk on inflation, especially pay. With inflation currently at about 3% there is likely to be continued pressure on pay inflation which is in excess of the 2% provided for in the Medium Term Financial Plan.

Current Reserves Position 1 April 2018

Although the Authority has on the face of the Balance Sheet £35.7 million in usable reserves, the actual cash readily available at the 31 March 2018 is £15.1 million. The level of cash fluctuates during the year due to the timing of Government grants, notably the top up grant which we received £34 million in July 2018. If the Authority wanted to utilise reserves which exceeds our working cash flow balance, we would need to borrow. Because the rate of interest for investments is at such a low level, it is good financial management that we use our cash flow to fund expenditure rather than borrow.

The current balance of reserves is summarised in the table below:

Type of Reserve	Balance at 1/4/18	Estimated Balance at 31/3/21
General Fund	£5,000,000	£5,000,000
Earmarked Reserves	£30,743,000	£12,785,000
TOTAL	£35,743,000	£17,785,000

The general fund reserve is not specified for a determined use: it is maintained for cash flow purposes. It is Authority policy that the minimum level of general fund balances is £5million, this level is approved when the budget is set in February. The minimum level of balances is calculated based on the Authority's risk register.

Earmarked reserves are funds that are set aside to meet costs for specific purposes in future financial years. These reserves allow the Authority to adopt a more flexible approach to budget management and meet cost pressures in future years. Some reserves are a result of the receipt of a Government grant that has been given for a specific purpose, others are from the transfer of revenue budgets to reserves for future costs.

Detailed below are the Authority's reserves, an explanation of their purpose and forecast balance at the 31/3/2021.

Reserves as a result of Grants

Description	Balance 1/4/18	Estimated Balance 31/3/21	Purpose and Origin of the Reserve
Council Tax Reform	£27,000	£27,000	This was a one off grant received in 2012/13 from Central Government to assist with the costs associated with the reform of business rates. To date, no expenditure has been charged to this reserve.
Body Bag Decontamination	£40,000	£40,000	This grant was received in 2012/13 and 2013/14 from Central Government.
Control Room	£563,000	£0	This is the remainder of grant for the New Control Project which West Yorkshire manage on behalf of both West and South Yorkshire. This reserve will be fully used once the final payment to Systel has been paid.
Enhanced Logistics	£202,000	£100,000	This was a grant initially received in 2011/12 for the provision of the purchase of the new command unit. This is now complete and a replacement of the vehicle will be charged to this reserve if required in the future.
Transparency	£31,000	£31,000	This was a central government grant to enable organisations to meet the requirements of data

			transparency. To date, no expenditure has been charged to this reserve.
TOTAL	£863,000	£198,000	

Reserves as a result from Revenue Allocations

Description	Balance 1/4/18	Estimated Balance 31/3/21	Purpose and Origin of the Reserve
Leap Year Fund	£121,000	£40,000	This reserve is used to ease the burden of an additional days pay in a leap year. An amount is transferred from the revenue budget each financial year and spent in full each leap year.
Emergency Services Mobile Communications Programme (ESMCP)	£258,000	£0	This reserve has been established to recognise the risk that Government funding for ESMCP may cease after 2020. This reserve will fund those contracts for which the Authority will be contractually committed to after this date.
Insurance Claims	£406,000	£300,000	This reserve was established in 2013/14 following the receipt of an insurance claim relating to the stores fire, an additional £158k was put aside in 2014/15 and £77k in 2017/18. This reserve will be used for any uninsured losses the authority may face in future years e.g. mesothelioma.
Service Support Reserve	£546,000	£149,000	This reserve was established in 2013/14 with the purpose to fund any expenditure that is not included in the MTFP but will generate savings in the longer term. £252k was paid from this reserve in 2017/18 to cover the redundancy costs following the ICT review.
Pension Equalisation Reserve	£2,961,000	£2,000,000	This reserve is used to ease the potential cost of increased ill health retirements which have to be met from revenue. Any underspend on the ill health revenue budget is transferred to this reserve at the end of the financial year. Currently this budget is £2.4million and annual spend is in the region of £1.6million. The amount transferred in 2017/18 was £795k.
Reserve for Pay and Prices	£4,627,000	£2,797,000	Any underspending on the revenue contingency budget is transferred to this reserve at the end of the financial year. The amount transferred in 2017/18 was £2,264k which partly was due to the outstanding pay award to fire fighters. In the short term this reserve will be used to fund pay awards that are higher than estimated in the MTFP.

Capital Finance Reserve	£10,472,000	£6,000,000	This reserve was created in January 2017 with the purpose to ease the cost of financing the capital plan in future years. Any underspending on capital financing charges are transferred to this reserve.
Major Projects Reserve	£7,000,000	£0	This reserve has been established to fund the replacement and upograde of building stock that has not been included in the approved four year capital plan.
Medium Term Funding Impact Reserve	£2,000,000	£0	This reserve has been established to mitigate any funding shortfalls as a consequence of the Fair Funding Review and the Comprehensive Spending Review due in 2020 which have not been included within the Medium Term Financial Plan
Operational Equipment Reserve	£388,000	£200,000	This reserve is for the funding of replacement operational equipment that is excluded from the capital plan. New technology and health and safety requirements may necessitate the replacement of this equipment.
TOTAL	£28,779,000	£11,486,000	

Reserves as a result of government grants and transfers from revenue

Description	Balance 1/4/18	Estimated Balance 31/3/21	Purpose and Origin of the Reserve
Business Rate Appeals	£1,101,000	£1,101,000	This reserve is used to manage the volatility on the revenue budget from business rate appeals. A grant is received from government each year to ease the potential cost which is based in the NNDR1 returns from the 5 district council. The balance of grant transferred to this reserve was £238k in 2017/18.
TOTAL	£1,101,000	£1,101,000	

Review of Reserves

The Authority's reserves will be reviewed as part of the following processes:

- The reserves will form part of the budget setting process and the level and use of reserves will be considered when setting the annual budget and Medium Term Financial Plan. This will include the approval at Full Authority Committee.

- Reserves are reviewed and externally audited during the closure of the Authority's accounts and are included in the Statement of Accounts. There is a statutory requirement to detail the movement between reserves during the year and show the opening and closing position in the Movement in Reserves Statement and the Expenditure and Funding Analysis. The Statement of Accounts is approved at the Authority's audit committee.

- The minimum level of General Fund Reserves will be assessed during the year by the financial appraisal of risks on the Authority's risk register. The Risk Management Strategy Group which meets quarterly whose aim is to manage the register and identify and assess risks. This group is chaired by the Deputy Chief Fire Officer and is attended by internal audit, a representative from insurance, a member champion and those responsible for the key risks within the organisation.