Treasury Management - mid-year review

Finance & Resources Committee

Date: 5 February 2021 Agenda Item: **6**

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 the report.

Summary This report presents a 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: None

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

Annexes:

Appendix A Investments at 17th December

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. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report covers the period 1 April to 17 December 2020.

2 Information

2.1.1 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.

2.1.2 The report covers the period 1 April to 17 December 2020, 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 21 February 2020.

2.2 The Treasury Management Strategy 2020/21 approved by the Authority on 21 February 2020.

2.2.1 The Chief Finance & Procurement Officer believed that the borrowing and investment strategy for 2020/21 should continue to place emphasis on the security of the Authority's balances. The main external influences on the Authority's strategy was the spread of the coronavirus pandemic and the UK's progress in negotiating its exit from the EU and any uncertainty over the future weighing on growth. Economic growth is therefore forecast to remain sluggish throughout 2020/21 as uncertainty could continue for several years.

2.2.2 The Authority had an overall Capital Financing Requirement (CFR) of £51.0 million as at 31st March 2020. 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 £45.4 million of external borrowing after using £5.6 million of internal borrowing. The repayment of any long-term debt would be then financed via short term borrowing as short term rates were forecast to stay low. Short term rates have remained low in 2020/21 compared to longer term PWLB rates. This is covered in detail in paragraph 2.5.3 later in the report.

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

2.3.1 The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period.

2.3.2 The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy

Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

2.3.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the ‘Eat Out to Help Out’ (EOHO) offer.

2.3.4 GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

2.3.5 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England’s 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics’ preferred measure of CPIH which includes owner-occupied housing was 0.5% year/year. In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

2.3.6 Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

2.4 Investment Performance

2.4.1 The Authority has invested an average balance of £39.6 million externally during the period, generating £0.129 million in investment income. The Authority is always ‘cash rich’ in the middle of the year due to the receipt of the pension grant at the end of July (£31.348 million) as a single annual payment. The Authority also received an additional £4.286 million pension grant in April 2020.

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 17 December 2020 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 0.56%, being above the weighted average 7 day London Interbank Offer rate of 0.07%.

2.5 Borrowing performance

2.5.1 In terms of borrowing, long-term loans at the end of September 2020 totalled £45.3 million (£45.4 million 31 March 2020). Repayments of EIP (equal instalments of principal) loans totalling £0.196 million will be made during the year. Current forecasts indicate that there will not be a borrowing requirement for the remainder of the financial year.

2.5.2 Public Works Loan Board (PWLB) loans total £43.3 million of long-term loans, with the remaining £2.0 million 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.

2.5.3 In October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt and authorities borrowing to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The PWLB launched a wide-ranging consultation on the PWLB's future direction which closed on 31 July 2020. New lending terms were announced by the PWLB on the 26 November 2020 which returned the cost of certainty borrowing rates back to the same level as October 2019.

2.5.4 Short term borrowing rates however remain very low. Short term local to local funding up to 6 months in duration is currently available at the current bank rate of 0.1% or even slightly lower.

2.6 Revenue Budget Monitoring

2.6.1 The revenue budget contains a sum of £6.998 million for interest and provision for debt repayment for 2019/20 and included provision for funding new borrowing in 2018/19 and 2019/20. However, no new borrowing was required in 2018/19 and the latest cashflow projections show that is unlikely that any will be needed this year. It is therefore probable that a significant underspending will take place. Underspending will be used to make additional voluntary minimum revenue provision contributions, thus reducing the Authority's Capital Financing Requirement which is turn eases the financial burden of the capital plan on the ongoing revenue budget.

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

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.

3 Financial Implications

3.1 These are included within the main body of the report

4 Human Resource and Diversity Implications

4.1 None

5 Health, Safety and Wellbeing Implications

5.1 None

6 Environmental Implications

6.1 None

7 Your Fire and Rescue Service Priorities

7.1 Treasury management underpins the financial management of the Authority which affects all the fire and rescue service priorities.

8 Conclusions

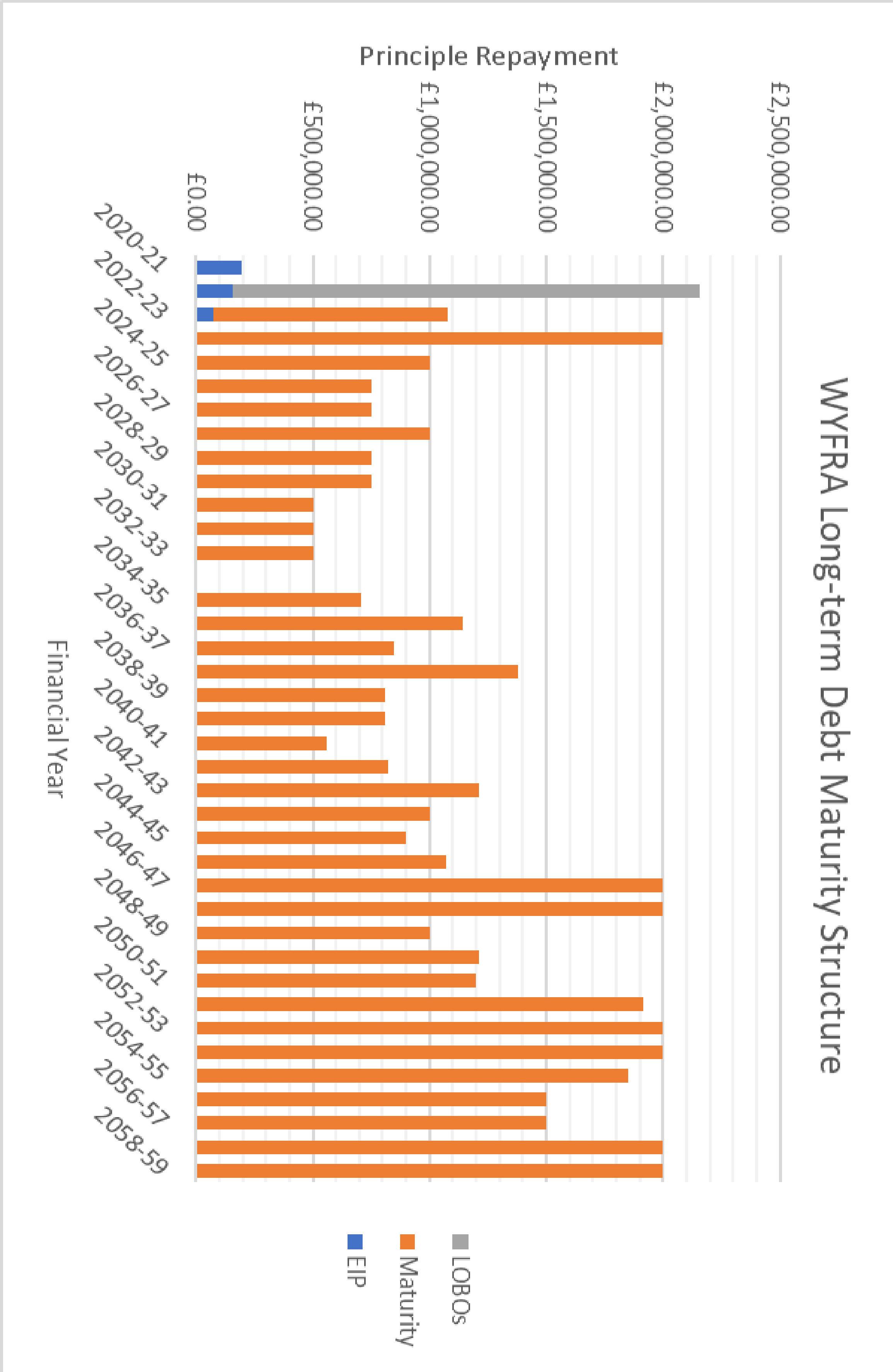
8.1 This report provides Members with an update on Treasury Management activity to 17 December 2020, due to the Authority not having a need to borrow externally during 2019.

Appendix A

Counterparty		Approved Strategy Limit	Approved Strategy Credit Rating*	Credit Rating September 2020	01-Apr-20			17-Dec-20		
		£m			£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment
Specified Investments										
Lancashire County Council	LA	Unlimited	-	-	5	1.00%	10 mth	-	-	-
Cherwell District Council	LA	Unlimited	-	-	4	0.88%	7 mth	-	-	-
Kingston Upon Hull City Council	LA	Unlimited	-	-	5	0.90%	6 mth	-	-	-
Leeds City Council	LA	Unlimited	-	-	-	-	-	5	0.10%	5 mth
Liverpool City Council	LA	Unlimited	-	-	-	-	-	5	0.80%	6 mth
Blackburn with Darwen Borough Council	LA	Unlimited	-	-	-	-	-	5	0.80%	6 mth
Lancashire County Council	LA	Unlimited	-	-	-	-	-	5	0.40%	364 days
Doncaster Council	LA	Unlimited	-	-	-	-	-	5	0.75%	364 days
Cherwell District Council	LA	Unlimited	-	-	-	-	-	5	0.45%	364 days
DMO	Gov't	Unlimited	-	AA-	-	-	-	0.595	0.01%	2 mth
Lloyds Bank	Bank	6	AAA - A	A+	5.966	0.25%	32 day notice	0.012	0.05%	32 day notice
Santander UK	Bank	6	AAA - A	A+	6	1.00%	180 day notice	6	0.30%	35 day notice
Handelsbanken UK	Bank	6	AAA - A	AA	0.001	0.64%	Instant Access	-	-	Instant Access
Handelsbanken UK	Bank	6	AAA - A	AA	0.602	0.80%	35 day notice	-	-	35 day notice
Aberdeen Standard	MMF**	6	-	AAAmmf	2.491	0.45%	MMF	5.961	0.02%	MMF
Aviva	MMF**	6	-	AAAmmf	1.603	0.45%	MMF	0.006	0.01%	MMF
Goldman Sachs	MMF**	6	-	AAAmmf	0.622	0.27%	MMF	3.51	0.01%	MMF
					31.285			**46.084**		
Sector Analysis										
Bank					12.569	40.20%		6.013	13.00%	
Local Authorities/Central Gov't					14	44.70%		30.595	66.40%	
MMF**					4.716	15.10%		9.476	20.60%	
					31.285	100.00%		**46.084**	100.00%	
Country Analysis										
MMF**					4.716	15.10%		9.476	20.60%	
UK					26.569	84.90%		36.608	79.40%	
					31.285	100.00%		**46.084**	100.00%	

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

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



WYFRA Long-term Debt Maturity Structure
Principle Repayment
£0.00
£500,000.00
£1,000,000.00
£1,500,000.00
£2,000,000.00
£2,500,000.00
2020-21
2022-23
2024-25
2026-27
2028-29
2030-31
2032-33
2034-35
2036-37
2038-39
2040-41
2042-43
2044-45
2046-47
2048-49
2050-51
2052-53
2054-55
2056-57
2058-59
Financial Year
LOBOs
Maturity
EIP

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 2020/21	Forecasted Actual 2020/21
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 2020/21	Forecasted Actual 2020/21
Under 12 months	0% - 20%	0.4%
12 months to 2 years	0% - 20%	4.8%
2 years to 5 years	0% - 60%	9.0%
5 years to 10 years	0% - 80%	8.8%
More than 10 years	20% - 100%	77.0%

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.

Procurement review - update

Finance & Resources Committee

Date: 5 February 2021

Agenda Item: 7

Submitted By: Chief Finance and Procurement Officer

Purpose To provide Members an update on the benefits achieved due to the Procurement Review

Recommendations That Members note the report

Summary This report provides an update for Members on the benefits achieved since implementing the Procurement Review recommendations.

Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: None

Annexes:

Appendix A - Customer Feedback

Local Government Association Peer Review

1 Introduction

1.1 The Local Government Association (LGA) peer review of procurement within WYFRS was carried out in September 2018 and the report presented to Executive Committee on the 4th December 2018 included a number of recommendations.

1.2 The Interim Procurement Manager recruited took responsibility for implementing the key recommendations from the review and was in post from Jan 2019 to April 2020.

2 Information

2.1 One of the recommendations of the Procurement Review was to recruit a permanent Procurement Manager to lead the Procurement Team. Kim Larter was recruited and commenced in post on 10th February 2020. This dedicated resource provides leadership for the Procurement Team with substantial procurement expertise, knowledge and experience to facilitate promotion and awareness of procurement across the organisation whilst increasing compliance with Procurement Regulations and internal Contract Procedure Rules (CPR).

A second Category Management Officer dedicated to Property Management Unit (PMU) procurement was undertaken and Stephen Whitaker was recruited and commenced post on 12th July 2020 (slightly delayed due to COVID-19).

The paragraphs below detail the main benefits of implementing the recommendations of the procurement improvement programme to date:

2.2 Procurement presence and leadership

2.2.1 - The Authority appointed an experienced Member of the Chartered Institute of Procurement and Supply (MCIPS) in February who is establishing improved procurement presence and leadership within WYFRS.

2.2.2 - There is now a concentrated focus on effective leadership of the Procurement Team, improving knowledge and skills to facilitate enhanced service provision to internal customers in all matters relating to procurement with increased resource, both in terms of capacity and capability.

2.2.3 - Regular and effective communication with all department heads has been quickly established and is ongoing with dedicated help and support now provided to ensure compliant procurement practise is undertaken.

2.2.4 - The Procurement Manager has refreshed the Procurement SharePoint page to provide practical and useful information, resources and documentation to allow the organisation to easily locate information and data.

2.2.5 - The Procurement Manager has also established good working relationships with regional partner Fire and Rescue Services (FRS's) and with the National Fire Chiefs Council (NFCC) Procurement Hub, promoting and participating in collaborative and joint working projects.

2.3 Robust and compliant procedures and standards

2.3.1 - Further review of WYFRS General Terms and Conditions of Contract has been undertaken and enhancements have been implemented with standard Contract templates now in place allowing for appropriate and relevant formal Contracts to be included in tender documentation and signed/approved at Contract award stage. This has also included specialist Contract templates for PMU (Property Management Unit), ensuring appropriate industry standards and requirements are adhered to for Construction and Facilities Management procurement projects.

2.3.2 - An updated Procurement Approval Document (PAD) has been introduced and is now being widely utilised which allows for comprehensive tracking of a procurement project from start to finish including the appropriate approval stages i.e. for all procurement projects with a contract value above £75,000 countersignature by a Board member is required for approval to proceed the procurement process and subsequently award a Contract.

2.3.3 - Mandatory Transparency requirements, as mandated by the Cabinet Office, are now being observed with the Contacts Register regularly published on the WYFRS website each quarter.

2.3.4 - Further improvements to updated procedures, standards and guidance documents are now published on the Procurement SharePoint page. These include template procurement documents and guidance documents to allow procedures to be compliantly and consistently applied. Checklists as a reference guide are also available to assist internal customers to ensure they have applied the correct process, completed the appropriate documentation and obtained all necessary approvals.

2.3.5 - A series of targeted procurement workshops have been delivered to increase basic procurement knowledge which will continue during 2021 with follow up sessions planned, tailored to each department to fill specific capability gaps and concentrate on improving the knowledge and application of compliant procurement processes.

2.3.6 - An improved and updated Contracts Register is now in place with over 420 contract arrangements listed (226 in March 2020) with an annual value of £12.1m (£8m in March 2020). Regular review and analysis of the data is now undertaken with a focus on commencing procurement projects as early as possible to ensure contingency is built in to avoid ‘last-minute’ projects being rushed and not allowing sufficient time to review requirements and ensure contracts are appropriate. Examples include the current Heating Servicing and Maintenance Contract which will be renewed with an option to purchase new boilers as part of the Contract (currently a separate procurement process is required), early renewal of the Cleaning Contract whereby savings and efficiencies have been identified (i.e. the current contract is very expensive and efficiencies can be made by reducing the remit of the current excessive services provided e.g. daily hoovering of low volume areas, daily cleaning of desks, removal of waste bins at each desk etc.).

2.3.7 - A Procurement Delivery Plan is now implemented to effectively manage workload and resource allocation within the Procurement Team, assigning projects to staff accordingly (increased flexibility of resource allocated to internal customers) and allowing the team to efficiently manage customer requirements and expectations and ensure compliant contracts are implemented and value for money is achieved.

2.3.9 - Changes to CPR were formally agreed by Committee in December 2020 to allow for mandatory publication to Contracts Finder (mandated by the Cabinet Office for all procurement projects with a contract value above £25,000), amended procurement processes implemented to prevent the poor practice of consistently inviting the same suppliers to submit a quote or tender response, provision of more stringent control measures in terms of openness, fairness of opportunity, transparency and involvement of the Procurement Team in all procurement projects with a value above £25,000 will ensure:

- continuous improvement in terms of enhanced procurement knowledge and best practise;
- consideration of social value as a mandatory requirement in all procurement projects;
- increased compliance to CPR;
- best value is achieved.
- use of standard template documentation introduced.

2.3.10 – A departmental Improvement Plan was introduced in March 2020 which is reviewed weekly by the Chief Finance and Procurement Officer and Procurement Manager. This document tracks and monitors progress of strategic departmental objectives and includes (but is not limited to) elements such as implementation of procurement KPI's and the relevant reporting structure required for various Committee meetings, implementation and reporting of accurate spend analysis, increased participation in collaborative (regional and national) procurement projects and a structured review of processes, systems and category management strategies.

2.4 Improved focus from transactional purchasing to best value procurement

2.4.1 - Stock management is now fully transferred to the Stores department with the Procurement Manager assisting with a review of the Stores and stock contracts. This will enable more formal contractual arrangements to be implemented and contract managed.

2.4.2 - Implementation of Purchasing Cards for expenditure below £250 has been rolled out and is regularly reviewed with the Finance Department.

2.4.3 - Roll-out of training for support departments to raise their own purchase orders in the OPEX system is ongoing with over 42 people now trained and actively using the OPEX system. Regular refresher training is underway with a comprehensive suite of self-service manuals readily available on the Procurement SharePoint page. This allows procurement staff to better focus on delivering formal and longer-term compliant contractual arrangements to be implemented and is eliminating the 'bottleneck' that used to exist when the Procurement Team were relied upon to raise all orders within OPEX. The large backlog that used to exist is now cleared.

2.4.4 - The increased use of Framework Agreements as a route to market is proving beneficial as timescales for the procurement process are lessened. Examples include the recent procurement process to contract an Insurance Broker (saving £6,500 per annum on the actual Brokerage Services and £7,000 cost as part of the SLA with Kirklees Council), use of the YPO (Yorkshire Purchasing Organisation) Insurance arrangement for Fleet insurance provision (saving £50,000 per annum on car insurance) and use of the CCS (Crown Commercial Services) arrangement for VOIP (Voice over Internet Protocol) which has saved £175,000 per annum.

2.4.5 - Social value and life cycle costing is now a mandatory consideration in all procurement projects. Applying appropriate award criteria to ensure these elements are evaluated as part of the procurement process supports the requirement to achieve best value.

2.4.6 - Thirty new contractual arrangements have been compliantly procured and implemented since March 2020.

2.5 Optimise procurement Processes and Systems.

2.5.1 - The integration project between OPEX (purchasing and stock control) and SAP ERP (financial management and invoice payments) is nearing completion with some final outstanding issues currently being resolved. Final further minor developments within OPEX are currently being undertaken which will further enhance the functional capability of the system further streamlining the process and increasing reporting functionality.

2.5.2 - “Self-service” in OPEX is enabling requisitions for stock items to be routed directly to Stores and is working well. Stock control is now much improved with daily re-order reporting allowing for orders to be raised prior to stock running out via the introduction of min re-order levels. Non-stock requisitions are routed directly to the Procurement Team for sourcing, eliminating paper requisitions, avoiding multiple authorisations and removing the pre-existing process bottlenecks that used to exist.

2.5.3 - A new e-procurement system has been compliantly procured and implemented (saving £7,500 per annum). Training is being undertaken to allow internal customers to utilise the system for any Request for Quotation (RFQ) processes with all formal tender processes above £25,000 being managed within the e-procurement system by the Procurement Department.

2.5.4 - Work is underway to implement an improved on-line version of the Contracts Register allowing for automatic e-mail alerts to be sent to the contract owner alerting them that the review date is active and work needs to be undertaken to commence the required procurement process and the ability to allow more than one person at a time to be active in the Register (updating process).

2.5.5 - The Procurement Department now utilise Creditsafe as a tool to record and report supplier credit ratings. This facility allows for a credit report to be saved as part of due diligence check at the point of contract award and an automatic system alert is e-mailed when any changes to the credit report occur providing increased vision of supplier’s financial standing as part of ongoing contract management.

2.6 Collaborative and Joint Working

2.6.1 - Participation with the NFCC national procurement programme provision of data – Contracts Register and planned procurement projects for the next 3-5 years is now occurring. During COVID-19 the Procurement Manager liaised closely with the NFCC Procurement Hub in regard to national arrangements for PPE.

2.6.2 - Joint working with Humberside and South Yorkshire FRS’s has resulted in regional contracts being awarded for Fire Kit provision and Laundry Inspection & Repair Services. The Procurement Manager has drafted a regional set of Terms and Conditions (reviewed by WYFRS legal) to be used for regional procurement projects so that despite who leads a regional project, all partners are confident that the contractual obligations are consistent and appropriate risk management is facilitated.

2.7 Manage customer relationships and engage with internal/external audit

2.7.1 - Departments have openly welcomed the improvements being made with clearly defined procurement roles now documented and well understood. Feedback from some internal customers is provided in Appendix A. The Procurement Manager regularly meets with teams and individuals to discuss procurement plans and to provide advice and support. The improved suite of procurement templates and guidance available facilitates consistency and adherence to CPR.

2.7.2 - The Procurement Manager has liaised effectively with both internal and external audit providing timely information.

3 Financial Implications

3.1 Savings and Efficiencies

Successful introduction of a savings register now allows for accurate annual and Contract term tracking and reporting of procurement savings and efficiencies year on year (for both one-off procurement projects and longer-term contractual arrangements). The latest savings register summary 2020-21 is below. These savings cover both capital and revenue expenditure.

Date	Department	Commodity description	Procurement Route	Length of Contract (years)	Capital or Revenue	2020/2021 Annual Saving (£)
Feb-20	ICT	Mobile phones	Framework	3	Capital	£60,000
Feb-20	ICT	VOIP	Framework	5	Capital	£175,000
Feb-20	Property	Tanks and Drainage	Tender	5	Capital	£1,750
Mar-20	ICT	Multimedia Storage and Management Solution	Tender	5	Capital	£3,000
Apr-20	Transport	Car Insurance	Tender	5	Revenue	£50,000
Apr-20	Procurement	Creditsafe Account opened	N/A	2	Revenue	£250
Jul-20	Procurement	Renewal of E-Sourcing System	Quotation	4	Revenue	£7,500
Oct-20	ICT	VOIP (additional charges rejected)	N/A	1	Capital	£27,000
Dec-20	Procurement	Insurance Brokerage	Mini Comp	5	Revenue	£6,500
				Total Annual Savings 2020-21		**£331,000**

As annual Contract savings are recorded the table below provides the annual savings total already identified for the next 3 years.

Annual Savings for future 3 years	
2021-2022	£312,000
2022-2023	£251,000
2023-2024	£243,000

4 Human Resource and Diversity Implications

4.1 There are no immediate plans to increase the number of staff in the Procurement Team.

5 Health, Safety and Wellbeing implications

5.1 Ongoing health and well-being are being actively managed by the Procurement Manager due to COVID-19. No adverse implications to date.

6 Environmental implications

6.1 The interconnection of purchasing and financial systems has significantly reduced the volume of paper transactions.

6.2 All procurement projects now consider sustainable procurement and environmental implications both for WYFRS in terms of the goods and services being provided and how the supplier being contracted manages environmental implications within their organisation.

7 Your Fire and Rescue Service Priorities

7.1 The procurement review and improvement plan supports the fire and rescue service priorities:

- Promote the health, safety and well-being of all employees
- Provide training & development to maintain a skilled and flexible workforce
- Provide buildings, vehicles, equipment and technology that is fit for purpose to maximise organisational effectiveness
- Demonstrate transparent and accountable decision making throughout the organisation
- Identify and implement strategic change to reflect the economic environment

8 Conclusions

8.1 The Procurement Improvement Programme is ongoing and continues to deliver benefits to WYFRS.

Appendix A

Customer Feedback – Procurement Department

Transport and logistics Manager – Glynn Richardson

1. Presence of a qualified, highly skilled Procurement Manager is invaluable to Transport & Logistics. We have a much better understanding of CPR and significant steps have been made to improving contracts.
2. Significant reduction of risk to the Authority from poorly drafted and sourced contracts, using correct methods for procurement in recognised frameworks and correct use of exemption requests – applied to newly transferred responsibility for the Ops Store which was lacking in formal contracts for procurement of goods.
3. Probably the most valuable for Transport is to have someone to help with advice, which ranges from a quick 5-minute chat for confirmation and guidance, through to more detailed assistance for complex procurements.
4. Ease of getting goods from the market – Procurement Manager has been able to make the process of finding compliant goods and services so much quicker based on experience of frameworks and use of existing contacts.
5. Ways of working between procurement and T&L greatly enhanced with shared office space – this relationship continues to evolve despite covid restrictions, making everyday procurement quicker, easier and better value to the Authority.

ICT Service Delivery Manager – Gayle Seekins

1. The introduction of a qualified procurement team has been extremely positive in my opinion and something we have been lacking for many years.
2. We can now be assured that we are doing procurement in the right way and doing our best to achieve best value. It has also provides much greater clarity around roles and responsibilities for procurement and approval levels.
3. The procurement documents are much easier to understand and use and I believe that the future planned training for those involved in procurement which will be of great value.
4. There may be some further streamlining that could be done to reduce cross-department duplication. We have the planning cycle each year that starts the process that then leads to capital / revenue bids which go to star chamber and then to project management which then feeds the procurement process. Perhaps a future phase could look at the documents in each of these steps and see how it could be streamlined?
5. The contracts register is a big improvement and means we can keep on top of our contracts more easily but there may be a better technical solution for this that makes it even easier. Something to review when time permits? I think there is still some disconnect between departments, procurement and finance around contracts and maybe as part of a look at the contracts register, finance could be involved to see if it can be extended to meet their needs too? This would reduce the amount of time finance spend chasing departments about annual costs etc.
6. The changes to OPEX have been difficult for ICT. The changes went live when we were in lockdown dealing with connectivity problems and issuing kit. We did ask for a delay but it went ahead and we are still trying to sort the problems that this has caused us. Some issues were of our own making due to inefficient legacy processes but our capacity to deal with them when they occurred put a lot of strain on some parts of the department. I understand that the changes needed to happen and that it will streamline things going forwards, it was more of a timing issue.
7. Overall, I think the procurement review has been a resounding success and should be celebrated.

Procurement Peer Challenge

West Yorkshire Fire and Rescue Service

26th – 28th September 2018

Feedback Report

1. Introduction

West Yorkshire Fire and Rescue Service (WYFRS) approached the LGA to help to evaluate and improve its procurement function. A peer team was on site 25th – 28th September 2018. WYFRS is fully aware that its procurement function needed improvement but did not have the expertise in house to rectify it. As a result, it sought advice from the FRS sector to learn how to address any identified problems. This approach is to be commended.

This report provides a summary of the peer team's findings, building on the feedback presentation provided by the peer team at the end of the on-site visit (28th September 2018). It then focuses on the recommendations, and quick wins as requested. Reference to 'Procurement' and 'Purchasing' is made throughout this report. For the purposes of this report the Peer Challenge team regard 'Procurement' as a strategic function and 'Purchasing' as a tactical, process-orientated function.

In presenting its feedback, the team have done so as fellow local government and fire service officers, not professional consultants or inspectors. By its nature, the peer challenge is a snapshot in time. Some of the feedback may be about things you are already addressing and progressing.

1.1 The peer challenge process

Peer challenges are improvement-focussed and tailored to meet individual organisations' needs. They are designed to complement and add value to an organisation's own performance and improvement. They are delivered by experienced officer and elected member peers from other organisations. The peer team used their experience and knowledge of local government and fire procurement to reflect on the information presented to them by people they met, things they saw and material that they read.

The peer team prepared for the peer challenge by reviewing a range of documents and information to ensure they were familiar with the WYFRS and the challenges it is facing. The team then spent three days onsite at WYFRS, during which they:

- Spoke to more than 70 people: a range of staff including watches on stations and various focus groups at headquarters, plus feedback from other Services.
- Gathered information and views from more than 15 meetings, including station visits plus additional research and reading.
- Collectively spent more than 260 hours to determine their findings; the equivalent of one person spending more than 6 weeks in WYFRS

1.2 The peer team

The make-up of the peer team reflected your requirements and the focus of the peer challenge. Peers were selected because of their relevant experience and expertise and the team was agreed with you. The team that delivered the peer challenge at WYFRS were:

- Tina Butler MCIPS, Head of Commercial and Procurement, Kent Fire and Rescue Service

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- Luke Malton MCIPS, National Procurement/PMO Lead, Fire Commercial Transformation Programme and Corporate Procurement Manager, Devon and Somerset Fire and Rescue Service
- Jacky Perkins MCIPS, Senior Contracts Manager, West Midlands Fire Service
- Tina Holland MCIPS, Programme Manager, Local Government Association
- Becca Singh, Peer Challenge Manager, Local Government Association

1.3 Scope and focus

This was agreed with between the LGA and WYFRS and was as follows:
Review Procurement Strategy:

- Measuring effectiveness of procurement
- Links to strategic plans and intent
- Support to operational Delivery
- Vision

Review Procurement Processes

- Range and use of processes
- Value for money and benchmarking
- Contract management
- Standards, specifications and supplier selection
- Use of customer insight

Managing Procurement:

- Capability
- Capacity
- Devolved or centralised
- Level of compliance with standing orders

Working with others:

- Links with other public-sector organisations
- Identify partnership opportunities
- Consider collaborative working

Procurement is essentially the overarching or umbrella term within which the purchasing process can be found (see Appendix 2). The procurement cycle includes building supplier relationships before letting a contract, market testing, and contract management. All stages are important, to ensure that WYFRS:

- get the best value from their suppliers
- are compliant with public contract regulations
- can encourage suppliers to innovate
- ensure continuity of supply.

Getting procurement right can transform an organisation. Procurement could be a strategic tool to help WYFRS deliver its corporate objectives for example in the Integrated Risk Management Plan (IRMP).

The team gave feedback on these areas, focusing on actions to take to move WYFRS forward. In addition, the team shared the information and examples about the wider role of procurement, which includes pre-contract relationships, contract management, and pre-procurement market sounding. The team also looked at, and shared with

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WYFRS, the regulations regarding procurement and the opportunities afforded by procurement beyond purchasing of goods and supplies.

2. Executive Summary

The Procurement team is located within the Finance Department and focuses on the purchasing process. The wider procurement functions are currently carried out across a range of teams, with varying degrees of knowledge and experience. The understanding and interpretation of financial standing orders is not to a high standard across the organisation. There is currently no qualified procurement specialist within the Service, and no strategic procurement processes.

Goods and services are procured across the following departments, although the list is not exhaustive:

- Finance and Procurement
- Supplies
- ICT
- Property
- Transport
- Operations
- Training

The procurement team moved some years ago from the Supplies section to the Finance Department to centralise the payment of all invoices. The team supports and enables the delivery of goods for operational purposes. However, there is now little direct link between the procurement of goods and the supplying of them to the internal customer. For example, the Supplies section sits within the Service Support Directorate with no direct link to the procurement of items and yet the Procurement Team is responsible for managing stock quantities.

WYFRS's approach to procurement appears to be a transactional purchasing process rather than part of a wider commissioning approach that can make savings and drive innovation and improvement. Staff should be encouraged to start with the outcomes they want and use procurement expertise to help select in a compliant manner the right third-party provider to deliver the requirements.

WYFRS is willing to listen to suggestions and recommendations of how to improve its procurement function. Many staff know that the current situation is not ideal but are unaware of how to improve it. Staff acknowledge the importance of WYFRS having a clear vision for strategic procurement at WYFRS and valued the LGA peer challenge's help in addressing this.

The team feels the Service would benefit from securing the service of professionally qualified procurement officers to avoid the risk of inadvertently failing to comply with legal requirements (Public Contracts Regulations 2015).

Procurement systems and processes could be more efficient. One example is the, duplication of maintaining paper (314s) as well as electronic processes and records.

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Another is authorisation procedures. There would be value in the service reviewing and rationalising how it undertakes these.

There are pockets of good practice, such as the transport department considering whole life costs of an asset prior to purchase and the training department benchmarking different training suppliers. However, in general, WYFRS deploys procurement as a disparate and an operational tool. The opportunity for the service is to use procurement as a strategic and transformational tool that can help the Service be more efficient and innovative.

3. Risks

WYFRS needs to swiftly address how it approaches managing its procurement risks as not doing this effectively could have serious consequences.

The Service's current procurement Standing Orders need to be updated in line with current legislation to ensure WYFRS is not at risk of legal challenge. It is imperative that this is resolved quickly. If WYFRS is challenged, Fire Authority members, as well as officers, may face significant consequences as they are ultimately responsible for the actions of the Service. Examples of regulations where WYFRS appears to be non-compliant with current Public Contract Regulations (PCR 2015):

- Must publish contract opportunities and awards above £25,000 on Contracts Finder (regulation 110)
- Must not shortlist (carry out PQQ) below EU Threshold (r 111)
- Should try to anticipate future requirements of the same goods/service to calculate contract value (r 6)

The lack of procurement expertise within the Service means that processes are not standardised, and procurement does not effectively align with the Service's strategic intent. This undermines WYFRS's ability to collaborate effectively or be sure it is as efficient as it might be in providing value for money. Aside from the risk of non-compliance, WYFRS' standard terms and conditions would not give adequate protection if things go wrong with a contract. The team found insufficient evidence of robust contract management or performance monitoring of suppliers.

Technical expertise in WYFRS's procurement work is a priority. Currently the service's lack of expertise means that officers do not recognise that receiving single bids for a tender could be evidence of 'bid-rigging' where suppliers are colluding. There is a particular risk of this when using 'select lists'. The team saw no evidence of collusion but it is important that recognise the risk that this could happen.

There is a heavy reliance on one, non-qualified, member of staff for procurement advice. This means that there is a single point of failure. If that individual leaves, or is not available, or due to other work commitments is unable to keep up to date with changes in legislation, this places the Service at further risk of non-compliance, and of mistakes being made. This gives further reason for WYFRS to swiftly secure the technical expertise required

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4. Feedback

4.1 Reviewing the strategy

Including measuring the effectiveness, links to strategic plans and intent, and support to Operational Delivery.

There is no clear vision for procurement within WYFRS, nor any qualified specialist to lead on strategic procurement. WYFRS' understanding of procurement has been largely about transactional purchasing rather than the strategic elements of procurement (Appendix 2). This has led to the Service acting tactically not strategically. The strategy would benefit from revision by a suitably qualified person. It should align with current and future corporate objectives, for example in the IRMP. Some staff understand strategic procurement in their own department, but this is patchy and not co-ordinated.

WFRS should consider deploying more resources to in building supplier relationships. Identifying its critical and non-critical suppliers and will help the Service better prioritise this work. The approach for managing the supplier relationship will vary depending on the contract type and markets within which the supplier operates. However, it will deliver quantifiable benefits for both parties throughout the life of the contract if undertaken appropriately. There are some examples in WYFRS where individuals have done this and the next phase of development for the service is to utilise such practice in developing and embedding a service-wide, corporate approach to strategic performance management of suppliers.

There is currently little opportunity to use procurement to challenge, innovate and explore different options. The team would encourage the service to consider the procurement needs of the Service as a whole and do so without being constrained by current structures, systems and personnel. Altering procurement systems requires a change management process as habits and behaviours need to be different. The opportunity here is for WYFRS to better understand the whole procurement cycle (see appendix 2) and to determine what it wants from its procurement function to deliver what the service wants and then resource appropriately.

The team would encourage the service to engage more with the national Fire Commercial Transformation Programme (FCTP). This programme would help to upskill staff within the service, as they would gain useful insight and build skills and experience by becoming involved with project teams delivering national initiatives. The knowledge and skills gained through involvement in national projects can be used as continual professional development within the procurement function at WYFRS.

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4.2 Reviewing the processes

Including the range and use of processes, the use of customer insight, value for money, benchmarking, standing orders, supplier selection and contract specifications,

There is a high level of compliance with current processes such as 314s, and auditing against Standing Orders. However, Standing Orders are not always up to date and the team would encourage the service to review current arrangements.

Frameworks such as YPO and CCS are used for procurement and this has helped the organisation comply with Regulations. There was some evidence of the Service benchmarking existing routes to market. However, there is more to do in recording, quantifying and evaluating the benefits.

Multiple and duplicated processes are undermining the efficiency of WYFRS's procurement function. Paper systems (314s), Excel spreadsheets and proprietorial software could be better integrated to ensure the various systems are being used to their full potential. Maximising the use of electronic systems would help efficiency as the time and resources lost in physically transferring paper documents around the Service could be deployed elsewhere.

Electronic procurement processes are more efficient and auditable than paper ones when used appropriately. However, such systems must be resilient in order to be effective. The team heard that electronic systems in place are not always reliable which could explain why paper systems are put in place as a fall back. This has implications for capacity.

The Service's standard documents are rigid and could be better customised when needed. One such example the team observed related to unclear instructions on Invitation to Tender (ITT) documents. This could lead to lack of clarity about tender processes which could expose the service to contractual risks and disputes. The standard templates for Terms and Conditions would benefit from being reviewed so that they can be amended when needed. This would allow for greater proportionality and recognition that more complex contracts require greater protection and therefore more comprehensive contractual provision.

WYFRS's pre-market engagement is inconsistent and the Service could better understand the benefits of doing this well. Regulation 42 of PCR 2015 indicates that public sector organisations are actively encouraged to engage with the market prior to procurement. The Cabinet Office is dispelling the myths surrounding public sector engagement with industry, encouraging market contribution to help drive out unnecessary cost across the whole procurement cycle. Suppliers are used to pre-market engagement from work with other public-sector organisations, particularly central government. They can innovate for you if engaged early in the process. It also helps to reduce the risk premium built into tenders from an unprepared or sceptical market. Providing it is done well and with integrity, it saves time and money because the supplier is more capable of delivering what you specifically need and help to avoid disputes downstream. Inefficiencies affect suppliers as well as the public purse. All public bodies can and should be doing this.

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4.3 Managing procurement

Including contract management, capability, capacity, structure of procurement within the Service

WYFRS is encouraged to secure professionally qualified procurement expertise as a matter of priority. This would help to improve monitoring of its aggregated spend. In addition, the Service would better understand and implement the requirements of PCR2015 for example, not undertaking pre-qualification for contracts under the EU threshold. Overall building greater expertise and capacity will remove some of the examples of non-compliance that were shared with the team.

It was not clear to the team whether WYFRS is sufficiently aware of how well suppliers are performing with respect to the contracts they are delivering. The levels of expenditure and more robust performance information would improve the Service's ability to manage contracts and monitor performance.

There is a need for a greater clarity about functions and responsibilities in relation to ordering and purchasing. At times it does not seem clear who is accountable for which part of the process. For example, the Training Manager has overall responsibility for the training budget, but individual Station Managers or team managers appear to control how it is spent.

All public bodies are required to report details of tenders and contract awards over £25,000 through the Contracts Finder portal (PPN 02/17). The team could not find evidence that this portal is consistently being used and would encourage WYFRS to assure itself that this reporting is taking place appropriately.

4.4 Working with others

Including links with other public-sector organisations, identifying partnership opportunities, consider collaborative working

The procurement strategy expresses desire to collaborate on procurement. This is a sound strategic intent but to deliver it there needs to be clearer direction on how WYFRS seeks to collaborate and with whom. It appears that the benefits of collaborative procurement could be better understood at all levels. The team encourage senior officers to assure themselves that the strategic intent to collaborate is being delivered at practitioner level. There are limited examples across the Service of working with other blue light agencies, such as police officers using WYFRS facilities for some of their training. Within procurement, however, there is limited evidence of collaboration: a few examples of savings being achieved through joint procurement with South Yorkshire FRS.

Staff at different levels of the organisations have ideas to be more efficient through collaborative procurement but have felt unable to influence processes. For example, if three or four FRSs collaborated on procuring training, they could share the costs of hiring the trainer and run the sessions for staff from all of those Services.

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5. Recommendations and Quick Wins

There are a range of suggestions and observations within the main section of the report that inform the quick wins and practical actions. Conversations on site provided ideas and examples of practice from other organisations.

5.1 Key Recommendations:

1. **Appoint an interim, qualified, strategic Head of Procurement, separate from the Finance Team and reporting to the Chief Fire Officer**. Their role would be to:
   - consider and implement the recommendations from this report
   - establishing the remit of a centralised strategic procurement team,
   - write strategy and vision
   - revise policy
   - standing order revision
   - terms and conditions and tender templates
   - review and revise all procurement processes
   - design procurement structures, systems and processes that work for WYFRS
2. **Establish central Strategic Procurement Team**. The peers recommend that this team's role is explored and established by the proposed interim Head of Procurement but is likely to use the Category Management model. There is also merit in considering retaining a small purchasing function, to manage the transactional tail spend. WYFRS urgently needs qualified experienced procurement personnel to ensure that it is fulfilling legal obligations, getting the best value for money, and using procurement opportunities to support operational delivery, partnership working and continue to achieve efficiencies. A dedicated procurement team would free up time for other departments to spend more time in their specialist areas instead of carrying out tenders.
3. **Standing orders need to be reviewed in line with Public Contract Regulations (PCR) 2015**. There has been no audit on whether the constitution has been revised to include any legislative changes to procurement processes. This should be rectified to ensure that WYFRS is legally compliant.
4. **Conduct an external audit based on compliance with PCR 2015. The audit on** supply chain failure in Dec 2017 appears to be based on whether procurement complies with the constitution.
5. **Templates for tendering and for Terms and Conditions (Ts and Cs) should be re-drafted**. Standard templates are needed for all procurement activity that is not undertaken via framework arrangements, with scope for changing as needed for different services, goods or works, and with adequate protection for the Fire Authority. Examples are available for use from the Crown Commercial Services (see signposting).
6. **Conduct a benefits realisation review on systems that have already been implemented.** There are both electronic and paper-based systems, none of which are being used to their full potential. The team suggest that you:
   - evaluate systems and decide which to use,
   - identify and address the effects and impacts of current systems (for example the 314s)
   - use contract management software modules that you are paying for (OPEX and DELTA could do more)

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- recognise that E-tendering is fully auditable; no need for two officers to open a tender
- save stationery costs by removing duplication
- recognise that this is about change management, and that culture and behaviour also needs to be managed.

7. **Conduct a comprehensive value chain analysis on the processes**. Map processes and ask why each step is being taken. What value does each step add, or is it a statutory requirement? If neither, stop doing it.
8. **Job re-evaluation**. Use specialists in procurement and Public Contracts Regulations to write new job descriptions. Peers recommend that new job descriptions include the need for staff who are CIPs qualified or working towards this qualification.
9. **Review supplies stock and ordering**:
   - clarify where responsibilities lie for reordering goods for supplies and shift staff resource as appropriate
   - use knowledge from Stores Supervisor and staff to set minimum stock and reorder levels
   - take stationery and ICT consumables out of Stores
   - rationalise commodity items with customers by making the non-urgent items non-stock and delivered direct to customers by the supplier.
   - produce illustrated e-catalogue and move to just-in time delivery models for high volume, low value routine goods.
   - communicate and train customers in new ordering systems for standard and non-standard items
10. **Finalise the evaluation on the P-Card pilot and roll out across the Service.** The use of P Cards could reduce cost of administration for both WYFRS and the suppliers if used effectively. The pilot has demonstrated the benefits of moving to this payment mechanism
    - Involve Leeds and Wakefield in the evaluation and plans.
    - Establish appropriate parameters before the roll out to all stations
    - Clearly communicate controls and guidance to all users.
    - Use management information from the bank to help monitor spend and ensure compliance with policy.
    - Conduct spend analysis on all third party spend up to £500 across the organisation to assist with identifying other areas that could use P-Cards, not just stations.
11. **Align the Medium Term Financial Plan with the National Fire Commercial Transformation Programme plan**. This will enable identification of potential opportunities to collaborate across the Sector within each National category and maximise aggregated buying power.

5.2 Quick wins

- Appoint a fully qualified interim or temporary Procurement Manager to implement the quick wins and recommendations from this review:
- Let go of the legacy paper-based systems and maximise the technology that you are investing in:
- Revise standing orders to align with current legislation e.g. PCR 2015
- Identify your top ten critical suppliers and associated risks and manage the relationship accordingly

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- Review suppliers on Property's approved supplier list and ensure quotations/tenders are invited on a rotational basis. This will minimise Suppliers opportunity to collaborate and the possibility of bid rigging.
- Understand what WYFRS spends on minor works across all the sites and consider how this could be done more efficiently for example by one or more local SMEs on a single framework
- Review historic expenditure and aggregate demand. Award framework contracts and call off requirements when required.
- Review option of moving stores system to Transman
- Include an overview of PCR 2015 and WYFRS procurement processes in New Starters inductions.
- Review the changes South Yorkshire FRS have implemented changes to their procurement section

6. Good practice from the FRS sector

- Using the new regulations which have clarified what you can and can't do
- Pre-market or soft-market testing - valuable if done well with integrity
- Conducting initial and then quarterly finance checks on strategic suppliers' financial stability throughout the length of the contract, even on framework call-off arrangements (so as not to be reliant on the framework owner undertaking regular checks)
- Updating standing orders regularly in line with material changes to regulations
- Using standard terms and conditions for works contracts (NEC & JCT)
- Adding social value throughout the procurement process as part of the Public Services (Social Value) Act. Other fire and rescue services have committed to consider how what is proposed to be procured can improve the economic, social and environmental well-being of their communities.

7. Signposting with hyperlinks

- Guidance on public sector procurement from Crown Commercial Service (CCS): CCS introduction
- All policies and regulations affecting public sector procurement and Public Procurement Notices: CCS public sector procurement polices
- Model Contracts including short and long term form as well as ICT specific terms: Model public sector contracts
- Public Contract Regulations 2015: http://www.legislation.gov.uk/uksi/2015/102/contents/made
- Procurement Strategy: Examples from Devon & Somerset and Kent FRSs were provided separately.
- Presentation about new rules for procurement coming into force. Although written pre-GDPR implementation it informs public sector organisations about limitations, expectations and possibilities achievable through procurement: CCS presentation on changes to procurement regs
- Review of Standing Orders – South Yorkshire have conducted a recent review and are happy to share
- **Fire Commercial Transformation Programme website: https://www.nationalfirechiefs.org.uk/Procurement**

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Contents summaries:
Fire Commercial Transformation Programme (FCTP) – includes the background to FCTP, the composition of the Strategic Commercial Board (including biographies) and key programme documentation (Terms of Reference, Highlight Reports etc)
FCTP Newsletters – includes copies of the FCTP's newsletter which are issued on a quarterly (ish) basis. These are generally fairly long but provide comprehensive details of what's been achieved and what's planned within the programme.
FCTP Categories – includes details of each of the six categories of expenditure (Fleet, Operational Equipment, Clothing, Construction/FM, ICT and Professional Services). Where available Framework documentation and case studies are available within the separate category areas. There is also a high-level version of each categories strategy.
Pipelines & Procurement Opportunities – includes a link to a PDF document which provides visibility of current and planned activity within each of the categories. Also includes links to other relevant websites (Contract Finder, CCS, Emergency Services E-Procurement Portals etc)
Framework – link to an excel spreadsheet containing details of lots of frameworks available to the fire sector (we plan on improving this and building into the website moving forwards). This is currently restricted to CFOA Communities Members (must belong to an FRS).
Guidance Documents – only includes a guide on market engagement (pre-procurement) at the moment but this will grow.
Links to other Websites – links to other websites relevant to public procurement.
Contacts - document detailing contacts at all UK FRS's - restricted to CFOA Communities Members (must belong to an FRS).

- **Crown Commercial Service's Mystery Shopper**
  https://www.gov.uk/government/publications/mystery-shopper-results-2018

8. Next steps

Immediate next steps

We appreciate the senior managerial and political leadership will want to reflect on these findings and suggestions to determine how the organisation wishes to take things forward.

As part of the peer challenge process, there is an offer of further activity to support this. The LGA is well placed to provide additional support, advice and guidance on the areas for development and improvement and we would be happy to discuss this. Mark Edgell, Principal Adviser is the main contact between your Service and the Local Government Association (LGA). He can be contacted by emailing mark.edgell@local.gov.uk .

In the meantime, we are keen to continue the relationship we have formed with the Service throughout the peer challenge. We will endeavour to provide signposting to examples of practice and further information and guidance about the issues we have raised in this report to help inform ongoing consideration.

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Appendix 1: Terms of Reference and Definition (provided by WYFRS)

Terms of reference

The overarching aim of this review is to consider the current procurement provision and assess its overall effectiveness. In doing so to identify strengths, areas for development and opportunities for continuous improvement.

The specific objectives are:

- To review the existing procurement strategy, and to provide a narrative evaluation, including the appropriateness of the current procurement and tendering systems.
- To consider how the effectiveness of procurement is measured, or otherwise.
- To consider the level of compliance with existing Standing Orders.
- To consider the determination of standards, development of specifications and the selection of suppliers and to provide a narrative evaluation.
- To consider the strategic alignment of the procurement processes and consider the links to the delivery of strategic intent
- To review the range, and use, of procurement processes and to provide a narrative evaluation.
- To consider the capacity, resource and structure of, and skill sets within, the procurement team or teams, and to make recommendations where appropriate in support of service improvement
- To provide an opinion on the value for money provided by the procurement processes and to benchmark this against similar organisations
- To evaluate, and comment upon, the links between WYFRS and other public-sector organisations and identify partnership opportunities
- To identify, and consider, opportunities for collaborative working with other organisations
- To consider, and make comment upon, the provision of support to operational requirements
- To consider the mechanisms used to gain customer insight and feedback to guide future procurement
- To consider, and make comment upon, the mechanisms used to manage the Procurement Process and the Supply Base Efficiently and Effectively

Procurement – a definition to guide this review:

The act of obtaining or buying goods and services. The process includes preparation and processing of a demand as well as the end receipt and approval of payment. It often involves

(1) purchase planning,

(2) standards determination,

(3) specifications development,

(4) supplier research and selection,

(5) value analysis,

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(6) financing,

(7) price negotiation,

(8) making the purchase,

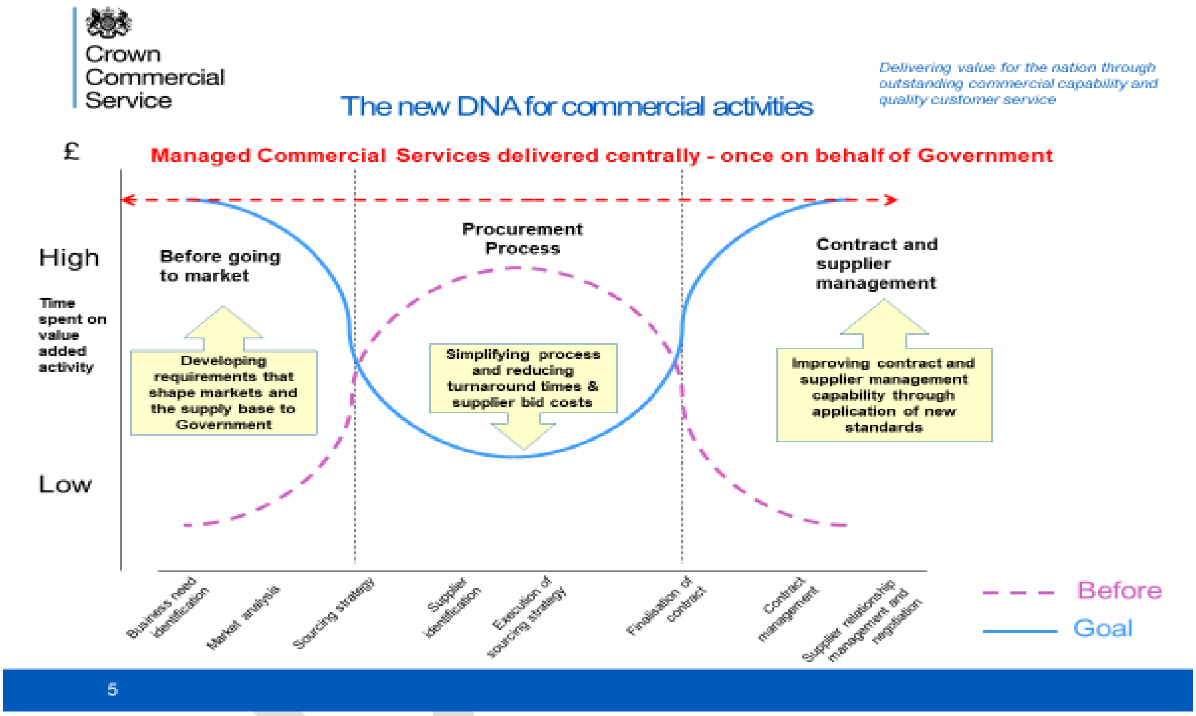
(9) supply contract administration,

(10) inventory control and stores, and

(11) disposals and other related functions.

The process of procurement is often part of a company's strategy because the ability to purchase certain materials will determine if operations will continue.

Appendix 2: Procurement DNA model



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West Yorkshire Fire & Rescue Authority

OFFICIAL

ESMCP - control room update

Finance & Resources Committee

Date: 5 February 2021

Agenda Item: 8

Submitted By: Director of Service Support

Purpose

To provide Members an update on the current West Yorkshire Fire and Rescue (WYFRS) Control room Emergency Services Network (ESN) remediation and upgrade.

Recommendations

That Members note the report.

Summary

WYFRS is an approved ESN Assurance Partner (AP). In order to meet that commitment, WYFRS are required to have an ESN capable control room. Our current Control room requires a process of remediation and upgrade to allow WYFRS to be ESN compliant. A WYFRS funding bid was submitted and agreed by the Fire Funding Programme (FFP) to release the funding to allow remediation work to begin.

Local Government (Access to information) Act 1972

Exemption Category:	None
Contact Officer:	Mat Walker, Area Manager Service Support
Background papers open to inspection:	None
Annexes:	None

1 Introduction

1.1 WYFRS were awarded assurance partner Status by the Home Office (HO) in 2020. This role provides a significant amount of funding to allow WYFRS to transition onto ESN early and receive technical support from the National ESN programme team.

1.2 As an ESN assurance partner WYFRS are required to have an ESN compliant control room. In order to achieve this a process of remediation is required to upgrade the technical architecture and hardware within the Control room.

1.3 Due to a number of factors, it has been decided that early 2021 is the optimum time to upgrade the Control room architecture and therefore a drawdown of funding is required.

2 Information

2.1 The ESN Enabling work required by WYFRS will be delivered in two phases by Systel.

2.2 Phase One is the delivery and installation of the hardware which includes new servers in preparation from the new software.

2.3 Phase Two is the installation of the operating system for the ESN START which will improve functionality and Control user experience.

2.4 There is a dependency for the Control Room ESN upgrade in that South Yorkshire Fire and Rescue Services (SYFRS) have already installed their new servers and as such this has a detrimental effect on the fall-back control arrangements between WYFRS and SYFRS. The early upgrade of WYFRS Control room will allow the robust fall-back arrangements to be reinstated.

3 Financial Implications

3.1 WYFRS Control room upgrade and Infrastructure budget provided by the Fire Funding Programme (FFP) is £412,950 which is based on a 2016/17 quote. Additional funding was required due to a £326,323 increase in quotation to a total value of £739,273. A funding submission was placed with FFP who have subsequently agreed to fund the shortfall apart from the £52,000 that is deemed ‘business as usual’.

3.2 On 20 January 2021 Management Board approved the funding of the £52,000 deficit to allow the order to be placed with Systel and allow WYFRS to be allocated the Systel teams for the identified period in Q2 2021.

4 Human Resource and Diversity Implications

None.

5 Health, Safety and Wellbeing Implications

None.

6 Environmental Implications

6.1 The modern server systems adopted in this proposal are more energy efficient and environmentally friendly than the servers currently in use.

7 Your Fire and Rescue Service Priorities

- We will reduce the risks to the communities of West Yorkshire
- We will continue to develop ways of working which improve the safety and effectiveness of our firefighters
- We will be innovative and work smarter throughout the service

8 Conclusions

8.1 The remediation work will allow WFRS to continue to be on course to fulfil its Assurance Partner commitments to participate in in both Operational Validation (testing the ESN network and functionality) and Operational Evaluation (exercising to simulate live operational use in a range of scenarios).

8.2 Funding has been secured from the FFP except for the shortfall that FFP identified as business as usual £52,000.

8.3 The shortfall was agreed by WYFRS at Management Board on 20/01/21.

8.4 This will reinstate Control's resilience and fall-back capabilities by re-aligning their system architectures.

Virement of funds - managed print solution

Finance & Resources Committee

Date: 5 February 2021

Agenda Item: **9**

Submitted By: Director of Service Support

Purpose

To request the virement of funds and approval to procure a managed print solution.

Recommendations

That Committee approve the virement and procurement of a managed print solution.

Summary

A capital scheme was included in the 20/21 capital plan to enable the procurement of a managed print solution. Following consideration of the options available, the preference is to buy the printers rather than rent them.
There is an underspend in the server storage capital scheme due to a change in the requirements as detailed in this report. The report seeks permission to vire this money into the managed print budget and for the procurement of the solution as detailed below.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer: Gayle Seekins, ICT Service Delivery Manager
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Background papers open to inspection: None

Annexes: None

1 Introduction

1.1 There are currently a range of printers across the organisation including small desktop printers and larger multifunction devices. Users will be able to print to their local printer but will need to set up alternate devices if they are working from another location to their normal base. It is also difficult for managers to manage their print budgets as any prints done on their printer would be charged to them regardless of who did the printing. The wide range of printers in use require different cartridges, some of which can be costly to replace and take time to order and arrive.

1.2 As part of the move towards more efficient and flexible ways of working, we are looking to replace the current printer estate with a managed print solution. This would utilise the existing multifunction devices that are still fit for purpose but see the removal of all the small desktop printers.

2 Information

2.1 The new managed print solution will provide a range of benefits including:

- Item will only be printed when the user presents their ID card at the printer.
- The item can be printed at any device without the user needing to have each printer set up. They simply set it to print and then go to any printer with their ID card.
- Any prints not collected will be deleted after 24 hours and no charges will be incurred.
- Printing can be performed from a West Yorkshire Fire and Rescue Service (WYFRS) issued desktop computer, laptop or mobile device
- Costs can be charged back to the user's department and not the department the printer is physically located in allowing managers to better manage their print budget.
- Replacement toners are automatically ordered by the printer when levels reach a specified limit to reduce printer downtime.
- Printers will be able to monitor themselves for faults and proactively deploy an engineer for the next business day.

The solution also provides some added value options including someone working from home being able to request print and have it delivered to their home address within 24hours.

2.2 £65,000 was put in the capital budget for this project, working on the assumption that the printers would be rented with an annual revenue cost. Following discussions with the Chief Finance and Procurement Officer, the preferred option is to buy the printers as a capital investment. In order to do this, we would like to vire the £174,000 underspend from the server storage project. This budget was underspent because it factored in capacity for media storage. This was not required due to the implementation of a dedicated media storage solution, hence the actual cost being significantly less.

2.3 The plan is to buy 45 printers for all stations and districts, repurposing the existing Toshiba printers that are still fit for purpose for use at HQ until the new site is complete at which point, new printers would be bought to suit the requirements of the new building. Some of the money will enable the purchase of printer peripherals such as finishers that can produce booklets, perforate documents and staple documents on completion of the print job. These peripherals could see a reduction in the need to use external print services for specialist printing.

2.4 There would still be an annual revenue cost for the software which will manage all of the printers and monitor usage at a cost of £30,000 per annum. Additionally, there will be a revenue cost charged per print, however, this can be accurately charged back to the departments that are requesting the prints. For example, if someone from Finance printed a document at Bradford station, it would be charged to Finance and not Bradford. This would give budget holders the ability to manage their staff's printing behaviours, reducing revenue costs. The deletion of prints not collected will also see a reduction in print costs and have a positive environmental impact.

3 Financial Implications

3.1 Included within the 2021/21 capital plan there a scheme for replacement printers totalling £65,000. The cost of the managed print solution is expected to be in the region of £240,000 and as such also requires the virement of £174,000 which is the under spend in the server project scheme. The purchase will follow the Contract Procedure Rules and will go through the tender process.

3.2 There is an additional revenue cost of £30,00 for the print management software which has been included as growth in the 2021/22 revenue budget. This will be off-set by a reduction in the cost of the current photocopying contract and the purchase of printer cartridges.

3.3 In addition, the managed print solution will mean that expenditure on replacement printer cartridges will reduce.

4 Human Resource and Diversity Implications

4.1 There are no Human Resource and Diversity implications arising.

5 Health, Safety and Wellbeing Implications

5.1 There are no health, safety and wellbeing implications arising.

6 Environmental Implications

6.1 The ability to manage printing locally and the need to physically request the print before it is produced should see a reduction in printing costs and in the use of the printers, toners and paper. The reduction in the number of printers will also see reduction in power usage.

7 Your Fire and Rescue Service Priorities

Work smarter throughout the service.

Make better use of technology and innovate where possible.

Be more efficient across all areas of the service and make savings.

8 Conclusions

8.1 The replacement of our printer estate will allow us to manage our printing costs, reduce the number of printers in use and provide greater functionality for our staff, particularly those working in varied locations.

It is therefore recommended that Committee agree the virement of the funds as detailed in this report and the procurement of the managed print service.

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Treasury Management Strategy 2021 - 22

Finance & Resources Committee

Date: 5 February 2021 | Agenda Item: **10**

Submitted By: Chief Finance and Procurement Officer

Purpose To present the Treasury Management Strategy 2021/22

Recommendations To recommend to the Full Authority the approval of the Treasury Management Strategy 2021/22 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 2021/22 – 2025/26 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

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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 2021/22 -2025/26

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 Ministry for Housing, Communities and Local Government (MHCLG) issued guidance on local authority investments in February 2018, 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 impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

2.1.2 The Bank of England (BoE) maintained the Bank Rate at 0.10% in December 2020 and the Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Quarter 4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Quarter 1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

2.1.3 UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market.

2.1.4 GDP growth rebounded by 16.0% in Quarter 3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Quarter 4 2021, 3.1% in Quarter 4 2022 and 1.6% in Quarter 4 2023.

2.1.5 The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic. Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

2.1.6 It is forecast that BoE Bank Rate will remain at 0.1% until at least the end of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading deal. The BoE extended its asset purchase programme to £895 billion in November while keeping the Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out.

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

Table 1: Interest Rate Forecasts

	Average Base Rate	20 Year PWLB Rate
2021/22	0.10%	2.55%
2022/23	0.10%	2.65%
2023/24	0.10%	2.65%

2.2 Borrowing and Investment – General Strategy for 2021/22

2.2.1 As at 31 March 2021, the Authority is expected to have £45.2 million of external debt liabilities and £30.0 million of investments.

Forecasts for CFR as at 31 March are as follows:

	2021/22 £m	**2022/23 £m**	**2023/24 £m**
CFR	56.4	63.9	68.8

2.2.1 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.

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

	2021/22 £m	**2022/23 £m**	**2023/24 £m**
CFR b/f previous year	49.5	56.4	63.9
Capital Expenditure (net of Capital	9.9	10.9	8.0

Receipts and Reserves)			
CFR Debt Financed via;			
Minimum Revenue Provision (MRP)	-3.0	-3.4	-3.1
CFR to c/f to next year	56.4	63.9	68.8

2.2.3 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 0.65%, particularly when compared to the cost of borrowing longer term loans from the PWLB.

2.2.4 The cost of borrowing has been historically low over the past decade and short-term borrowing rates remain very low. In October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt and authorities borrowing to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The PWLB launched a wide-ranging consultation on the PWLB's future direction which closed on 31 July 2020. New lending terms were announced by the PWLB on the 26 November 2020 which returned the cost of certainty borrowing rates back to the same level as October 2019. 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 2020/21 was £31.3 million.

2.2.5 The Chief Finance & Procurement Officer believes that the borrowing and investment strategy for 2021/22 must continue to place emphasis on the security of the Authority's balances.

2.2.6 As at 31 March 2021, the Authority is expected to have around £30.0 million invested externally, primarily in instant access accounts or short-term deposits, with local authorities, 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 Treasury 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 investment 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 £60 million to invest at times during the year which is 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 whilst achieving returns above that offered by the Government.

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 Debt Management Account Deposit Facility (DMADF) for up to 6 months.

- The Authority can invest in local authorities for up to 364 days.

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 December 2020.

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.

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 (“rating watch negative or credit watch negative”) 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, which indicate a long-term direction of travel rather than an imminent change of rating.

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 2021, the Authority is expected to have £45.2 million of external debt liabilities and £30.0 million of investments. Forecast changes in these sums for the next three years are shown in the balance sheet analysis below:

Balance Sheet Forecast

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
CFR	49.5	56.4	63.9	68.8
Less: External borrowing	45.2	45.0	43.9	41.9
Internal Borrowing	4.3	11.4	20.0	26.9
Investments	30.0	30.0	30.0	30.0

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 2021, the Authority will have total external borrowing and other long-term liabilities of around £45.2 million.

This is analysed as follows:

	Estimated Total debt as at 31 March 2021 **£m**	**%**
PWLB fixed loans	43.2	95.6
LOBO	2.0	4.4
TOTAL	45.2	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 2020/21. As noted earlier in paragraph 2.2.5 in October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt and authorities borrowing to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The PWLB launched a wide-ranging consultation on the PWLB’s future direction which closed on 31 July 2020. New lending terms were announced by the PWLB on the 26 November 2020 which returned the cost of certainty borrowing rates back to the same level as October 2019.

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 two 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.

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:

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.

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.

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 reported quarterly to the 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 Financing and Borrowing

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 budget 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 (MRP)

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 Treasury Management Indicators

2.7.1 The Authority is asked to approve certain treasury management indicators, the purpose of which is to contain the activity of 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 Council’s overall financial position. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The proposed indicators are set out in Appendix D.

2.8 Other Matters

2.8.1 The treasury management function is currently provided by Kirklees Council in a Service Level Agreement, with effect from the 30th June 2021, this responsibility is to transfer to the fire authority.

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

Investment Consultants

As part of the SLA the fire authority access the services of an investment consultant via Kirklees. The Council's adviser is Arlingclose Limited. The services received include:

a) Advice and guidance on relevant policies, strategies and reports.
b) Advice on investment decisions.
c) Notification of credit ratings and changes.
d) Other information on credit quality.
e) Advice on debt management decisions.
f) Accounting advice.
g) Reports on treasury performance.
h) Forecasts of interest rates and
i) Training courses.

Following the transfer of treasury management responsibility to fire in June 2021, a procurement process will be undertaken in order to appoint the authority's own investment consultants.

Investment Training

The needs of treasury management staff for training in investment management is 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. This approach currently followed under the SLA will be adopted when the fire authority has responsibility for treasury management.

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.

2.8.3 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 Human Resource and Diversity Implications

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

5 Health, Safety and Wellbeing Implications

5.1 There are no health, safety and wellbeing implications associated with this report.

6 Conclusions

6.1 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.

Specified

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at December 2020
	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	Lloyds Group
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
Banks / Building Societies (Deposit accounts, fixed term deposits)	F1	P-1	A-1	6	<100 days	Coventry BS
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-	6	<6mth	HSBC, Lloyds Group, Santander UK, Nationwide BS, Handelsbanken
MMF (3)	-	-	-	6	Instant access/ up to 2 day notice	Aberdeen Standard, Aviva, Goldman Sachs
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	Unlimited	Up to 364 days	

<u>Non-Specified (4)</u>

	Short-term Credit Ratings / Long-Term Credit Ratings			**Investment Limits per Counterparty**		**Counterparties falling into category as at December 2020**
	Fitch	**Moody's**	**S & P**	**£m**	**Period (1)**	
UK Banks / Building Societies (Fixed term deposits)	F1,F2	P-1,P-2	A-1,A-2	6	<2mth	Barclays, Leeds BS, RBS Group, Close Brothers
	Higher than BBB	Higher than Baa2	Higher than BBB			

(1) The investment period begins from 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.

APPENDIX B

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-				

Ca		CC				In default with little prospect for recovery
		C				
C		D	/	DDD	/	In default
/				DD		
/						

APPENDIX C

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

1. Background

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 Minimum Revenue Provision (MRP) with a requirement to make an amount of MRP which the authority considers "prudent".

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 2021/22

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 proposed that if any MRP/Interest budget becomes available due to for example, capital schemes being re phased, a reduction in the capital programme or the receipt of additional capital receipts, the Authority may choose to make additional MRP payments providing the financial position remains in line with the approved financial plan. In addition, any revenue budget savings identified during the year may also be used to make one off MRP payments.

3.1 It is recommended that this policy is adopted for 2021/22. 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

3.2 The proposed medium term financial plan includes budget provision to meet the MRP and interest payments based on historic and planned future capital spend. The Authority in the past has determined it can afford and sustain prudential borrowing in order to allow the required level of investment in the infrastructure and assets of the Authority to deliver a modern well equipped fire and rescue service.

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 2021/22, 2022/23 and 2023/24 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 2021/22, 2022/23 and 2023/24 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.

<u>Total principal sums invested for periods longer than 364 days</u>

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

APPENDIX E

Capital Plan 2021/22 to 2025/26

	TOTAL	2021/22	2022/23	2023/24	2024/25	2025/26
Employment Services	**£50,000**	£0	£50,000	£0	£0	£0
Fire Safety	**£2,000,000**	£400,000	£400,000	£400,000	£400,000	£400,000
ICT	**£1,729,000**	£1,195,000	£309,000	£50,000	£75,000	£100,000
IRMP	**£25,429,600**	£8,580,000	£12,849,600	£4,000,000	£0	£0
Operations	**£7,244,800**	£1,485,800	£3,944,000	£1,042,000	£689,000	£84,000
Property	**£8,650,000**	£1,450,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000
Transport	**£12,482,100**	£3,412,100	£2,218,100	£3,015,900	£2,175,900	£1,660,100
TOTAL	**£57,585,500**	**£16,522,900**	**£21,570,700**	**£10,307,900**	**£5,139,900**	**£4,044,100**
Financed by:						
Borrowing	**£31,981,500**	£6,992,900	£16,070,700	£5,133,900	£689,900	£3,094,100
Reserves	**£17,354,000**	£8,580,000	£4,550,000	£4,224,000	£0	£0
Capital Receipts	**£3,500,000**	£0	£0	£0	£3,500,000	£0
Revenue Contributions	**£4,750,000**	£950,000	£950,000	£950,000	£950,000	£950,000
TOTAL	**£57,585,500**	**£16,522,900**	**£21,570,700**	**£10,307,900**	**£5,139,900**	**£4,044,100**

West Yorkshire
Fire & Rescue Authority

OFFICIAL

Quarterly financial review

Finance & Resources Committee

Date: 5 February 2021

Agenda Item: **11**

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 content of the report
That members approve the transfer of budget to contingencies
That members approved the revised capital plan

Summary

The purpose of this report is to present an overview of the financial performance of the Authority to the end of December 2020. The report deals with revenue and capital expenditure.
An update is provided on the financial implications of Covid19.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer: Alison Wood, Chief Finance and Procurement Officer
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Background papers open to inspection: None

Annexes:

Appendix A Capital Plan Revisions

Appendix B Capital Expenditure

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. A high-level summary report is presented to Management Board on a monthly basis. 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 any budget increases/decreases that were not included within the original budget. Growth and savings included within the approved original budget which have yet to be expended or realised are included within the general contingency. There have been a number of transfers to contingencies since the last quarterly review report in October.

2.1.1 The firefighters and support staff pay award was paid in September's pay day, which was back dated to the 1st July and 1st April respectively. The cost of the pay award is held in contingencies until it is paid so that budget monitoring is not distorted. The amount transferred from the employee contingency budget is £1.044m.

The movements detailed below were from the general contingency budget;

2.1.2 Human Resources Committee on the 9th October approved the creation of a temporary project team that will research and develop a business case for the authority's future mobilising options. The cost of the team in 2020/21 is £84k.

2.1.3 The authority has automatically received business rates relief on the training centre for a number of years. Kirklees Council notified the finance team in October that this was an error on their part and that this relief should not have been applied. It has been agreed that the council will not be making a retrospective claim for previous years relief. This has had the effect of increasing the rates bill for the training centre by £72k. in 2020/21.

2.1.4 An amount is included in contingencies for grey book vacancy management, which makes provision for six additional leavers in the year over and above the retirement profile. This has been realised and the provision of £155k has duly been transferred to grey book employee budgets.

2.1.5 The effects of Covid19 have resulted in a reduction in the ability to fulfil the training bids included in the 2020/21 budget, resulting in a forecast underspend of £120k. This excludes operational training which is required to maintain operational competence.

2.1.6 There has been an overprovision in the budget for the Service Level Agreement with Bradford Council for pensions administration of £22k.

2.1.7 In October, a support staff employee was paid a severance payment of £47k for which there is no budget provision.

2.1.8 Following the detailed calculation of the ICT maintenance and support budget for 2021/22, it was identified that £73k was over budgeted in 2020/21 and will thus not be expended in this financial year. In order not to distort budget monitoring this realised underspend has been transferred to contingencies.

2.1.9 The authority has received income in 2020/21 that were not included within the original budget. The authority received £237k in Grenfell income to support the burden of implementing the recommendations from the initial stages of the inquiry. The authority has also more employee secondments than budgeted, totalling £322k. This is a result of the extension of the contracts of four secondments and one new secondee which is not included within the base budget.

The net effect of these movements from the employee and general contingencies is a reduction of £318k which is detailed in the table below:

`	Opening Balance	Transfer to/from () Contingencies	Closing Balance
	£000	£000	£000
General Contingency	2,351		
Control Project Team		-84	
Rates		-72	
Grey Book Vacancy Mangt		155	
Training		120	
Pensions SLA		22	
Support Staff		-47	
ICT Maintenance		73	
Grant Income		237	
Secondment income		322	
		726	3,077
Employee Contingency	1,430		
Grey Book Pay Award		-768	
Support Staff Pay Award		-276	
		-1,044	386
TOTAL CONTINGENCIES	3,781	-318	3,463

3. Expenditure Monitoring

3.1 This report is based on expenditure to the end of December 2020 and includes nine salary payments for 2020/21. 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 £214k in the current financial year.

3.2 An improved budget monitoring report for managers was introduced in 2018/19 which highlights those areas of concern using a Red, Amber, Green (RAG) rating. For those budgets that are forecast to overspend or under spend a red "cross" will be inserted against the budget line and for those within 5% of budget, an amber mark will be inserted. For those budgets where there is either a red or amber indicator, the budget holder will be required to provide an explanation as to the reason for the projected overspend. This has brought increased accountability to budget holders and is reported to Management Board on a monthly basis.

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

	Revenue Budget	Forecast	Variance
	£000	£000	£000
Employees			
Wholetime	48,332	48,226	-106
Retained	2,305	2,286	-19
Control	2,083	2,034	-49
Support Staff	10,322	10,326	4
Pensions	2,000	2,000	0
Training	685	658	-27
Other Employee	461	429	-32
TOTAL	66,188	65,959	-229
Premises	4,778	4,782	4
Transport	2,258	2,226	-32
Supplies and Services	5,504	5,512	8
Contingency - General	3,077	3,077	0
Contingency - Employees	386	386	0
Support Services	326	334	8
Capital Charges	8,150	8,150	0
Income	-3,044	-3,017	27
Net Expenditure	87,623	87,409	-214

An explanation of the major variances per expenditure category are explained below:

3.4 **Employees** **-£229,000**

Whole time Fire Fighters -£106,000

There is currently a forecast underspending of £106k in whole time fire fighter employee budgets. This is due to the variation in the retirement dates from those included in the budget, in 2020/21 seven fire fighters have retired earlier than their expected retirement date and three fire fighters have remained in employment after their retirement date.

Retained Fire Fighters **-**£19,000

There is a forecast underspend of £19k on retained employees. Due to the seasonal nature of retained expenditure this underspend can change during the course of the year. This will be monitored closely and profiles amended accordingly if required.

Control Staff -£49,000

The under spend in control is primarily due to staff vacancies.

Training -£27,000

Although £150k has been transferred to contingencies, there is still remains a projected underspend on training courses. The projected underspend is due to the impact of Covid19 and the ability of staff to attend external training courses. Although some training is been delivered on line, there is still a backlog in training that was forecast to be delivered when the budget was set in December.

Other Employee Expenses -£32,000

The forecast underspend is a combination of savings on relocation expenses, specialist and medical fees and the payment of professional subscriptions.

3.5 **Transport** **-£32,000**

The underspend of £32,000 is due to a reduction in expenditure on vehicle fuel which has been affected by a combination of lower fuel prices earlier in the year and a reduction in activity.

3.6 **Income** **£27,000**

The Government has introduced as part of its financial support to Local Authorities during the pandemic an option to claim back the majority of income lost that is directly attributable to Covid19. This is explained in more detail in the section on Covid19.

The projected under achievement of income is due the effects of Covid19 that is not eligible to be claimed under the government support scheme. For example, a reduction in special services and lift rescues which is due to a lack of demand and not directly attributable to the impact of Covid19.

Any under recovery of income will be assessed at the end of the financial year and an equivalent amount will be transferred from the Covid19 grant to fund this loss.

4. Impact on Revenue Balances

4.1 The projected under spending will have the effect of increasing usable reserves which is detailed in the table below:

Description	Usable Reserves £000
Opening Balance 1/4/20	
General Fund	5,000
Earmarked Reserves	29,668
less budgeted use of reserves in 2020/21	-2,000
Impact of forecast	214
Forecast Usable Reserves at 31/3/2021	**32,882**

5. Covid 19 Pandemic Financial Update

5.1 As reported at July Finance and Resources Committee, West Yorkshire has received a total of £2.171m in Covid19 grant funding, this is held in a separate earmarked reserve. The table below details the amount spent against this grant and forecast balance.

	Actual £000's	Forecast £000's
Grant	-£2,171	-£2,171
Expenditure in 2019/20	£35	
Overtime Covid 19	£263	£350
Overtime Backfill	£0	£200
Leave Buy Back	£62	£100
Cleaning	£69	£100
PPE	£166	£180
ICT	£136	£170
Extension to Leases	£17	£17
Media	£35	£15
Reduction in income	£27	£27
Total Expenditure	£810	£1,159
Grant Remaining	**-£1,361**	**-£1,012**

5.2 The authority has received £2.171m of Covid19 grant of which £1.012m is forecast to be spent in this financial year. The majority of this expenditure is for overtime to cover staff that are either off sick or isolating due to Covid19. In addition, it is expected that the authority will have to pay overtime to cover leave that was cancelled during the first quarter of 2020/21. The remaining grant will be carried forward to 2021/22, where it will be earmarked to support the budget for 2021/22.

5.3 The government introduced an income loss scheme in August for irrecoverable losses in sales, fees and charges as a result of Covid19. The scheme will involve a 5% deductible rate, whereby authorities will absorb losses up to 5% of their planned sales, fees and charges income with government compensating 75p in every £1 of relevant income lost thereafter. A claim was submitted in October which resulted in a reimbursement of £23k from the government. A further claim has been made in December in line with MHCLG guidance for the income lost for Youth Training and False Alarm Calls. The former has been affected due to the suspension of training and the latter due to a change in charging policy.

5.4 As explained in section 3.6, there are some reductions in income that fall outside the income loss scheme which are attributable to a reduction in activity such as special services and lift rescues, these are estimated to be in the region of £27k.

6. Capital Expenditure Monitoring

6.1 Introduction

6.1.1 At its meeting on 21 February 2020 the Authority approved a five-year capital programme of £25.074m which included schemes to the value of £6.581m for the current financial year.

Revised capital plan 2020/21

6.1.2 As reported at Finance and Resources Committee in July and October, the Covid19 pandemic has affected the delivery of some schemes in the delivery of the 2020/21 capital plan. In October, members approved a £1.654m reduction in the capital plan and a further reduction of £2.605m has been identified by capital scheme managers which will not be expended in 2020/21. These are detailed in Appendix A and require member approval to slip these into 2021/22.

6.1.3 As with revenue budget monitoring a RAG rating system has been introduced to capital budget monitoring which will improve accountability of capital scheme managers

6.1.4 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. Details of these virements are included in the table in 5.4.2.

6.2 Capital Payments 2020/21

6.2.1 The actual capital payments to date total £3.190m, which represents 39.3% of the revised capital plan. If commitments are included in this, the actual expenditure to date is £4.69m, which equates to 57.9% of the capital plan.

6.2.2 Due to the procurement process for capital schemes, a large proportion of capital expenditure occurs in the latter part of the financial year.

6.2.3 A summary of the capital plan including slipped schemes is attached to this report in Appendix B, which shows details of expenditure on each individual scheme. This includes the revisions and approvals explained in sections 6.1.2 and 6.3.2.

6.3 Approvals under financial procedure 3.11

6.3.1 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.

6.3.2 Since the last Finance and Resources Committee in October, the Management Board have approved schemes totalling £91k and these are detailed in the table below:

Schemes Approved by Management Board

Date	Directorate	Scheme	Approval	Virement
November	Service Support	Halifax Tarmac		£17,000
	Service Support	Facility Upgrades		-£17,000
November	Service Delivery	Gas Tight suits	£10,000	
	Service Delivery	Lay flat hose	£50,000	
	Service Delivery	Water Rescue Equipment	£10,000	
December	Employment Services	PPE Racking and Storage Unit		
	Employment Services	OHU Medical System	£21,000	
	Employment Services	OHU Medical System		£4,000
	Employment Services	HR & Rostering		-£4,000
			£91,000	**£0**

6.4 **Capital Receipts**

There have been no capital receipts received in this financial year.

7. Treasury Management

7.1 The Authority approved its Treasury Management Strategy on the 21st February 2020 in accordance with the CIPFA Code of Practice on Treasury Management.

7.2 In the current financial year, the Authority is continuing to benefit from a positive cash flow through the early payment of Government grant and revenue balances which has meant that no new long term borrowing has been required for the past nine years.

7.3 In line with the Treasury Management Strategy, the committee receives a six month review of treasury management activity which is the subject of a separate report on this agenda.

8. Debtors

8.1 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.

8.2 The level of outstanding debt owed to the Authority to as at the end of December 2020 is £251,232 which can be profiled as follows:

Less than 60 days -	£191,669
Greater than 60 days -	£ 59,563

8.3 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

8.4 As detailed above, there is currently £72,261 of debt which is at the recovery stage. However, previous experience suggests that the Authority will recover all of the outstanding debts.

9. Creditors

The Authority is required to pay all non disputed invoices within 28 days of receipt. In the first 9 months of the current financial year the Authority has received 8,048 invoices and paid 83% of them within 28 days.
Due to Covid19, the payments team have been required to work from home, unfortunately this has impacted on the prompt payment of invoices, the target is to pay 100% of invoices within 28 days. Priority payment has been given to small suppliers and those that are critical to service delivery.

10. Financial Implications

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

11. Human Resource and Diversity Implications

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

12. Health and Safety Implications

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

13. Your Fire and Rescue Service Priorities

The management and monitoring of both revenue and capital resources is key to achieving the fire and rescue services priorities This report supports all the fire and rescue service priorities

14. Conclusions

14.1 This report identifies that the Authority is currently forecast to under spend its revenue budget in 2020/21 by £214k. The report has summarised the financial impact on Covid19 and it is expected that the grant received of £2.1m will cover all costs incurred in managing the pandemic, based on existing demands. The report has requested the slippage of £2.605m of capital schemes into 2021/22 which is due to the effects of Covid19.

14.2 Both the revenue and capital budgets will continue to be monitored closely during the year in conjunction with directors and budget holders.

Scheme	Capital Plan	Amount to be Slipped
ICT		
Network Switches	£400,000	-£134,000
Vehicle CCTV	£390,000	-£390,000
Command Training	£59,830	-£40,000
ICT Station Equipment	£207,000	-£207,000
HR & Rostering System	£96,000	-£21,000
Property		
Moortown/Cookridge Refurbishment	£120,000	-£50,000
Odsal/Fairweather Green Refurbishment	£110,000	-£109,000
Todmorden Refurbishment	£120,000	-£120,000
Upgrade Appliance Bay Pits	£100,000	-£16,000
Electrical Upgrades	£30,000	-£18,000
Tarmac, Lighting, Smoke House (Bingley)	£26,837	-£23,000
Transport		
Vehicle Replacement	£135,565	-£120,000
Service Delivery		
PPE	£974,000	-£974,000
Fire Helmets	£210,000	-£210,000
High Rise Branches	£28,000	-£28,000
Thermal Image	£55,000	-£55,000
Body Worn Video	£30,000	-£15,000
Defra Water Rescue	£150,000	-£75,000
TOTAL	£3,242,232	-£2,605,000

Directorate	Capital Plan 2020/21						Capital Expenditure 2020/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments	Expenditure	Total	Over/(Under) spend to date
Property services	£2,160,000	£791,014	-£1,547,935	£17,000	-£336,000	£1,084,079	£204,586	£407,724	£612,310	-£471,769
IRMP	£1,050,000	£1,575,462	£0	£0	£0	£2,625,462	£352,582	£1,035,033	£1,387,615	-£1,237,847
ICT	£2,417,000	£931,921	-£418,000	£118,000	-£817,000	£2,231,921	£503,978	£899,587	£1,403,565	-£828,356
Employment Services	£102,000	£0	£0	£14,000	£0	£116,000	£0	£0	£0	-£116,000
Transport	£43,000	£252,417	-£43,000	£10,000	-£120,000	£142,417	£109,843	£170,144	£279,987	£137,570
Operations	£1,108,000	£1,581,705	-£228,000	£218,000	-£1,357,000	£1,322,705	£321,637	£541,878	£863,515	-£459,190
Fire Safety	£500,000	£78,876	£0	£0	£0	£578,876	£10,500	£135,876	£146,376	-£432,500
	£7,380,000	**£5,211,395**	**-£2,236,935**	**£377,000**	**-£2,630,000**	**£8,101,460**	**£1,503,126**	**£3,190,242**	**£4,693,368**	**-£3,408,092**

CAPITAL BUDGET MONITORING 2020/21
SERVICE SUPPORT
PROPERTY

Details of Scheme	Capital Plan 2020/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Capital total	Commitments	Expenditure	Total	Over/(Under) spend to Date
Moortown/Cookridge	£240,000	£0	-£120,000	£0	-£50,000	£70,000	£55,273	£9,286	£64,559	-£5,441
Odsal/Fairweather Green	£240,000	£0	-£130,000	£0	-£109,000	£1,000	£0	£832	£832	-£168
Illingworth	£200,000	£0	-£200,000	£0	£0	£0	£0	£0	£0	£0
Todmorden	£120,000	£0	£0	£0	-£120,000	£0	£0	£0	£0	£0
FSHQ - ICT, Stores & Tranpsort	£30,000	£0	£0	£0	£0	£30,000	£0	£0	£0	-£30,000
Bradford	£50,000	£0	-£25,000	£0	£0	£25,000	£7,798	£5,695	£13,493	-£11,507
FSHQ - Hard Stand & Carpark	£40,000	£0	£0	£0	£0	£40,000	£0	£0	£0	-£40,000
Slaithwaite	£50,000	£0	-£48,948	£0	£0	£1,052	£0	£0	£0	-£1,052
Enviro Efficiency & Insulate Improve	£100,000	£0	-£90,000	£0	£0	£10,000	£0	£0	£0	-£10,000
Electric charging points	£200,000	£0	-£200,000	£0	£0	£0	£0	£0	£0	£0
Risk Register - Asbestos	£110,000	£0	-£110,000	£0	£0	£0	£0	£0	£0	£0
Security & Fire alarm systems	£90,000	£0	£0	£0	£0	£90,000	£3,109	£31,672	£34,781	-£55,219
Appliance Bay doors	£100,000	£0	£0	£0	£0	£100,000	£13,645	£65,018	£78,663	-£21,337
Surface water drainage	£40,000	£0	-£40,000	£0	£0	£0	£0	£0	£0	£0
Upgrade appliance bay pits	£30,000	£0	£0	£0	-£16,000	£14,000	£6,918	£6,880	£13,798	-£202
Training towers	£70,000	£0	-£50,000	£0	£0	£20,000	£8,522	£748	£9,270	-£10,730
Electrical Upgrades	£50,000	£0	-£20,000	£0	-£18,000	£12,000	£4,256	£7,192	£11,448	-£552
General Mechanical & L8	£200,000	£0	-£200,000	£0	£0	£0	£0	£0	£0	£0
Upgrade of Welfare	£100,000	£0	-£90,000	£0	£0	£10,000	£0	£0	£0	-£10,000
Minor Equality & Dignity alterations	£40,000	£0	-£30,000	£0	£0	£10,000	£0	£8,137	£8,137	-£1,863
Facility upgrades	£60,000	£0	-£47,000	£0	£0	£13,000	£3,900	£8,964	£12,864	-£136
Halifax Tarmac	£0	£0	£0	£17,000	£0	£17,000	£0	£0	£0	-£17,000
TOTAL NEW CAPITAL SCHEMES 20/21	**£2,160,000**	**£0**	**-£1,400,948**	**£17,000**	**-£313,000**	**£463,052**	**£103,420**	**£144,424**	**£247,845**	**-£215,207**

Details of Scheme	2020/21 Original Capital Plan	2019/20 Slippage b/f	2020/21 Decrease	2020/21 Increase	2020/21 Slippage c/f	2020/21 Capital total	2020/21 Commitments	2020/21 Expenditure	2020/21 Total	2020/21 Over/(Under) spend to Date	
FSHQ Retaining and Boundary Walls	£0	£0	£0	£0	£0	£0	£0	-£130	-£130	-£130	#
Upgrade FSHQ - Breathing Acc, Classroom,	£0	£9,123	£0	£0	£0	£9,123	£0	£8,949	£8,949	-£174	#
General Upgrading Morley	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	#
General Upgrading Odsal	£0	£29,991	£0	£0	£0	£29,991	£6,122	£3,948	£10,070	-£19,921	#
Tarmac, Lighting, smoke training House - Bingley	£0	£26,837	£0	£0	-£23,000	£3,837	£2,925	£325	£3,250	-£587	#
Upgrade Shower installations - Normanton	£0	£2,887	£0	£0	£0	£2,887	£0	£2,537	£2,537	-£350	#
Leeds - Replace Derv tank & general station refurbishments works	£0	£27,320	£0	£0	£0	£27,320	£0	£28,570	£28,570	£1,250	#
Moortown - General refurb of facilities, including LED energy efficient lighting	£0	£69,095	£0	£0	£0	£69,095	£27,221	£38,669	£65,890	-£3,205	#
Cookridge General refurb and upgrade of accommodation and facilities, including LED	£0	£18,979	-£5,217	£0	£0	£13,762	£10,626	£3,136	£13,762	£0	#
Huddersfield - Install energy efficient lighting to external areas, wash bays, appliance bays	£0	£8,604	-£8,604	£0	£0	£0	£0	£0	£0	£0	#
Holmfirth - Install energy efficient lighting to Ext areas and appliance bays. Upgrade	£0	£19,242	-£19,344	£0	£0	-£102	£0	-£102	-£102	£0	#
Mirfield - Upgrading of mains distribution. Electrical installation and general refurb	£0	£2,684	£0	£0	£0	£2,684	£0	£2,812	£2,812	£128	#
Odsal - General fabric upgrading , Replace windows and introduce LED Lighting	£0	£73,111	£0	£0	£0	£73,111	£0	£0	£0	-£73,111	#
Fairweather Green - Kitchen upgrade, Improvements to rear entrance layout ,	£0	£75,739	-£63,822	£0	£0	£11,917	£6,245	£5,672	£11,917	£0	#
Illingworth - General upgrade including external fabric and decorations	£0	£60,000	£0	£0	£0	£60,000	£15,182	£6,690	£21,872	-£38,128	#
Todmorden - Electrical rewire, LED Lighting and general refurb	£0	£84,563	£0	£0	£0	£84,563	£1,813	£0	£1,813	-£82,751	#
FSHQ - Adaptations rear of Multi purpose training Centre. Rear Ext stair case to upper	£0	£15,224	£0	£0	£0	£15,224	£0	£2,145	£2,145	-£13,079	#
Risk Register prioritised and general asbestos removal and general fabric upgrade at various	£0	£38,517	£0	£0	£0	£38,517	£0	£8,332	£8,332	-£30,186	#
Phased installation and upgrading of surface water drainage interceptors	£0	£80,000	£0	£0	£0	£80,000	£2,495	£70,037	£72,532	-£7,468	#
Phased upgrade to fire station training towers including lightning protection and building	£0	£3,462	£0	£0	£0	£3,462	£0	£1,677	£1,677	-£1,785	#
General electrical upgrade works.	£0	£51,006	£0	£0	£0	£51,006	£1,499	£48,423	£49,922	-£1,084	#
General mechanical and L8 Legionella prevention water management improvement	£0	£44,630	£0	£0	£0	£44,630	£27,039	£31,609	£58,648	£14,018	#
Phased upgrade of fixed ladders and fire escapes	£0	£50,000	-£50,000	£0	£0	£0	£0	£0	£0	£0	#
TOTAL SLIPPED SCHEMES	**£0**	**£791,014**	**-£146,987**	**£0**	**-£23,000**	**£621,027**	**£101,166**	**£263,300**	**£364,465**	**-£256,562**	
TOTAL CAPITAL 20/21	**£2,160,000**	**£791,014**	**-£1,547,935**	**£17,000**	**-£419,000**	**£1,001,079**	**£204,586**	**£407,724**	**£612,310**	**-£388,769**	

CAPITAL BUDGET MONITORING
2020/21
IRMP

Details of Scheme	Capital Plan 2020/21						Capital Expenditure 20/21			
	2020/21 Original Capital Plan	2019/20 Slippage b/f	2020/21 Decrease	2020/21 Increase	2020/21 Slippage c/f	2020/21 Capital total	2020/21 Commitments	2020/21 Expenditure	2020/21 Total	2020/21 Over/(Under) spend to Date
Keighley Rebuild	£900,000	£0	£0	£0	£0	£900,000	£0	£0	£0	-£900,000
Cleckheaton Rebuild	£50,000	£0	£0	£0	£0	£50,000	£0	£0	£0	-£50,000
FSHQ Rebuild	£100,000	£0	£0	£0	£0	£100,000	£0	£0	£0	-£100,000
Halifax Rebuild	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Hudderfield rebuild	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL NEW CAPITAL SCHEMES 20/21	**£1,050,000**	**£0**	**£0**	**£0**	**£0**	**£1,050,000**	**£0**	**£0**	**£0**	**-£1,050,000**
SLIPPED SCHEMES										
Wakefield	£0	£1,575,462	£0	£0	£0	£1,575,462	£352,582	£1,035,033	£1,387,615	-£187,847
TOTAL SLIPPED SCHEMES	**£0**	**£1,575,462**	**£0**	**£0**	**£0**	**£1,575,462**	**£352,582**	**£1,035,033**	**£1,387,615**	**-£187,847**
TOTAL EXPENDITURE APPROVED	**£1,050,000**	**£1,575,462**	**£0**	**£0**	**£0**	**£2,625,462**	**£352,582**	**£1,035,033**	**£1,387,615**	**-£1,237,847**
TOTAL CAPITAL 20/21	**£1,050,000**	**£1,575,462**	**£0**	**£0**	**£0**	**£2,625,462**	**£352,582**	**£1,035,033**	**£1,387,615**	**-£1,237,847**

CAPITAL BUDGET MONITORING 2020/21
SERVICE SUPPORT
ICT

Details of Scheme	Capital Plan20/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments	Expenditure	Total	Over/(Under) spend to Date
Network switches	£400,000	£0	£0	£0	-£134,000	£266,000	£265,721	£0	£265,721	-£279
Computer hardware	£105,000	£0	£0	£0	£0	£105,000	£0	£82,489	£82,489	-£22,511
Virtual server Storage	£350,000	£0	£0	£0	£0	£350,000	£149,468	£0	£149,468	-£200,532
Server backup hardware	£250,000	£0	-£102,000	£0	£0	£148,000	£0	£94,127	£94,127	-£53,873
Appliance Mobile phones	£30,000	£0	-£30,000	£0	£0	£0	£0	£0	£0	£0
Vehicle CCTV	£390,000	£0	£0	£0	-£390,000	£0	£0	£0	£0	£0
Replacement of station tannoy	£120,000	£0	-£120,000	£0	£0	£0	£0	£0	£0	£0
Thin Client	£100,000	£0	-£100,000	£0	£0	£0	£0	£0	£0	£0
BYOD	£60,000	£0	£0	£0	£0	£60,000	£0	£0	£0	-£60,000
BI Tool	£10,000	£0	£0	£0	£0	£10,000	£0	£0	£0	-£10,000
UPS on stations	£50,000	£0	-£50,000	£0	£0	£0	£0	£0	£0	£0
Implement Office 365	£65,000	£0	£0	£0	-£65,000	£0	£0	£0	£0	£0
EMOC replacement	£30,000	£0	£0	£0	£0	£30,000	£0	£0	£0	-£30,000
Mobile phones	£55,000	£0	£0	£102,000	£0	£157,000	£0	£135,870	£135,870	-£21,130
MDT Routers	£150,000	£0	£0	£0	£0	£150,000	£0	£0	£0	-£150,000
ICT Station Equip	£87,000	£0	£0	£0	-£87,000	£0	£0	£0	£0	£0
VOIP	£165,000	£0	£0	£0	£0	£165,000	£23,870	£214,830	£238,700	£73,700
ESN Firewall	£0	£0	£0	£16,000	£0	£16,000	£0	£0	£0	-£16,000
MDT Hardware	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Pager upgrade	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Command support software	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
ID Cards	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Equipment management and RFID tagging	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL NEW CAPITAL SCHEMES 20/21	**£2,417,000**	**£0**	**-£402,000**	**£118,000**	**-£676,000**	**£1,457,000**	**£439,059**	**£527,316**	**£966,375**	**-£490,625**
SLIPPED SCHEMES										
Command Training	£0	£59,830	-£16,000	£0	£0	£43,830	£0	£0	£0	-£43,830
Protection Database	£0	£50,000	£0	£0	£0	£50,000	£17,600	£17,600	£35,200	-£14,800
Hydrant Management	£0	£6,350	£0	£0	£0	£6,350	£6,350	£0	£6,350	£0
Equipment management & RFID tagging	£0	£119,000	£0	£0	£0	£119,000	£0	£0	£0	-£119,000
Refresh of ICT training suite	£0	£12,500	£0	£0	£0	£12,500	£0	£14,485	£14,485	£1,985
Replacement computer hardware	£0	£52,403	£0	£0	£0	£52,403	£0	£34,197	£34,197	-£18,206
VoIP	£0	£100,000	£0	£0	£0	£100,000	£0	£0	£0	-£100,000
Media Storage Solution	£0	£200,000	£0	£0	£0	£200,000	£7,246	£165,125	£172,370	-£27,630
ICT Station Equipment	£0	£120,000	£0	£0	-£120,000	£0	£0	£0	£0	£0
Opex Interface	£0	£79,500	£0	£0	£0	£79,500	£2,000	£82,250	£84,250	£4,750
MDT REPLACEMENT	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Retained Pager Replace	£0	£16,970	£0	£0	£0	£16,970	£21,102	£0	£21,102	£4,132
Computer Hardware	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Additional resource for HR & Rostering	£0	£96,000	£0	£0	-£21,000	£75,000	£10,622	£58,614	£69,236	-£5,764
Mobile Working	£0	£19,368	£0	£0	£0	£19,368	£0	£0	£0	-£19,368
TOTAL SLIPPED SCHEMES	**£0**	**£931,921**	**-£16,000**	**£0**	**-£141,000**	**£774,921**	**£64,920**	**£372,271**	**£437,191**	**-£337,730**
TOTAL CAPITAL 20/21	**£2,417,000**	**£931,921**	**-£418,000**	**£118,000**	**-£817,000**	**£2,231,921**	**£503,978**	**£899,587**	**£1,403,565**	**-£828,356**

CAPITAL BUDGET MONITORING 2020/21
SERVICE SUPPORT
Employment Services

Details of Scheme	Capital Plan20/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments	Expenditure	Total	Over/(Under) spend to Date
PPE Racking & Storage unit	£70,000	£0	£0	£0	£0	£70,000	£0	£0	£0	-£70,000
OHU Medical System	£21,000	£0	£0	£0	£0	£21,000	£0	£0	£0	-£21,000
Assist Technology	£11,000	£0	£0	£14,000	£0	£25,000	£0	£0	£0	-£25,000
TOTAL CAPITAL PLAN 2020/21	**£102,000**	**£0**	**£0**	**£14,000**	**£0**	**£116,000**	**£0**	**£0**	**£0**	**-£116,000**

CAPITAL BUDGET MONITORING 2020/21
SERVICE SUPPORT
TRANSPORT

Details of Scheme	Capital Plan20/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments	Expenditure	Total	Over/(Under) spend to Date
Vehicle Replacement	£43,000	£0	-£43,000	£0	£0	£0	£0	£0	£0	£0
Forklift Truck	£0	£0	£0	£10,000	£0	£10,000	£0	£0	£0	-£10,000
TOTAL CAPITAL PLAN 2020/21	£43,000	£0	-£43,000	£10,000	£0	£10,000	£0	£0	£0	-£10,000
SLIPPED SCHEMES										
Vehicle replacement project - 2 Welfare	£0	£135,565	£0	£0	-£120,000	£15,565	£0	£0	£0	-£15,565
CLM Vehicle procurement	£0	£6,679	£0	£0	£0	£6,679	£109,843	£165,781	£275,624	£268,945
Aerial appliances	£0	£110,173	£0	£0	£0	£110,173	£0	£4,363	£4,363	-£105,810
TOTAL SLIPPED SCHEMES	£0	£252,417	£0	£0	-£120,000	£132,417	£109,843	£170,144	£279,987	£147,570
TOTAL EXPENDITURE APPROVED	£43,000	£252,417	-£43,000	£10,000	-£120,000	£142,417	£109,843	£170,144	£279,987	£137,570
TOTAL CAPITAL 20/21	£43,000	£252,417	-£43,000	£10,000	-£120,000	£142,417	£109,843	£170,144	£279,987	£137,570

CAPITAL BUDGET MONITORING 2020/21
SERVICE DELIVERY
FIRE SAFETY

Details of Scheme	Capital Plan 20/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments Opex	Total Exp SAP	Total	Over/(Under) spend to Date
Home Fire Safety Checks	£500,000	£0	£0	£0	£0	£500,000	£10,500	£57,000	£67,500	-£432,500
TOTAL CAPITAL PLAN 2020/21	£500,000	£0	£0	£0	£0	£500,000	£10,500	£57,000	£67,500	-£432,500
SLIPPED SCHEMES										
Fire Alarms	£0	£78,876	£0	£0	£0	£78,876	£0	£78,876	£78,876	£0
TOTAL SLIPPAGE	£0	£78,876	£0	£0	£0	£78,876	£0	£78,876	£78,876	£0
TOTAL CAPITAL 20/21	£500,000	£78,876	£0	£0	£0	£578,876	£10,500	£135,876	£146,376	-£432,500

CAPITAL BUDGET MONITORING 20/21
SERVICE DELIVERY
OPERATIONS

Details of Scheme	Capital Plan 20/21						Capital Expenditure 20/21			
	2020/21	2019/20	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Original Capital Plan	Slippage b/f	Decrease	Increase	Slippage c/f	Total	Commitments Opex	Total Exp SAP	Total	Over/(Under) spend to Date
Water Rescue	£10,000	£0	£0	£0	£0	£10,000	£10,000	£0	£10,000	£0
Lay Flat Hose	£50,000	£0	£0	£0	£0	£50,000	£30,943	£19,057	£50,000	£0
Gas tight suits	£10,000	£0	£0	£0	£0	£10,000	£10,000	£0	£10,000	£0
Battery Operated PPV	£150,000	£0	£0	£65,000	£0	£215,000	£0	£214,974	£214,974	-£26
Scene Lighting	£100,000	£0	-£100,000	£0	£0	£0	£0	£0	£0	£0
High Rise Branches	£28,000	£0	£0	£0	-£28,000	£0	£0	£0	£0	£0
Thermal Image	£55,000	£0	£0	£0	-£55,000	£0	£0	£0	£0	£0
Body Worn Video	£30,000	£0	£0	£0	-£15,000	£15,000	£0	£0	£0	-£15,000
DEFRA Water rescue	£150,000	£0	£0	£0	-£75,000	£75,000	£0	£11,838	£11,838	-£63,162
NPAS Video	£75,000	£0	-£33,000	£0	£0	£42,000	£20,000	£0	£20,000	-£22,000
Hydrants	£450,000	£0	-£85,000	£0	£0	£365,000	£144,238	£220,762	£365,000	-£0
Wildfire	£0	£0	£0	£20,000	£0	£20,000	£0	£19,662	£19,662	-£338
Smoke Curtains	£0	£0	£0	£33,000	£0	£33,000	£33,000	£0	£33,000	£0
PPE - TRU & HVP	£0	£0	-£10,000	£40,000	£0	£30,000	£13,456	£0	£13,456	-£16,544
Light Weight Trousers	£0	£0	£0	£60,000	£0	£60,000	£60,000	£0	£60,000	£0
Medium Ex Foam	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Mainline Branch	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Powermats/power unit	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Crash Recovery	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
BA Sets	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
BA Cylinders	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
BA Ancillary Equip	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Dividing Breeching	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Ground Monitors	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Tirfor & Ancillarys	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
New Control System	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL CAPITAL PLAN 2020/21	**£1,108,000**	**£0**	**-£228,000**	**£218,000**	**-£173,000**	**£925,000**	**£321,637**	**£486,293**	**£807,930**	**-£117,070**
SLIPPED SCHEMES										
Replacement of Operational PPE	£0	£974,717	£0	£0	-£974,000	£717	£0	£0	£0	-£717
Fire Fighting helmets	£0	£210,000	£0	£0	-£210,000	£0	£0	£0	£0	£0
Industrial Washing Machines	£0	£56,375	£0	£0	£0	£56,375	£0	£56,375	£56,375	£0
New Control Project - Premises Costs	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
New Control Project - Contingency	£0	£338,000	£0	£0	£0	£338,000	£0	£0	£0	-£338,000
Aerial Vehicle Drone	£0	£2,613	£0	£0	£0	£2,613	£0	-£791	-£791	-£3,404
TOTAL SLIPPAGE	**£0**	**£1,581,705**	**£0**	**£0**	**-£1,184,000**	**£397,705**	**£0**	**£55,584**	**£55,584**	**-£342,121**
TOTAL CAPITAL 20/21	**£1,108,000**	**£1,581,705**	**-£228,000**	**£218,000**	**-£1,357,000**	**£1,322,705**	**£321,637**	**£541,878**	**£863,515**	**-£459,190**

OFFICIAL

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

Finance & Resources Committee

Date: 5 February 2021

Agenda Item: **12**

Submitted By: Chief Finance and Procurement Officer

Purpose

To present a draft capital investment plan, a draft revenue budget and Medium Term Financial Plan 2021/22
To seek member approval for the transfer of £1.5m from the pay and prices reserve to the capital finance reserve.

Recommendations

That the report be noted as the basis for the political groups to consider their budget proposals
That members approve the transfer of £1.5m from the pay and prices earmarked reserve to the capital finance reserve.

Summary

This report presents details of the draft revenue budget for 2021/2022 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 2021/22, a standstill budget, and a summary of activity in the 2020/21 financial year.

Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: None

Annexes:
Appendix A -Draft Capital Plan 2021/22 to 2025/2026
Appendix B – Standstill Revenue Budget 2021/22
Appendix C – Reserves Strategy 2020/21 to 2023/24

1 Introduction

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

(i) A Capital Investment Plan for the five years to 2025/2026;
(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

2.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004, 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 is considered first in the report so members can clearly consider the revenue impacts of capital investment and borrowing decisions as part of the revenue budget and council tax considerations.

2.2 Capital Plan

2.2.1 The Management Board are proposing a five-year capital investment plan of £57.585m which includes expenditure of £16.522m in 2021/2022. This is analysed by section in the table overleaf.

2.2.2 Following detailed feasibility studies, the plan includes £25.43m for the rebuilding of Keighley, Halifax and Huddersfield Fire Stations, the relocation of Cleckheaton Fire Station and the rationalisation of the Fire Service Headquarters site from 2021 to 2024. There is also provision of £1.8m per annum in the property section for station refurbishments. The plan includes investment in operational equipment, the replacement of fire appliances and improvements to our Information Technology infrastructure.

The table excludes those capital schemes that have been slipped from 2021/22, primarily as a consequence of delivery due to Covid19. A total of £2.63m has been approved to slip at Finance and Resources Committee during 2020/21. All schemes will be subject to a detailed business case that will be presented either to Management Board or Finance and Resources Committee for approval.

	TOTAL	2021/22	2022/23	2023/24	2024/25	2025/26
Employment Services	**£50,000**	£0	£50,000	£0	£0	£0
Fire Safety	**£2,000,000**	£400,000	£400,000	£400,000	£400,000	£400,000
ICT	**£1,729,000**	£1,195,000	£309,000	£50,000	£75,000	£100,000
IRMP	**£25,429,600**	£8,580,000	£12,849,600	£4,000,000	£0	£0
Operations	**£7,244,800**	£1,485,800	£3,944,000	£1,042,000	£689,000	£84,000
Property	**£8,650,000**	£1,450,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000
Transport	**£12,482,100**	£3,412,100	£2,218,100	£3,015,900	£2,175,900	£1,660,100
TOTAL	**£57,585,500**	**£16,522,900**	**£21,570,700**	**£10,307,900**	**£5,139,900**	**£4,044,100**
Financed by:						
Borrowing	**£31,735,500**	£6,992,900	£11,600,700	£9,357,900	£689,900	£3,094,100
Reserves	**£17,600,000**	£8,580,000	£9,020,000	£0	£0	£0
Capital Receipts	**£3,500,000**	£0	£0	£0	£3,500,000	£0
Revenue Contributions	**£4,750,000**	£950,000	£950,000	£950,000	£950,000	£950,000
TOTAL	**£57,585,500**	**£16,522,900**	**£21,570,700**	**£10,307,900**	**£5,139,900**	**£4,044,100**

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

2.3 CAPITAL FINANCING

2.3.1 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.

2.3.2 Capital Grants

The Authority does not anticipate the receipt of any capital grants in 2021/22.

2.3.3 Capital Receipts

Capital receipts are used to either purchase new capital assets or repay outstanding loans.

2.3.4 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 £31.736m over the period. The government provides no additional grant to assist the authority with financing the capital plan.

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.

Due to the size of the capital plan over the next four years it is likely that the Authority will be required to take out borrowing from 2023, the costs of current and future debt servicing costs have been built into the Medium Term Financial Plan.

2.3.5 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 40 years the average annual charge of MRP in revenue would be £86k per annum, this saving means that the authority can spend this money on other areas.

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**

3.2.1 The Authority's capital expenditure projections, detailed in paragraph 2.2, 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.

	2019/20 (actual) £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Capital Financing Requirement	51.03	49.5	56.4	63.9	68.8

The table shows an estimated borrowing requirement of £68.8m by 2023/24 which reflects the size of the capital plan.

3.3 **Limits to Borrowing Activity**

3.3.1 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 2021/22 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 2019/20, and no difficulties are envisaged for the current or future years.

3.3.2 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.

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.

	2021/22	2022/23	2023/24	2024/25
Authorised Limit for external debt	65	68	68	68
Operational Boundary for external debt	51	61	65	65

3.4 **Affordability Prudential Indicators**

3.4.1 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 indicator provide an indication of the capital investment plans on the overall finances of the Authority:

3.4.2 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 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25
Ratio of Financing costs to net revenue stream	7.21%	7.14%	7.03%	7.76%

It is accepted practice that this should not exceed 10%, this is due to the inability to influence capital financing charges once the capital investment has been committed. Other expenditure in the revenue budget can be reduced in the short to medium term if required, there is very little flexibility to do the same with capital financing charges.

4 Revenue Budget and Medium Term Financial Plan

4.1 Whilst the Authority will only be required to approve the budget and precept for 2021/22 it is important that the Authority consider the medium term impact of the decision.

This section is split into 5 key areas: -

1 Review of the current year's budget and financial performance
2 The cost of a standstill budget for 2021/22
3 The draft Local Government Finance Settlement
4 Medium Term Financial Plan
5 Reserves

4.2 National Overview

4.2.1 In Spring 2020, the authority, along with all the other fire and rescue services funded the formation of a central spending review team which was a collaborative team comprising the Local Government Association (LGA), National Fire Chiefs Council (NFCC) and the Home Office. The remit of the team was to work with the Home Office to produce a collective business case highlighting the challenges facing the sector and the potential new burdens resulting from the Hackett and Grenfell inquiries and the HMICFRS State of Fire report to support bids for increases to fire funding to the Treasury.

This business case report, named the Fire Spending Proposal, was submitted to the Treasury in late Summer to support increase to funding for the fire sector. It was hoped that this would form the foundations of a multi-year funding settlement and thus provide financial stability over the medium term. However, the impact of Covid19 has created great financial uncertainty and has seen the government inject billions into the economy. For this reason, the Chancellor on the 25th November announced that the 2020 Spending Review, which sets out public sector spending, would once again result in a one year funding settlement.

4.2.2 Amid unusually high levels of uncertainty the Office for Budget Responsibility (OBR) forecasts that GDP will fall by 11.3% in 2020, the sharpest decline since 1709, before returning to growth in 2021. However, the economy is not expected to reach pre-crisis levels until the end of 2022. Meaning that in 2025 the economy will be approximately 3% worse off than expected pre-Covid.

4.2.3 The Spending Review 2020 made no specific reference to the fire and rescue service and once again is not considered a protected service, unlike the NHS, Police and defence. This lack of protection must be considered when preparing the medium term financial plan.

The Chancellor also announced that the majority of public sector pay is to be frozen for 2021/22 with the exception of NHS doctors, nurses and others and those who earn less than £24,000.

4.2.4 Despite the Chancellors assertion that we will not return to austerity, the future years of the spending forecasts do contain real term cuts compared to the original March 2020 budget figures. In the Spending Review non-virus related department expenditure limits are £11billion lower in 2022/23 and more in future years. The OBR states that the “£11billion reduction” in the cost envelope for 2022/23 could set up another challenging Spending Review next year.

4.2.5 The Bank of England (BoE) maintained the Bank Rate at 0.10% in December 2020. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Quarter 4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Quarter 1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

4.2.6 UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market.

4.3 Impact on West Yorkshire

4.3.1 The Authority considered its revenue budget and precept strategy on the 21st February 2020 and approved a precept increase of 1.99% resulting in a Band D property precept of £65.87. West Yorkshire Fire and Rescue still remain the fourth lowest precepting fire authority in England and Wales.

4.3.2 The announcement in the Spending Review 2020 of a pay freeze in 2021/22 for some public sector employees could have a financial impact if the national employers don’t follow this guidance. No provision for a pay award (with the exception of employees earning less than £24k) has been included in the budget proposals for 2021/22. To put this into context a 1% pay award costs the authority around £0.55m and once paid will have to be factored into the base budget going forward. In this scenario, this would have to be met from existing budgets or in the short term be funded from reserves.

4.3.3 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 is included within 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%. The government paid a grant totalling £4.28m in 2020/21 which covered 93% of the additional cost and have agreed the same for 2021/22. However, there has been no confirmation of grant payment from April 2022 onwards, although the responsibility of the grant has been transferred from the Home Office to the Ministry for Housing, Communities and Local Government (MHCLG).

4.3.4 The ruling on the McCloud/Sargeant case could result in significant costs in respect of employers' fire fighter pension contributions. An employment tribunal in December 2019 ruled that those fire fighters who had no or tapered protection in the 1992 Pension Scheme and were moved to the new 2015 Pension Scheme in April 2015 constituted unlawful age discrimination. This means that they are entitled to return to their pre-2015 pension schemes. Once the government finalises the remedy proposals (consultation ended 11th October 2020) they are likely to be subject to the introduction of legislation, so potentially the remedy may not be signed off until 2021/22 at the earliest. Although the cost of pensions and lump sums is met by top up grant this is offset by employers' pension contributions. The estimated cost to the Authority (if there is no government funding) will be an increase in employers contributions from 28.8% (2015 scheme) to 37.3% (1992 scheme), an increase of 8.5%, which, based on the current workforce strength at the start of the remedy period will add another £2m to pension contributions in the revenue budget going forward. The Home Office has confirmed that retrospective payment of increased employer contributions will not have to be made good by the employer but will be recovered via the 2020 FPS actuarial review and amended employer rates from 2023/24. This will put further pressure on the revenue budget from 2023 as it is expected that employer contribution rates will increase further.

4.3.5 The authority has received one off grants in 2020/21, to fund the financial pressures of the outcomes of the Grenfell Inquiry and Covid19. Although this funding is welcomed, it is not built into the authority's base budget and any spending commitments that extend beyond the grant will have to be funded from existing budgets. This means that long term spending plans cannot be based on one-year grants without no certainty of receiving the grants going forward.

4.3.6 In terms of the financial outturn, the Authority is forecast to under-spend the budget by around £0.215m for the current financial year. Any budget underspends will be used to make additional voluntary minimum revenue provision charges, which will reduce the authority's capital financing requirement and reduce the revenue cost of the capital plan over the long term.

4.4 A Standstill Budget for 2020/21 – Maintaining the current level of service

4.4.1 A standstill budget has been prepared for 2021/22, for the purpose of providing a baseline from which to measure changes in the proposed budget. This is calculated by updating the 2020/21 budget for increases in pay and prices, new financing charges and other adjustments. A standstill budget for 2021/22 would amount to £85.524m. The changes from the 2020/21 budget are detailed in the table below.

	£m
2020/21 approved revenue budget	**£87.623**
One year growth in 2020/21	
Capital Financing Charges	-£0.202
Contingency movements	-£0.657
Supplies and service consultancy and licences	-£0.213
Pay and Price Increases	
Operational Employees	£0.792
Support Staff	£0.276
Non employee budgets	£0.330
Approved transfers at F&R	
Operational Employees	£0.141
Support Staff	£0.094
Budget Reductions due to Covid	-£0.125
Income	-£0.309
Budget Calculations	
Adjust to employees for retirement and recruitment	-£1.645
Adjust to Capital Financing Charges	-£0.618
Adjust to non employee budgets	£0.038
2021/22 Standstill budget	**£85.524**

The main changes to the 2020/21 budget are explained below:

a) **Growth in 2020/21** Included within the 2020/21 was growth in capital financing charges, contingencies and supplies and services. This was approved growth for the current financial year only and is thus removed from the base budget for 2021/22.

b) **Pay and Price Increases** These represent the full year effect of the pay award and price increases that have been built into the base budget for 2021/22.

c) **Approved Transfers at Finance and Resources Committee** In order to ensure accurate budget monitoring, budgets are transferred from the revenue budget into contingencies during the year.

d) **Budget Calculations** This includes the full year effect of the savings and costs of retirements and recruitment and the efficiencies identified with budget holders in the calculation of non-employee budgets.

A subjective analysis of the Standstill budget for 2021/22 is shown in Appendix 2 to this report

4.5 Revenue Balances

4.5.1 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 2020 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.

4.5.2 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 2020 the Authority had £5m of general fund reserves and £29.6m 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 Strategy Group, which is chaired by the Deputy Chief Fire Officer and reports quarterly to the Audit Committee. The current risk matrix was approved by the Audit Committee in September 2020 and identifies a requirement to maintain a minimum revenue balance of £5.0m.

5 Provisional Local Government Finance Settlement

5.1 The finances of government departments are determined by a process called the Comprehensive Spending Review (CSR), the Authority's last multi-year settlement ended in 2019/20. The authority received a one year roll over budget for 2020/21 and a CSR planned for Summer 2020 would result in a three year settlement. Having a multi-year funding settlement enables better planning over the medium to longer term.

5.1.1 Following the conclusion of the CSR, funding allocations are distributed by the Local Government Finance Settlement, this is called the Settlement Funding Assessment (SFA). West Yorkshire Fire and Rescue receives its annual SFA via the Ministry for Housing and Local Government (MHCLG), the SFA is comprised of Revenue Support Grant (RSG) and Baseline Funding levels which is the Business Rates Top Up grant which is the governments projection of the services 1% share of the business rates income raised in West Yorkshire. The authority also receives specific grants from the Home Office to fund pensions and National Resilience.

5.1.2 In previous reports I have informed members that the government is working towards significant reform in the local government finance system, notably the Fair Funding Review and reforms to the business rates retention system. Due to the effects of the pandemic these reviews have been postponed for a further year.

5.2 Draft Settlement

5.2.1 The Core Spending Power in the total local government finance settlement is set to increase from £48.9billion in 2020/21 to £51.2billion in 2021/22, a cash increase of 4.5%. The core spending power is a measure of the resources available to local authorities to fund service delivery. The 2021/22 core spending power for West Yorkshire has increased from £82.92m in 2020/21 to £84.94m in 2021/22, an increase of £2m. This considers inflationary increases to revenue support grant and business rates baseline funding, an assumed tax base growth, a precept increase of 1.99% and increases for the under indexing of the business rates multiplier.

The provisional grant allocations for 2021/22 are shown in the table below.

	2020/21 Actual £m	2021/22 Draft £m
Settlement Funding Assessment:		
Top Up Grant central pool	16.922	16.922
Top Up local	7.814	7.814
Base line funding (business rates)	**24.736**	**24.736**
Revenue Support Grant	13.556	13.631
Local Government Finance Settlement	**38.292**	**38.367**

The revenue support grant has been uplifted by CPI inflation at September 2020, resulting in an increase of grant from £38.292m to £38.367m. However, the base line funding level is cash flat in real terms as the government announced that the business rate multiplier will be frozen in 2021/22, thus there has been no increase in funding for this element from 2020/21.

Confirmation has been received that the pension grant to cover the increased cost of employer FF pension contributions as a result of a reduction in the SCAPE discount rate will be paid as a cash flat grant in 2021/22. This means that the authority will receive £4.285m, the same amount as in 2020/21. The responsibility for this grant has been transferred from the Home Office to MHCLG and it is envisaged that the next CSR will result in this grant being included within base line funding. This will remove the uncertainty regarding its payment.

5.2.2 The pandemic has created a number of financial burdens on the authority, which is around the income the authority receives from the five district councils, (i.e.) the collection fund and the tax base.

Collection Fund

The district councils collect West Yorkshire Fire’s share of council tax on our behalf and manages this through a collection fund, if the collection rate is higher than expected this generates a collection fund surplus. Conversely, if the collection rate is set higher than actual receipts this will cause a collection fund deficit. The authority has in previous years benefited from a collection fund surplus, which in 2020/21 is £0.108m, this is used to support the revenue budget. For prudency, an estimated surplus is not factored into the MTPF due to the potential volatility and due to the fact that the collection rate and policy is beyond our control.

Unfortunately, Covid19 has had a significant impact on the councils' collection funds and based on estimates the expected deficit at the 1st April 2021 is £3.5m. The government has passed legislation that enables local authorities to spread this deficit over three years and has introduced an income guarantee scheme which will fund 75% of irrecoverable losses from council tax and business rates. Taking these into consideration, this translates into an estimated collection fund deficit of £0.294m for the next three financial years.

Tax Base

The tax base is the overall number of properties that each of the five local councils can collect council tax from, a change in the tax base is usually the result of:

- The building and completion of new housing properties
- Changes in council tax banding due to adjustment and appeals
- Discounts, exemptions and reliefs, for example, changes in the council tax support scheme
- Ending of the discount period on empty properties or their reoccupation.

Both central government and local authority finance directors assume that the tax base will increase each year, which is primarily due to the increase in house building. Past experience has shown that this is in the region of 1.5% per annum. Included with the authority's MTFP is an assumed tax base growth of 1.1% in 2021/22 which equates to increase in precept income of £0.489m, this is before any precept increases are applied. However, the pandemic has had a negative effect on the tax base and estimates from the district councils indicate a 2% reduction. This reduction is due to a sharp increase in new local council tax support claimants due to Covid19. To put this into financial context this will result in a reduction in council tax income of £1.347m, which is already factored into the MTFP.

The government has recognised this financial burden on local authorities and has allocated £670m of grant to compensate authorities for this shortfall. This grant is called the Local Council Tax Support grant and West Yorkshire have received confirmation that it will receive £1.176m of this grant in 2021/22.

Although this is welcomed, it still leaves a funding shortfall of an estimated £0.171k (£1.347m less £1.176m). Coupled with the forecast collection fund deficit, this leaves a funding deficit of £0.465m.

The size of the collection fund deficit and tax base have to be legally declared by the 31st and 15th January respectively, so the figures in the above paragraphs are subject to change.

5.3 Referendum Principles

5.3.1 The Draft Local Government Finance Settlement has set the referendum limit at 1.99% for 2020/21. 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. This would be very costly as a separate referendum would have to be held in each of the five districts within West Yorkshire.

5.3.2 In addition, local authorities are able to increase the precept by an additional 3% for adult social care, and shire district councils in two-tier areas will be allowed increases of up to 1.99% or up to and including £5 whichever is higher. None of these additional increases are applicable to fire.

The referendum threshold for the Police and Crime Commissioners has been set at £15.

5.4 Business Rates

5.4.1 All business rates used to be paid directly from central government. In order to devolve responsibility locally, from 2013/14 local councils maintain 50% of business income, with the other 50% being redistributed by government via a business rates pool. The fire authorities receive 1% of the business rates collected by the district councils.

5.4.2 The settlement indicates the Authority will receive £24.73m in business rate income with £16.92m paid directly from central government in the form of top up grant and the balance of £7.81m being paid by the five district councils which equates to 1% of the income they collect. As mentioned earlier this has been frozen and as such there is no increase from 2020/21.

5.4.3 The authority in addition receives Section 31 grant to compensate for any policy changes introduced around local business rates. The size of grant is confirmed by the district councils when they submit their NNDR1's on the 31st January. The government has provided local councils with a number of grants to ease the burden of coronavirus on businesses, this means that the size of section 31 grant attributable to fire may be significantly different than that included in the funding estimates in the medium term financial plan. The budget report will include the actual section 31 grants declared by the district councils. Any funding shortfalls as a result of these estimates will be managed by the use of earmarked reserves or adversely if the result is favourable by making increased revenue contributions to capital.

5.5 Precept Income

5.5.1 As Members are aware, the Authority is also dependent upon precept income from the five districts which will provide £43.633m of its income in 2020/21. This income is dependent upon two factors, namely the size of the tax base and the precept set by the authority. As explained previously, the tax base is forecast to reduce by 2% from 2020/21, meaning that if the precept was frozen in 2021/22, the authority would in effect receive less precept income that it did in 2020/21.

A precept increase of 1.99% in 2021/22 will generate £0.858m of additional funding, if the precept is frozen efficiencies would need to be found within existing budgets.

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

7.1 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 consider financial forecasts and factors external to the organisation.

7.1.1 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 2021/22, however as mentioned previously there remains financial uncertainty regarding funding from April 2022 onwards.

7.1.2 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.

7.1.3 The table below shows the revenue budget for 2021/22 and shows that the authority has a projected deficit of £0.572m, this means that reserves will have to support the revenue budget in 2021/22 in order to deliver a balanced budget. Estimated shortfalls from 2022 onwards are detailed later in the report.

Revenue Budget	£m
Standstill Budget	85.524
Recruitment and Retirements	0.244
Growth and Savings	3.245
BUDGET 2021/22	89.013
Funding	
Revenue Support Grant	13.631
Business Rates - Top Up	16.922
Business Rates - Local Share	7.814
Section 31 Grant	1.283
Pension Grant	4.285
Precept income	43.633
Reduction in tax growth	-0.860
Precept increase at 1.99%	0.851
LCTS Grant	1.176
Collection Fund Deficit	-0.294
FUNDING 2021/22	88.441
BUDGET DEFICIT	**-0.572**

The forecast deficit will be funded by the use of the Covid19 grant, which is forecast to have a balance of £1m at the 1st April 2021. Because the deficit is wholly due to the impact of Covid19, the use of the grant in this manner is legitimate.

7.2 Budget Calculations

7.2.1 The authority had a balanced budget in 2020/21 meaning that expenditure was matched by income.

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.

7.2.2 Reductions to base budgets approved at Finance and Resources in July and October 2020 and January 2021 and increases in support staff employee budgets approved at Human Resources Committee in October 2020 and January 2021 have been incorporated into the base budget for 2021/22.

7.2.3 The budget is not calculated in isolation as it reflects the Workforce Plan, the Integrated Risk Management Plan (IRMP) and the Programme of Change which ensures that the capital and revenue budget support the authority's Your Fire and Rescue Service.

7.3 Budget Growth and Savings 2021/22

7.3.1 In addition to the budget adjustments approved at committee during 2020/21 there are a number of areas of growth and savings that have been identified as part of the budget planning process.

a) (£0.410m) has been deducted from employee budgets for vacancy management for both grey book and support staff.
b) £0.229m has been added to employee contingency budgets to cover the cost of two employees returning from career breaks during the year and for three employees who have exceeded their projected retirement date and are still in employment at the time of budget setting.
c) £0.287m has been included to grey book employees for the external recruitment of crew managers and the internal promotion of firefighters to crew managers in order to align the work force plan with the approved establishment.
d) £0.164m has been added to retained employee budgets for expected retained recruitment in 2021/22.
e) £0.125m has been provided for increased overtime costs which will be required to cover for leave that was deferred due to Covid19.
f) £0.484m has been included within support staff employee budgets for new support staff posts that will be subject to HR committee approval.
g) £0.050m has been allocated to pay for the inclusion of overtime in holiday pay.
h) A provision of £0.121m has been included in employer pension contributions to fund the cost of those firefighters who have opted out of a pension scheme, re-joining. This provision assumes that 25% may decide to opt back in. This is off-set by a reduction of (£0.035m) which is the saving from employees transferring to the 2015 scheme during the year.
i) £0.255m has been allocated for increases in premises costs for the provision of day crewed provided accommodation and increases in costs of contracts.
j) (£0.018m) has been removed from the fleet leasing budget following a review of pool vehicles.
k) £0.245m has been included within supplies and services for the implementation of performance the management framework, Office 365, consultancy for the property review and increases for software licences.
l) No inflation has been allocated for non-contractual budgets, resulting in a saving of (£0.102m) and (£0.200m) has been removed from the ill health pensions budget.
m) The Service Level Agreement with Kirklees has been reduced by (£0.035m) which is due to the provision of treasury management being transferred to fire.
n) The mast income budget has been reduced by £0.050m which is a result of national changes to the charging mechanisms following the implementation of the telecoms code.
o) £2.04m has been included for additional revenue contributions to capital expenditure which will reduce the authority's capital financing requirement.

7.4 Budget Calculation Assumptions

7.4.1 The main financial risks underpinning both spending and funding forecasts in the MTFP are:

- Precept increase of 1.99% in 2021/22 and each year thereafter.
- Resumption of growth to the tax base from 2022/23 of 0.5% and 1% from 2023/24 and onwards.
- Pay increases for all staff groups of 2% in 2022/23 onwards.
- General price inflation of 2%.
- Central government grant to increase by CPI inflation, currently 0.13%.
- Employees retire as per their projected retirement date and the authority continues to recruit in order to maintain establishment at 900 whole time employees.

As with any assumptions, those built into the MTFP will be at risk from factors beyond the authority's control, these can have the effect of increasing or decreasing the projected deficit.

7.5 Financial Planning April 2021 Onwards

7.5.1 In order to enable members to understand the financial uncertainty from 2022 a range of scenarios have been drawn up which shows the impact of:

a) A 5% cut in funding
b) A 10% cut in funding

These are potential scenarios at this stage, once more information is received on funding from 2022 onwards the Medium Term Financial Plan will be updated and reported to members. It has been assumed that government funding will be increased by CPI inflation each year. Although the government stated that austerity had ended, it is prudent to provide members with the worst case scenarios of funding reductions. At this stage no, planned real increases in funding from 2022 has been forecast as there has been no formal commitment from government to increase funding to fire and rescue services.

The table below shows the impact of these scenarios

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Revenue Budget	89.013	89.615	91.317	92.684
Funding	88.441	89.314	90.738	92.495
Use of Reserves	0.572	0.301	0.579	0.189
5% cut	0.000	-4.466	-4.537	-4.625
10% cut	0.000	-8.931	-9.074	-9.250

7.5.2 In summary, as at April 2022, if there were cuts to funding of 5% and 10%, the authority could be faced with finding ongoing revenue savings between £4.466m and £9.250m in order to achieve a balanced budget depending on the level of grant cut. Due to the current financial uncertainty it is forecast that the authority will have to either use reserves or make savings in order to achieve a balanced budget.

7.5.3 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 2021, if required.

7.6 Reserves

7.6.1 Finance and Resources Committee approved the Reserves Strategy in October 2021, this is attached at Appendix C.

It is proposed that members approve the transfer of £1.5m from the pay and prices reserve to the capital finance reserve. This would leave £2.1m in the pay and prices reserve which would cover an unfunded pay award in the short term whilst releasing more funds to support the capital plan. 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.

7.6.2 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 Description	Origin	O/Balance 1st April 2020	Increase 2020/21	Planned Use 2020/21	Planned Use 2021/22	Planned Use 2022/23	Planned Use 2023/24	Planned Use 2024/25	Cl/Balance 31/03/2025
General Fund		£5,000							**£5,000**
Transparancy	Govt Grant	£46							**£46**
Regional Control Funding	Govt Grant	£563			-£563				**£0**
Enhanced Logistical Support	Govt Grant	£202			-£150				**£52**
Decontamination of Body Bags	Govt Grant	£40							**£40**
Council Tax Reform	Govt Grant	£27							**£27**
Business Rate Appeals	Internal & Grant	£1,114			-£1,000				**£114**
COVID19	Govt Grant	£406	£1,736	-£1,000	-£1,142				**£0**
Insurance Claims	Internal	£419							**£419**
Service Support Reserve	Internal	£742		-£200					**£542**
Pension Equalisation Reserve	Internal	£4,070		£0	-£2,000	-£2,000			**£70**
Provision for pay and prices	Internal	£3,627	-£1,500		-£550	-£550	-£550	-£550	**-£73**
Capital Financing Reserve	Internal	£16,154	£1,500	-£1,500	-£8,580	-£7,520			**£54**
ESMCP	Internal	£258			-£258				**£0**
Medium Term Funding Impact	Internal	£2,000		£0	-£301	-£579	-£189		**£931**
Total Earmarked		**£29,668**	**£1,736**	**-£2,700**	**-£14,544**	**-£10,649**	**-£739**	**-£550**	**£2,222**
TOTAL USABLE RESERVES		**£34,668**	**£1,736**	**-£2,700**	**-£14,544**	**-£10,649**	**-£739**	**-£550**	**£7,222**

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) As mentioned in section 7.1.3 of the report, the funding shortfall attributable to the collection fund and tax base deficits will be met from the Covid19 reserve. In addition, overtime which is payable for the back fill due to employee taking leave postponed to the pandemic will be charged to this reserve.

b) It is also recommended that costs associated with the Property Review and the consultancy costs attributable to the implementation of Office 365 are met from the Service Support Reserve. It is expected that these projects will generate ongoing revenue savings over the longer term even though they will need initial investment in the first instance.

c) It is proposed that the capital financing reserve is used to fund the rebuilding of the three fire stations and the development of the FSHQ site as detailed in section 2 of this report and the completion of the rebuild of Wakefield Fire Station which commenced in 2019/20. This will mean that capital financing charges in the form of statutory Minimum Revenue Provision is not charged to this £17.6m of capital investment resulting in revenue savings 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.

d) As explained earlier in the report there may be some additional revenue costs associated with the McCloud/Sargeant case. The Government has not given any direction on how the costs of McCloud will be funded. In the short term, the Authority can call upon the pension equalisation reserve to fund this cost if central funding is not provided. The estimated ongoing revenue cost is £2m per annum and would be provided from the Pension Equalisation Reserve.

e) Due to the uncertainty regarding employees pay awards, provision has been made for the funding of a 1% pay increase costing an estimated £0.550m 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.

f) Until confirmation is received from the Home Office regarding the funding of the replacement of control room servers, the ESMCP reserve has been forecast to be used for this purchase.

g) As detailed in the table in section 7.5.1, the current MTFP shows that due to funding uncertainty, the authority will need to call upon its reserves in order to achieve a balanced budget. This will be met from the Medium Term Funding Impact reserve.

8 Financial Implications

8.1 The financial implications are included within main body of the report.

9 Human Resource and Diversity Implications

9.1 There are no human resource and diversity implications within this report

10 Health, Safety and Wellbeing Implications

10.1 There are no health, safety and wellbeing implications within this report

11 Environmental Implications

11.1 There are no environmental implications within this report

12 Your Fire and Rescue Service Priorities

12.1 The revenue and capital budget and the medium term financial plan under pin all the fire and rescue service priorities

13 Conclusions

13.1 This report provides members with the prosed revenue and capital budgets for 2021/22 and a medium term financial plan to 2023/24. This will be brought to Full Authority Committee on the 25th February for approval.

Directorate	Description	Estimated Total Capital Cost	Estimated Capital Cost 21/22	Estimated Capital Cost 22/23	Estimated Capital Cost 23/24	Estimated Capital cost 24/25	Estimated Capital cost 25/26
Employment Services	Electronic Visitors booking in system	£50,000	£0	£50,000	£0	£0	£0
Fire Safety	Fire Alarms	£2,000,000	£400,000	£400,000	£400,000	£400,000	£400,000
Transport	Telematics upgrade	£100,000	£100,000	£0	£0	£0	£0
Transport	Vehicle Replacement	£12,382,103	£3,312,118	£2,218,118	£3,015,894	£2,175,857	£1,660,116
ICT	Upgrade of Gartan	£50,000	£50,000	£0	£0	£0	£0
ICT	Computer Hardware Replacement	£469,000	£145,000	£99,000	£50,000	£75,000	£100,000
ICT	Appliance Mobiles	£30,000	£30,000	£0	£0	£0	£0
ICT	UPS on stations	£240,000	£240,000	£0	£0	£0	£0
ICT	Pagers	£0	£0	£0	£0	£0	£0
ICT	Control VDI	£0	£0	£0	£0	£0	£0
ICT	MDT Hardware Replacement	£140,000	£140,000	£0	£0	£0	£0
ICT	Cradle point routers	£210,000	£210,000	£0	£0	£0	£0
ICT	ICT Service Management Software	£110,000	£0	£110,000	£0	£0	£0
ICT	Network Switches	£300,000	£300,000	£0	£0	£0	£0
ICT	WAN replacement	£100,000	£0	£100,000	£0	£0	£0
ICT	Performance Management Dashboard	£50,000	£50,000	£0	£0	£0	£0
ICT	Microsoft 365	£30,000	£30,000	£0	ted for 21/22 but	£0	£0
IRMP	Station Rebuild/FSHQ Development	£25,429,600	£8,580,000	£12,849,600	£4,000,000	£0	£0
Property	Cookridge Fire Station	£100,000	£100,000	£0	£0	£0	£0
Property	Fairweather Green Fire Station	£100,000	£100,000	£0	£0	£0	£0
Property	Illingworth Fire Station	£100,000	£100,000	£0	£0	£0	£0
Property	Leeds Dormitory Facilities	£100,000	£100,000	£0	£0	£0	£0
Property	Dormitory Facilities	£100,000	£100,000	£0	£0	£0	£0
Property	Rawdon ablution Facilities	£100,000	£100,000	£0	£0	£0	£0
Property	Vehicle workshop pit improvements	£100,000	£100,000	£0	£0	£0	£0
Property	Illingworth	£200,000	£200,000	£0	£0	£0	£0
Property	Electric charging points	£200,000	£200,000	£0	£0	£0	£0
Property	Risk Register - Asbestos	£110,000	£110,000	£0	£0	£0	£0
Property	Surface water drainage	£40,000	£40,000	£0	£0	£0	£0
Property	General Mechanical & L8	£200,000	£200,000	£0	£0	£0	£0
Property	Specific Refurbishments	£4,000,000	£0	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Property	Various Properties	£3,200,000	£0	£800,000	£800,000	£800,000	£800,000
Operations	Hydrants	£1,800,000	£450,000	£450,000	£450,000	£450,000	£0
Operations	New central Mobilising System	£2,000,000	£0	£2,000,000	£0	£0	£0
Operations	Water Rescue Equipment	£120,000	£24,000	£24,000	£24,000	£24,000	£24,000
Operations	Gas Tight Suits	£50,000	£10,000	£10,000	£10,000	£10,000	£10,000
Operations	Lay Flat Hose	£250,000	£50,000	£50,000	£50,000	£50,000	£50,000
Operations	Portable Scene Lighting	£100,000	£100,000	£0	£0	£0	£0
Operations	Uniform	£200,000	£200,000	£0	£0	£0	£0
Operations	Wildfire Vehicle	£30,000	£30,000	£0	£0	£0	£0
Operations	Helmet Bag	£15,000	£15,000	£0	£0	£0	£0
Operations	Technical Rescue Equipment	£75,000	£75,000	£0	£0	£0	£0
Operations	PPE Storage Shelters	£168,800	£168,800	£0	£0	£0	£0
Operations	Command Support	£100,000	£100,000	£0	£0	£0	£0
Operations	Expansion Foam concrete	£65,000	£65,000	£0	£0	£0	£0
Operations	Foam Branch and Inductors	£30,000	£0	£0	£0	£30,000	£0
Operations	MIBS stretcher	£50,000	£0	£0	£0	£50,000	£0
Operations	Defribrillators	£75,000	£0	£0	£0	£75,000	£0
Operations	Tirfor & Ancillaries	£100,000	£0	£0	£100,000	£0	£0
Operations	Ground Monitors	£85,000	£0	£0	£85,000	£0	£0
Operations	Dividing Breechings	£30,000	£0	£0	£30,000	£0	£0
Operations	Mainline Branches	£60,000	£60,000	£0	£0	£0	£0
Operations	High Rise Branches	£28,000	£28,000	£0	£0	£0	£0
Operations	Breathing Apparatus Sets	£850,000	£0	£850,000	£0	£0	£0
Operations	BA Cylinders	£350,000	£0	£350,000	£0	£0	£0
Operations	BA Ancillary Equipment	£210,000	£0	£210,000	£0	£0	£0
Operations	Powermats	£110,000	£110,000	£0	£0	£0	£0
Operations	RFID Tagging	£293,000	£0	£0	£293,000	£0	£0
		£57,585,503	**£16,522,918**	**£21,570,718**	**£10,307,894**	**£5,139,857**	**£4,044,116**

2020/21	STANDSTILL REVENUE BUDGET	2021/22
£53.667	Firefighters	£52.996
£11.100	Support Staff	£11.195
£2.000	Pensions	£2.000
£1.220	Other Employees	£1.268
£4.540	Premises	£4.806
£2.328	Transport	£2.290
£5.722	Supplies and Services	£5.477
£0.348	Lead Authority Charges	£0.327
£8.150	Capital Financing	£7.330
£1.284	Contingency	£0.450
£90.358	GROSS EXPENDITURE	£88.139
-£2.735	Less Income	-£2.615
£87.623	NET EXPENDITURE	£85.524

WEST YORKSHIRE FIRE AND RESCUE SERVICE

RESERVES STRATEGY 2020/21 TO 2024/25

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 this support the fire and rescue authority's strategy to deliver good quality services to the public.

Determining the Level of Reserves

Reserves are an essential tool to ensure long-term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.

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

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.

The Authority also has a number of provisions on the Balance Sheet which, provide funding for a liability or loss that is known with some certainty will occur in the future but the timing and amount is less certain.

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 consideration 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 awards. There is continuing pressure on the pay awards for fire fighters, there is currently 3% provided for in the Medium Term Financial Plan, but there is a possibility that the pay award could be higher than this.
- Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax.
- Spread the cost of large scale projects which span a number of years.

The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. However, given the high level of influence of third parties such as the Local Government Employers and Government departments on its income and expenditure there is always the risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

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

The Authority has set its' guideline Prudential indicator for the General Reserve at 5% of annual budget which is a commonly used benchmark across the fire sector. The Authority also uses the Risk Register to determine the level of General Fund Reserve. This Risk Register details 55 separate risks the Authority faces, which has an estimated financial liability of £5m. This equates to 5.7% of the annual budget, slightly higher than the guideline of 5%.

Reserves Position 1 April 2020

Although the Authority has on the face of the Balance Sheet £34.6 million in usable reserves, the actual cash readily available at the 31 March 2020 is £31 million. The level of cash fluctuates during the year due to the timing of Government grants, notably the top up grant which we received £31 million in July 2020. 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 1/4/20
General Fund	£5,000,000
Earmarked Reserves	£29,668,119
TOTAL	£34,668,119

The general fund reserve is not specified for a determined use: it is maintained for cash flow purposes.

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 31/3/2025.

Reserves as a result of Grants

Description	Balance 1/4/20	Estimated Balance 31/3/25	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.
Description	Balance 1/4/20	Estimated Balance 31/3/25	Purpose and Origin of the Reserve
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	£201,709	£51,709	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	£46,174	£46,174	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.

Business Rate Appeals	£1,114,224	£114,224	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 councils.
COVID19	£406,331	0	This reserve holds the grant relating to supporting the costs associated with Covid 19.

Reserves as a result from Revenue Allocations

Description	Balance 1/4/20	Estimated Balance 31/3/23	Purpose and Origin of the Reserve
Emergency Services Mobile Communications Programme (ESMCP)	£258,000	£258,000	This reserve has been established to recognise the risk that Government funding for ESMCP may cease after 2022. This reserve will fund those contracts for which the Authority will be contractually committed to after this date.
Insurance Claims	£418,650	£418,650	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 and 2018/19. This reserve will be used for any uninsured losses the authority may face in future years e.g. mesothelioma.

Service Support Reserve	£741,821	£541,821	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. £1,224k was paid from this reserve in 2019/20 to cover the costs associated with the lean working and procurement reviews and the provision of CLM vehicles
Pension Equalisation Reserve	£4,069,603	£19,603	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 £2.0 million and annual spend is in the region of £1.5 million. The amount transferred in 2019/20 was £510k. In addition, this reserve will be used in the short term to fund the potential costs of McCloud/Sargeant if government support is not provided.
Reserve for Pay and Prices	£3,627,211	£1,627,211	This reserve will be used to fund any pay awards that are in excess of that included within the Medium Term Financial Plan or any other inflationary increases not provided for in the annual budget.

Description	Balance 1/4/20	Estimated Balance 31/3/23	Purpose and Origin of the Reserve
Capital Finance Reserve	£16,154,264	£104,264	The purpose of this reserve is to ease the cost of financing the capital plan in future years. Property new builds and major refurbishments will be funded from the capital finance reserve. Any underspending on capital financing charges are transferred to this reserve.
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

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.

- The Reserves Strategy will be reviewed annually by the Finance and Resources Committee in October.

- 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.