Item No. on Agenda

Report to the Police Fire and Crime Panel

14th February 2022

Fire Revenue Budget Report (incl. MTFS and Precept)

Report of the Staffordshire Commissioner

Introduction

The purpose of this report is to set out the proposed revenue budget and precept proposals for the Staffordshire Commissioner Fire and Rescue Authority for 2022/23. It is the first budget report and Medium Term Financial Strategy (MTFS) for the new Staffordshire Commissioner. This report delivers one of the Commissioner's key responsibilities as laid out within section 5 of the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Net revenue budget requirement for 2022/23
- Proposed precept for the fire element of the council tax 2022/23
- Proposed Medium Term Financial Strategy (MTFS)
- Outline Capital Budget for 2022/23 to 2024/25

The report should be read in conjunction with the accompanying:

- Treasury Management Strategy
- Capital strategy and Capital Programme Report
- Reserves Strategy Report

Recommendations

The Police, Fire and Crime Panel is asked to:

a) Examine the information presented in this report, including:

- The Total 2022/23 net revenue budget requirement of £42.472m, including
- A council tax requirement for 2022/23 of £28.532m before collection fund surplus/deficits are taken into account **(see Appendix 6)**

b) Note that the funding for 2022/23 is based upon the Provisional Local Government Finance Settlement, and includes the business rates information received from the nine billing authorities (as per NNDR1 returns).

c) Support the Commissioner's proposal to increase the 2022/23 precept for the fire element of the council tax bill by 1.99% or £1.57 per annum which is equivalent to 3p per week, increasing the council tax to £80.35 for a Band D Property **(see Appendix 6)**

d) To note that the Council Tax base has increased to at 355,100 properties **(see Appendix 5)** equivalent to a increase of 1.84%. The Council Tax collection fund has also been finalised delivering a surplus of £288k **(see Appendix 4).** Note this includes the option to spread the £102k per annum deficit attributable to COVID-19 over 3 years and this is the second year

e) To note the MTFS summary financials **(Appendix 7)** and MTFS assumptions contained within the report

f) To note the MTFS shows a balanced position. However, this includes a saving requirement of c.£2m during the MTFS period and a net use of reserves of £0.3m. This is driven by the assumptions around ongoing cost pressures which includes ongoing pay pressure and increased Firefighters Pension costs and increases in capital financing costs and utilities

g) Support the proposed three year Capital Investment Programme (**see Appendix 8**). Note there is a capital Strategy to accompany the programme

h) To note the reduction in business rates for 2022/23 following the receipt of the NNDR1 returns received from the nine local billing authorities which includes a collection deficit of £0.8m.

i) Note the outcome of The Staffordshire Commissioner's budget consultation

j) Support the delegation to the Director of Finance for the Staffordshire Commissioners Office to make any necessary adjustments to the budget as a result of late changes to central government funding (including changes due to the final funding settlement being announced) via an appropriation to or from the general fund reserve

k) To note the proposed fees and charges for 2022/23 **(see Appendix 10)**

l) To note the Statement from the Director of Finance / S151 Officer on the robustness of the Budget and adequacy of the proposed financial reserves

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Staffordshire Commissioner

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Commissioners Foreword

This is my first budget and council tax precept proposal for Staffordshire Fire and Rescue Authority as Police, Fire & Crime Commissioner. Since my election in May 2021, I have been hugely impressed by the professionalism and commitment of our Fire officers and staff. I would like to thank them for this and particularly for the extra effort they have made to keep us safe during the Covid19 pandemic.

Due to careful financial planning and central government support Staffordshire Fire has not seen an impact on its core funding due to Covid19, but the financial impact of the pandemic on public services, business and taxpayers, will be felt for years to come. This 2022/23 budget and Medium-Term Financial Strategy (MTFS) is set against this backdrop.

I have worked with Staffordshire Fire to address future years' budget gaps through a number of planning sessions, and I am pleased to present a five-year budget.

In December 2021 I published my local Fire and Rescue Plan which sets out priorities and service expectations on behalf of Staffordshire residents. These include a flexible and responsive Service, protecting people and places, helping people most at risk stay safe and ensuring that we have a Fire and Rescue Service fit for tomorrow.

The work that fire and rescue services do has changed significantly in recent decades. Staffordshire Fire & Rescue Service provide a broad range of services to keep people safe at home, at work and in public places. The number and types of incidents attended have also changed and whilst there had been a downward trend for many years, the service has seen an increase in blue-light response over the last three years. Some of that demand is more complex than before; climate change has led to more extreme weather events, leading to flooding and large-scale fires in open areas that have required protracted, resource-intensive responses.

The MTFS will ensure that the Chief Fire Officer has the resources needed to deliver on the local plan and national government priorities. With this, and inflation and wage pressures in mind, I have concluded that the 2022/23 Fire and Rescue council tax precept should increase by 1.99%, equivalent to £1.57 per year or 3p per week for a band D property.

The proposed increase in the Fire and Rescue council tax precept over the four year period of this MTFS is significantly lower than the forecast cumulative rate of inflation and wage growth. I will always aim to keep council tax as low as possible without compromising safety.

I am acutely aware that household budgets are tight, so I expect every pound of taxpayer's money invested in Fire and Rescue to be spent wisely and for Staffordshire Fire to continually seek efficiencies. To balance this MTFS, without using reserves, a further £2m of additional savings will be required by 2026. This will be challenging but given a good record of making savings, smarter use of technology, more efficient crewing models and to share more buildings and back-office costs with Staffordshire Police, I believe this is achievable.

Staffordshire Fire and Rescue continue to perform well and with your support and the continued investment set out in this MTFS it is my expectation that our new Chief Fire Officer, Rob Barber, will continue to keep us safe.

https://staffordshire-pfcc.gov.uk/new-document/fire-and-rescue-plan-2021-24/

Executive Summary

This report advises the Panel on the proposed revenue budget for 2022/23, and the proposed level of Council tax for the Staffordshire Commissioner Fire and Rescue Authority. It also presents an updated Medium Term Financial Strategy for the following four year period to 2026/27.

On 27 October 2021, the government announced the outcome of Spending Review 2021. This Spending Review announced that local government are provided with a strong foundation for the next three years, with around £1.6 billion of additional grant in each year of the Spending Review period. To prioritise certainty for 2022/23, the Government delivering a one-year local government finance settlement, although the Spending Review has been issued for a three year period.

The proposals within the draft settlement relate to 2022/23 and are focused on stability. The government are also committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years. Over the coming months, Government will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector (including Fire) before consulting on any potential changes.

Following the receipt of the draft local government finance settlement which included the referendum limits for Council Tax increases, the Commissioner has considered; current and future funding requirements, together with the factors included within his Fire and Rescue Plan, the results of the survey with local residents, as well as actual and expected cost pressures and expected efficiency savings available to the Service as part of its ongoing transformation work.

Whilst the Covid-19 pandemic continues to have an impact upon the economy, the Fire and Rescue Sector have continued to support the priorities of Government e.g. helping with the vaccination and booster programmes. The financial impact has seen additional costs which have largely been supported by grant funding, and the council tax base and collection deficit estimates have bounced back quicker than anticipated.

The Commissioner has taken into account the adequacy and level of reserves and the impact of future financial challenges and opportunities in the MTFS. This paper is accompanied by a revised Reserves Strategy which is supported by the Commissioner.

The Settlement Funding for 2022/23 includes an inflationary increase in Revenue Support Grant (RSG) set at 3.1%, increasing by £146k. The business rates top-up has been held at the same level.

The Settlement Funding assumptions contained within this report are based upon the Provisional Local Government Finance Settlement received on the 16 December 2021.

The Commissioner is proposing a 1.99% increase in Council Tax equivalent to an additional £1.57 per annum (3 pence per week) in line with this referendum limit and will increase Band D Council Tax for the Staffordshire Commissioner FRA to £80.35.

For 2022/23 in support of this recommendation the online precept consultation with residents undertaken by the Commissioner shows that overall, around 70% of all respondents support a 1.99% increase in precept for the Fire and Rescue Service. The resident's survey has generated 940 responses and shows that 657 of individuals favoured the proposed increase.

The budget process for 2022/23 involved full consultation with all budget holders and calculated from a zero base. Where possible all recurring efficiencies and savings achieved to date have been incorporated into the base budget.

The impact of the Covid-19 pandemic was strongly evidenced in the 2021/22 budget via a reduction in the tax base (driven by an increase in the means tested benefit Local Council Tax Support schemes) and a deficit on the collection fund. We have seen a return to growth in the council tax base for 2022/23, however the degradation on the base seen due to the pandemic has not been fully recovered, reducing the ongoing base to what was forecast pre-pandemic.

Whilst the Council Tax position has bounced back well the reported position for business rates still indicates that the pandemic has had a longer-term impact upon the total level of business rates in addition to significant deficits reported by the local Billing Authorities. Whist some of this deficit has been recovered through retail relief compensation there is still a significant net reduction in the reported share of local business rates received by the Authority.

The Commissioner has considered the adequacy and level of reserves and the impacting of future financial challenges and opportunities in the MTFS. The MTFS assumes a net drawn on reserves of £0.3m to support the MTFS revenue budget over the five year planning window. This paper is accompanied by a revised Reserves Strategy. There are significant risk and uncertainties beyond 2022/23 that are reflected and narrated within this paper which include the impact of national pay awards (pressure of above inflation awards), the implications of the Sargeant / McCloud High Court judgement on pension costs, and also the risks associated with the upcoming formula funding review and high levels of inflation now being experienced and forecast for the next few years.

In summary, when considering the Settlement Funding Position, additional grants offered by Government and the precept proposal from the Commissioner a balance budget position is presented for the budget year 2022/23, however the continuing uncertainty beyond next year makes planning challenging.

The MTFS includes a saving target of £2m and the Commissioner will continue to work with the Service in order to ensure that further efficiency is achieved to deliver this saving and deliver the requirements set out with the Commissioner's Fire Plan. This reported overall financial position is in line with that reported to the Panel last year:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Gap/(surplus) reported	**0.5**	**1.3**	**2.0**	**2.0**
Movement	*(0.2)*			
Revised Savings Position	***0.3***	**1.3**	**2.0**	**2.0**

Background

1. The budget proposals contained within this report are based upon the provisional 2022/23 Local Government Finance Settlement received on 16 December 2021.

2. Settlement Funding comprises of three funding streams shown below. The RSG and Business Rates top-up are shown as extracted from the final settlement, with the 1% share of local business rates being based upon a current estimate of NNDR1 submissions.

	2021/22 £m	**2022/23 £m**	**Movement £m**
1% share of Local Business Rates	3.735	2.670	(1.065)
Business Rates Top-up	6.059	6.059	
Revenue Support Grant (RSG)	4.777	4.923	0.146
Total Settlement Funding	**14.571**	**13.652**	**(0.919)**

Business Rates / Business Rates Top-up

3. The Staffordshire Commissioner Fire and Rescue Authority receives a 1% share of local business rates, in addition to a business rates top-up. The Panel should note that the actual 1% share of local business is extracted from the district, borough and city council's NNDR forms (Non-Domestic Rating Income Calculation and Estimate of Collection Fund Surpluses and Deficits).

4. The 1% share of business rates has resulted in an estimated year on year reduction of £1,065m, demonstrating overall reduction in the business rates collection estimates across the County and City due to the continued impact of the pandemic, with less business rates relief promised for 2022/23.

5. Whilst the overall NNDR 1% share of business rates has reduced by c.£0.26m, the reported deficit based upon lower collection levels is £0.8m for the year. This collection deficit position is forecast to recover into the medium term but not back to pre-covid levels. Further dialogue with the nine billing authorities will be undertaken during the year so that this position can be fully understood.

6. The above reduction has been partly mitigated by an increase in Retail Relief S31 grant of £0.4m.

   There is therefore continued risk beyond 2022/23 should business rates continue to fall post pandemic.

Council Tax

7. The setting of Council Tax is under the control of the Staffordshire Commissioner. The process for issuing the Precept is aligned to the setting of the Staffordshire Police precept following the change in governance arrangements. This process is laid out within Schedule 5 of the Police Reform and Social Responsibility Act 2011.

8. From 1 August 2018, the Staffordshire Commissioner assumed the functions of the former Stoke-on-Trent and Staffordshire Fire and Rescue Authority, including the power to issue a fire precept from 2019/20.

9. The Band D Council Tax for the Authority was approved at £78.78 for 2021/22, this report includes the proposal by the Commissioner to increase Council Tax by 1.99% to £80.35 in 2022/23. The table below benchmarks the precept proposals in the 4-year MTFS against the forecasts from HM Treasury and the Office of Budgetary Responsibility:

	2022/23	2023/24	2024/25	2025/26	Cumulative
RPI Inflation	5.0%	3.4%	2.8%	2.8%	**14.0%**
Wage Growth	4.6%	3.7%	2.2%	3.0%	**13.5%**
Precept Estimates	1.99%	1.99%	1.99%	1.99%	**7.96%**

10. The referendum limit for 2022/23 has remained at 2% for this Authority. The Government has recognised the financial issues of a number of services by offering £5 flexibility on council tax precept for the lowest quartile services, which will benefit eight fire and rescue services for a one-year period.

11. A 1.99% increase in Council Tax is equivalent to an increase in Band D of £1.57 per annum (3 per week), and will increase Band D to £80.35.

12. The Council Tax base shown in **Appendix 5** has increased to 355,100 from 348,733 properties in 2021/22, which is equivalent to an increase of 1.84% and demonstrates a good recovery during the pandemic. The Council Tax collection fund is also in credit by £288k, shown in **Appendix 4**. Both the Council Tax base and the surplus on the collection fund have been finalised and agreed.

13. A 1% sensitivity in precept for the Staffordshire Commissioner is equivalent to £0.280m.

14. Based upon a 1.99% increase, the total budgeted precept (including collection fund deficit) has increased by £1.414m, as follows:

Council Tax Amount 2021/22	**£27.406m**
Increase in Council Tax Base by 1.84%	£0.501m
Movement from fund deficit to Surplus	£0.355m
Increase in Council Tax by 1.99%	£0.558m
Council Tax Amount 2022/23	**£28.820m**

15. The Staffordshire Commissioner issued a budget consultation document in December which concluded on 11 January 2022 which also included a survey regarding options for the local precept. The results of this consultation show that 70% of the 940 that responded supported the proposed increase of 1.99%.

16. The table below illustrates the financial impact of the precept changes on the Council Band D rate and increase in funding for Police and Crime in Staffordshire.

Council Tax (Fire Element)	2021/22	2022/23
Band D Council Tax Proposed	£78.78	£80.35
Increase on Prior Year	£1.54	£1.57
Percentage increase on Prior Year	1.99%	1.99%
Council Tax Increase*	£222,861	£1,059,123
Total Precept Levied	£27,473,179	£28,532,303
Weekly Increase	£0.03p	£0.03p

**This includes changes in the tax base as well as precept rate changes*

Revenue Budget 2022/23

17. The Revenue Budget sets out to support the Corporate Safety Plan and Fire and Rescue Plan issued by the Staffordshire Commissioner.

18. **Appendix 1** sets out the proposed revenue budget of £42.472m for 2022/23 based upon a Council Tax Increase of 1.99% and the provisional Local Government Finance Settlement and receipt of the local business rates estimates.

19. The key features of the budget, are as follows:

Pay costs Revenue budget

The overall pay costs budget for 2022/23 at £29.0m, shows an increase of £1.0m more than last year's budget.

The Chancellor announced during the Spending Review for last year that there would be a pay pause across a majority of the public sector. Whilst a pay pause was included within the budget a nationally agreed increase of 1.5% was agreed for all operational Grey Book staff. As part of the 2022/23 Settlement this pay pause has now been lifted and a pay award assumption for 2022/23 has been included at 3% for staff within the MTFS. A 1% pay award sensitivity is around £0.25m per annum. The Fire Brigades Union remain in discussion with fire service employers through the National Joint Council and will continue to push for higher than inflation pay awards. It should be noted that pay awards are not negotiated locally so this is outside of the control of the Commissioner.

There is therefore risks associated with the assumed level of pay award budgeted for 2022/23 and into the medium term particularly with inflation running at rates in excess of 5% (5.1% published CPI for November 2021).

The following bridge explains the net reduction in pay costs:

	£m
Pay Budget – 2021/22	**28.0**
Pay Award (at 3%)	1.0
National Insurance Increase 1.25%	0.2
New Posts (incl. temporary investment and re-grades)	0.4
Holiday Pay / Bank Holidays / CPD	0.1
End of secondments (non-recurring pay)	(0.4)
Restructure and efficiency	(0.2)
Pay Efficiency Requirement	(0.1)
Pay Budget – 2022/23	**29.0**

Non-pay costs

Non-pay costs are budgeted to reduce marginally year on year. Some of the main movements in non-pay costs are as follows:

- Funded non-pay costs have increased by £0.1m mitigated through additional income budgeted
- Premises costs have increased by £0.5m and includes an estimate of the anticipated increase in gas and electricity costs following the significant increase in wholesale prices.
- Business rates include a £0.1m per annum saving following the positive outcome of the appeals submitted to the Valuation Office Agency.
- Transport costs at £0.8m are broadly in line with previous year despite the increase in fuel prices
- A targeted non-pay efficiency saving has been included, £0.15m
- Non Pay includes a charge of £1.2m payable to West Midlands Fire Service, this represents 30% of the budgeted cost of running the Joint Fire Control.

(ii) Income

Income for 2022/23 is budgeted to increase slightly to £3.3m

- The Authority received a Local Council Tax Support grant of £0.468m in 2021/22 which was a one-off receipt to compensate for the reduction in Council Tax Base and is therefore not included within 2022/23.
- A Service Grant of £0.66m has been included within the settlement, this is to cover the National Insurance Increase. Only £0.2m has been released in the budget year. The balance is held in grant reserves to cover of this increase for 2023/24 and 2024/25
- The S31 Grant for Business Rates has increased by £0.4m as additional business rates relief has been included with the NNDR1 returns that partly compensates for the business rates reduction reported for the budget year.

(iii) Capital Charges

Total capital charges at £5.2m remain broadly in line with the previous year:

- The £1.4m minimum revenue provision requirement for 2022/23 in line with the MRP Policy
- The budget assumes that the overall level of borrowing (loans) for the Authority will remain unchanged as no loans are due for repayment in year. The budgeted level of interest on the existing long terms loans of £17.050m is 4.25% (Budget 2022/23, £0.758m)
- The unitary charge will increase marginally due to the Retail Price Index (RPI) increase applied to the variable elements of both PFI contracts at £3m per annum

Budget Monitoring 2022/23

20. A budget monitoring report will be considered by the Fire Strategic Governance Board on a quarterly basis. A monthly Resource Control Report will be issued to members of the Service Delivery Board (SDB) and also published on the Intranet available for all staff.

21. A monthly Finance News Publication is also issued alongside the detailed Resource Control Report. In addition, the Finance Panel, which is a sub-group of the Ethics, Transparency and Audit Panel (ETAP) will continue to review the budget monitoring reports on a bi monthly basis with a report submitted to ETAP by the Finance Panel Chairman.

Service Transformation

22. The Service has already undertaken a number of scenario planning sessions and options have being discussed and developed with the Staffordshire Commissioner in order to provide a pathway for delivery of the expected financial challenges into the medium term and deliver a more efficiency Service that can deliver improved productivity.

23. As discussed within this paper the budget gap into the medium term is estimated to be around £2m over the life of the MTFS. This gap has reduced from the previously reported £3m due to more certainty being received regarding funding the Authority receives through Revenue Support Grant.

24. The requirement for Service Transformation is to ensure that Staffordshire Fire and Rescue Service "is able to provide a modern, efficient and sustainable level of service to the public which does not compromise the safety of our staff or our communities."

25. There are a number of topics that are actively being worked upon which all connect under the banner of future transformation of the service. The work is aligned to the Safety Plan 2020-2024 (service reform) and the Commissioners Fire Plan 2021-2024 under the two priorities of having a Flexible and Responsive Service as well as a Fire Service for Tomorrow.

26. The work fits into four distinct categories:

a) Corporate Reform

The following areas will be reviewed as part of this workstream:

- **Senior leadership restructure** – In order to create a more efficient, flexible pathway of management and in order to attract the best future leaders into the service

- **Investing in our people** – This work is being completed through our review of the service's culture and creation of an insights team to improve equality, inclusivity and diversity

- **Improving the productivity of the Service** – Through a new station work routine to create capacity and performance clarity within the wholetime crews. This also includes investment and reform of all aspects of performance and assurance within the service

- **Review of Learning and Development** - This area of work includes a more effective restructure to build capacity for outreach training and assessments. More effective delivery of the national

b) Response and Crewing Reform

In order to ensure the most effective use of our resources the following are key areas of focus:

- **To introduce new appliances with enhanced rescue capabilities (ERPs)** – This will improve the services capabilities for heavy rescue incidents and allow a more efficient crewing model to be implemented. This is supported by the capital programme.

- **A revised operational response model** – In order to create a more effective and efficient use of available wholetime and on-call firefighters to improve fire cover and enhance the level of public safety

- **Reviewing the viability of station locations**

- **Reviewing of the crewing models in place across the Service** – To understand the potential of changing crewing models at wholetime stations

- **Review of Service standby policy** - To provide evidence to demonstrate whether our standby movements add value to our response to incidents

c) **Prevention and Protection Reform**

This reform is aimed at creating more responsive and efficient prevention teams and aiming to improve the level of collaborations on agenda such as health outcomes and community safety. In terms of protection, continued investment is being made in our dedicated teams and the upskilling of our operational staff will ensure a greater level of capacity is achieved in order to deliver more protection work within our communities.

d) **Estates and Shared Services Reform**

- **The transformation of fire estate** – This includes the redevelopment of Stafford and the continued progress of sharing estates with Staffordshire Police which improves collaboration and brings a more efficient model to Fire and Police as part of the Commissioner's Estate Strategy

- **Review of Shared Service performance** – this will explore the level of performance and assurance for both the Service and Staffs Police with a review of current governance and reporting arrangements

27. Savings options in excess of £2m have been presented to the Commissioner for consideration based upon the workstreams detailed above. Regular updates will be taken to the Strategic Governance board during the year.

Firefighters' Pension Schemes

28. Pensions Grant

Following the results of the 2016 Valuation of the Firefighter's Pension Schemes employer contribution rates were increased by an average of 12.6%, resulting in additional costs for Staffordshire of around £1.8m per year. A Pension Grant has been received for the last three years from the Home Office covering 90% of this increase and this grant has also been guaranteed for the budget year 2022/23. The Commissioner has been informed by the Home Office that it is looking to base line this grant into funding from 2023/24. This could result in future reductions to this grant if it is not specifically ring fenced for this purpose rather than being incorporated into the Revenue Support Grant.

In addition to the above the 2020 valuation of the Firefighters' Pension Scheme is now near completion with the results of this further valuation awaited. This is likely to increase pressure further on the required level of employer contributions.

29. Sargeant/McCloud Case Update

The Police Fire and Crime Panel will be aware that as a result of legal cases brought in respect of the Firefighters Pension Reforms, it has been found that the implementation of the Firefighters Pension Scheme 2015 was discriminatory as outlined in the McCloud/Sargeant judgement. The legislation to remedy this discrimination is expected to be enacted no later than October 2023.

Work has been on-going in endeavouring to provide remedy affected members ahead of the legislation under Section 61 of the Equality Act, with a process called Immediate Detriment. All cases processed in this way will be reviewed once the legislation is enacted to ensure that all benefits being paid accurately reflect the revised scheme rules. The Commissioner has agreed to continue to process cases under Immediate Detriment and is watching the national picture carefully.

30. Firefighters pension scheme costs therefore remain a significant risk over the medium term, in particular in light of the McCloud judgement discussed above. To offset this risk the Commissioner has already established a pensions reserve, and also made provision for additional employer pension contributions from 2024/25.

Reserves and Balances

31. The Authority holds two reserves, a Specific/Earmarked Reserve which is built up through any surplus within the Income and Expenditure account. The utilisation of this fund has been established with the approved Reserves Strategy that was last updated in February 2021; and a General Reserve which is held to protect against any spate or emergency conditions that may arise, **(see Appendix 3).**

32. At 1 April 2021 the Authority held £1.9m in General Reserves and a risk assessment for this reserves was undertaken as part of the budget setting process for 2022/23 and the overall provision of £1.9m has remained unchanged for a number of years and represents 4.5% of the proposed revenue budget for the year.

33. At 1 April 2021 the Authority held £7.5m in Earmarked Reserves. **Appendix 2** demonstrates the impact on Specific Reserves for the Council Tax proposal included within this paper. The schedule also assumes utilisation of capital spend as incorporated within the Reserves Strategy. It does not assume use of reserves for other contingency areas that are incorporated within the Reserves Strategy.

34. The forecast balance on the Earmarked Reserves is detailed within the Reserves Strategy update paper and shown below (See Appendix 2).

Medium Term Financial Strategy

35. The MTFS has been updated to reflect the budget proposals for 2022/23 and incorporates the assumptions contained with the Provisional Financial Settlement, which includes the assumed increase in Council Tax of 1.99%. A summary of the financials covering the medium term period 2022/23 to 2026/27 are included within Appendix 7.

36. Should the Staffordshire Commissioner elect not to increase Council Tax for 2022/23 and beyond in line with the assumptions incorporated within this report, saving targets and use of reserves will need to be re-visited.

37. The budget for 2022/23 shows a balanced position, however there is a significant saving requirement of £2.0m identified into the medium term as discussed within the Service Transformation Section above.

38. The MFTS now assumes that additional pension costs will be passed onto the Commissioner. This is both as a result of the Sargeant/McCloud Pension Remedy and also the anticipated impact of the 2020 Firefighters' Pension Scheme Valuation. As a result of this uncertainty a 5% Increase in employer contributions have been included within the MTFS from 2024/25 in addition the Commissioner has created a pension reserve.

39. Whilst the 2022/23 revenue budget recognises the savings that have been delivered to date due to the change in governance arrangements, delivery of Shared Services and Estates Rationalisation (Tamworth and Hanley), further savings have not been included with the MFTS at this point in time. Savings delivered through Shared Service arrangements were re-invested into three new fire safety audit roles within the Prevent Team during 2020/21.

40. There is therefore a significant level of financial uncertainty regarding the funding position for the Authority beyond 2022/23, this unfortunately results in a higher level of risk associated with the funding assumptions contained within the updated MTFS.

41. A summary of the main MTFS assumptions are shown below for consideration:

	2022/23 Plan	2023/24 Plan	2024/25 Plan	2025/26 Plan	2026/27 Plan
PAY COSTS					
Pay Award Operational Staff	3.0%	3.0%	3.0%	2.0%	2.0%
Pay Award Non Operational Staff	3.0%	3.0%	3.0%	2.0%	2.0%
Other Pay Costs	3.0%	3.0%	3.0%	3.0%	2.0%
Pension Costs - Fire Fighters Pension Schemes	+£1.8m	+£1.8m	+£1.8m	+£1.8m	+£1.8m
Pension Costs - Fire Fighters Pension Grant	(£1.7m)	(£1.7m)	(£1.7m)	(£1.7m)	(£1.7m)
NON PAY COSTS					
Electricity	30.0%	5.0%	5.0%	5.0%	5.0%
Gas	30.0%	5.0%	5.0%	5.0%	5.0%
Business Rates	2.0%	2.0%	2.0%	2.0%	2.0%
Water and Sewerage	2.0%	2.0%	2.0%	2.0%	2.0%
General Supplies and Services	2.0%	2.0%	2.0%	2.0%	2.0%
INTEREST RATES					
Interest on Investments	0.1%	0.3%	0.5%	0.5%	0.5%
Interest on Debt	4.4%	4.3%	4.2%	4.2%	4.2%
GENERAL FUNDING					
Council Tax Increases	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base Growth	1.83%	1.25%	1.50%	1.50%	1.50%
Revenue Support Grant	0.0%	2.0%	2.0%	2.0%	2.0%
Local Business Rates	(28.5%)	15.0%	5.0%	2.0%	2.0%
Business rates Top-up grant	0.0%	0.0%	0.0%	0.0%	0.0%

Capital Programme

42. The three year Capital Programme and Capital Strategy for 2022/23 to 2024/25 has been developed and is reviewed within the Capital Strategy.

43. The Capital Programme has been developed by the operational budget holders with all plans submitted to the Capital Review Group chaired by the Director of Finance.

44. The total programme of £8.0m for 2022/23 includes £4.4m of carry-over from the current year. Whilst this delay has not impacted upon service delivery to date, is has culminated in a very challenging programme for 2022/23 and again this comes with a degree of risk of further delays and slippage.

45. The revenue consequences of the proposed programme have been considered in the development of the revenue budget and the required prudential indicators are set out within the Treasury Management Strategy.

46. As part of the capital programme for 2022/23 and 2023/24 the Commissioner has committed the use of £1.2m of reserves to support the vehicle replacement programme , and £0.9m to support the station refurbishment work at Abbots Bromley and Brewood.

47. The summary capital programme is shown within **Appendix 8**.

48. The detailed programme for 2022/23 is shown within **Appendix 9**.

Statement from the Director of Finance / S151 Officer on the robustness of the Budget and adequacy of the proposed financial reserves

49. The Local Government Act 2003, Part 2, Section 25, as amended by the Police Reform and Social Responsibility Act 2013, requires the Commissioner's CFO to report on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. The Commissioner is required to have regard to the report of the Chief Financial Officer and the report must be given to the Police Fire and Crime Panel.

50. I can confirm that the budget for 2022/23 is balanced and has been produced on a robust basis. Whilst there remains some uncertainty with regard to future settlement funding, increased pay awards and the costs of Firefighter's pensions, estimates have been included within the Medium-Term Financial Strategy and appropriate provision made within Earmarked Reserves.

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Staffordshire Commissioner Fire and Rescue Authority **Appendix 1**

Recurring Revenue Budget Proposal 2022/23
Council Tax Increase by 1.99%

	Budget 2021/22	Budget Proposal 2022/23	Year on Year Change
	£000s	£000s	£000s
Pay			
Pay Costs	25,779	26,875	1,096
Other Employee Costs	2,178	2,254	76
Pay Efficiency		(156)	(156)
Total Pay	27,957	28,973	1,016
Non Pay			
Premises Costs	3,418	3,897	479
Transport Costs	818	772	(46)
Supplies & Services Costs	7,524	7,231	(293)
CFS Costs and Initiatives	354	309	(45)
Non Pay Efficiency		(156)	(156)
Total Non Pay	12,114	12,053	(61)
Income			
Income - General	(3,266)	(3,326)	(60)
Interest Receivable	(25)	(10)	15
Total Income	(3,291)	(3,336)	(45)
Capital charges	1,497	1,425	(72)
Interest Payable	774	758	(16)
PFI Unitary Charge	2,993	3,003	10
Total Capital Charges	5,264	5,185	(79)
Total Revenue before Reserves	**42,044**	**42,875**	**831**
Transfer to/(from) Reserves	(67)	(403)	(336)
Budget Gap in Year			
Total Revenue Budget	**41,977**	**42,472**	**495**

FINANCED BY:			
Settlement Funding			
Revenue Support Grant	4,777	4,923	146
Local Busines Rates (1%)	3,735	2,670	(1,065)
Government Top-up (business rates)	6,059	6,059	
Total Settlement Funding	14,571	13,652	(919)
Council Tax	27,406	28,820	1,414
Total Financing	**41,977**	**42,472**	**495**

Staffordshire Commissioner Fire and Rescue Authority **Appendix 2**

Earmarked and General Reserves for 2022/23 to 2026/27

	Mar-21 Final £m	2021/22 Fcast £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m
General Fund	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Earmarked Reserves							
PFI Reserve (Project Reserve Deductions)	0.8	0.8	0.7	0.3	0.3	0.3	0.1
Operational Budget Holder Reserves	0.5	0.3	0.3	0.3	0.3	0.3	0.2
Budget and MTFS Suppport Reserve	0.5	0.7	0.6	0.3	0.2	0.2	0.2
Refurbishment Reserve Abbots Bromley	0.5	0.5					
Capital Reserves	1.2	1.2	0.3				
Pension Reserve	1.8	1.8	1.8	1.8	1.1	1.1	1.1
Collaboration Reserve	0.5	0.5	0.3	0.3	0.3	0.3	0.3
Future Funding Reserve	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total Earmarked Reserve	**7.5**	**7.5**	**5.7**	**4.7**	**3.9**	**3.9**	**3.6**
Total Reserves Available	**9.4**	**9.4**	**7.6**	**6.6**	**5.8**	**5.8**	**5.5**

Staffordshire Commissioner Fire & Rescue Authority **Appendix 3**

Risk Assessment of General Reserves for 2022/23

CIPFA guidance indicates that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that chief financial officers should take account of the strategic, operational and financial risks facing the authority.

A risk assessment for general reserves was undertaken as part of the budget setting process for 2022/23 and the overall provision of £1.9m has remained unchanged for a number of years and represents 4.5% of the revenue budget set for the year.

Whilst not a complete list of all the financial risks, the assessment focused on those most likely (High and Medium risks) to have a significant impact on the budget year.

Area of Expenditure	Level of Risk *	Explanation of risk/justification of reserves	2022/23 Provision £000
Loss of Employees / additional pay costs	High	Spate conditions caused by for example; prolonged severe weather conditions (e.g. hot weather or flooding), unexpected loss of staff through COVID-19, Avian Flu / Ebola etc.	500
Failure to achieve efficiency savings	Medium	Risk of not achieving future savings requirements	500
Insurance loss / impact of data breach	Medium	Risk of incurring uninsured losses Risk of breach due to inappropriate information sharing / failure to implement EU GDPR	500
Ill health retirement costs	Medium	Risk of the number of ill health retirements being greater than anticipated due to ageing workforce	150
Other unforeseen costs	Medium	Risk of unforeseen event: emergency incident, waste fires / tipping	150
Other costs	Medium	Risk of failure of strategic partnership / collaboration initiatives	100
TOTAL			**1,900**

Staffordshire Commissioner Fire & Rescue Authority **Appendix 4**

Council Tax Report 2022/23

Council Tax Surplus / (Deficit) by Authority

Surplus/ (Deficit)

	2021/22	**2022/23**	**Variation**
	£	**£**	**£**
Cannock Chase	(11,536)	112,486	124,022
East Staffordshire	12,454	48,291	35,837
Lichfield	(12,686)	(14,191)	(1,505)
Newcastle	(18,480)	11,107	29,587
South Staffordshire	(13,600)	53,244	66,844
Stafford	(18,160)	21,882	40,042
Staffordshire Moorlands	(27,024)	22,740	49,764
Tamworth	25,639	31,345	5,706
Stoke	(3,685)	1,000	4,685
Budget Adjustment			
Total (per budget paper)	**(67,078)**	**287,904**	**354,982**

Staffordshire Commissioner Fire and Rescue Authority **Appendix 5**

Council Tax Report 2022/23

Taxbase by Authority

	2021/22	2022/23	Variation	%
Cannock Chase	**29,137**	**29,458**	**321**	1.1%
East Staffordshire	**37,875**	**39,059**	**1,184**	3.2%
Lichfield	**38,891**	**39,695**	**804**	2.1%
Newcastle	**37,087**	**37,668**	**581**	1.6%
South Staffordshire	**38,664**	**39,066**	**402**	1.1%
Stafford	**47,994**	**48,490**	**496**	1.0%
Staffordshire Moorlands	**33,260**	**33,510**	**250**	0.8%
Stoke	**63,459**	**65,185**	**1,727**	2.7%
Tamworth	**22,366**	**22,968**	**602**	2.8%
Total	**348,733**	**355,100**	**6,367**	**1.84%**

Staffordshire Commissioner Fire and Rescue Authority **Appendix 6**

Council Tax Report 2022/23

Council Bands for Each Band and District Precepts

Based upon a Band D Increase of 1.99%

Council Tax Band Figures

	2021/22	**2022/23**	**Increase**	**Per Week**
Band	**£**	**£**	**£**	**Pence**
A	52.52	53.57	1.05	2.0
B	61.27	62.49	1.22	2.3
C	70.03	71.42	1.40	2.7
D	**78.78**	**80.35**	**1.57**	**3.0**
E	96.29	98.21	1.92	3.7
F	113.79	116.06	2.27	4.4
G	131.30	133.92	2.62	5.0
H	157.56	160.70	3.14	6.0

Precept Payable

	2021/22	**2022/23**	**Variation**	
	£	**£**	**£**	**%**
Cannock Chase	2,295,399	2,366,962	71,564	3.12%
East Staffordshire	2,983,793	3,138,407	154,614	5.18%
Lichfield	3,063,833	3,189,501	125,668	4.10%
Newcastle	2,921,714	3,026,624	104,910	3.59%
South Staffordshire	3,045,974	3,138,968	92,994	3.05%
Stafford	3,780,975	3,896,203	115,228	3.05%
Staffordshire Moorlands	2,620,223	2,692,529	72,306	2.76%
Stoke	4,999,276	5,237,631	238,354	4.77%
Tamworth	1,761,993	1,845,479	83,485	4.74%
Total	**27,473,179**	**28,532,303**	**1,059,123**	**3.86%**

Staffordshire Commissioner Fire and Rescue Authority **Appendix 7**

MTFS Summary Financials to 2026/27

	2022/23 Budget £000s	2023/24 Plan £000s	2024/25 Plan £000s	2025/26 Plan £000s	2026/27 Plan £000s
Pay					
Pay Costs	26,875	27,513	28,855	29,310	29,772
Other Employee Costs	2,254	2,305	2,356	2,409	2,446
Pay Efficiency Plan Saving	(156)	(750)	(1,250)	(1,250)	(1,250)
Total Pay	28,973	29,068	29,962	30,470	30,968
Non Pay					
Premises Costs	3,897	4,010	4,127	4,248	4,374
Transport Costs	772	781	791	801	811
Supplies & Services Costs	7,231	7,355	7,481	7,610	7,741
CFS Costs and Initiatives	309	309	309	309	309
Non Pay Efficiency Plan Saving	(156)	(500)	(750)	(750)	(750)
Total Non Pay	12,053	11,955	11,958	12,218	12,485
Income					
Income - General	(3,326)	(3,035)	(3,061)	(2,894)	(2,823)
Interest Receivable	(10)	(25)	(40)	(30)	(25)
Total Income	(3,336)	(3,060)	(3,101)	(2,924)	(2,848)
Capital charges	1,425	2,062	2,345	2,415	2,488
Interest Payable	758	818	878	938	998
PFI Unitary Charge	3,003	3,063	3,124	3,186	3,250
Total Capital Charges	5,185	5,942	6,346	6,539	6,735
Total Revenue	**42,875**	**43,905**	**45,166**	**46,303**	**47,340**
Net use of Reserves	(403)	(180)	(47)	55	301
Total Revenue	**42,472**	**43,725**	**45,118**	**46,357**	**47,640**
FINANCED BY:					
Settlement Funding					
Revenue Suppport Grant	4,923	5,021	5,122	5,224	5,329
Local Busines Rates (1%)	2,670	3,070	3,224	3,288	3,354
Government Top-up (business rates)	6,059	6,059	6,059	6,059	6,059
Total Settlement Funding	13,652	14,151	14,405	14,571	14,742
Council Tax	28,820	29,575	30,714	31,786	32,899
Total Financing	**42,472**	**43,725**	**45,118**	**46,357**	**47,640**

Staffordshire Commissioner Fire & Rescue Authority **Appendix 8**

Capital Programme Summary 2022/23 to 2024/25

	2022/23 Budget	2023/24 Plan	2024/25 Plan
	£	£	£
Building & Infrastructure Works			
Refurbishment Programme	2,648,816	450,000	450,000
Improvement Works	460,000	540,000	550,000
Total	**3,108,816**	**990,000**	**1,000,000**
Operational Equipment	**1,184,500**	**1,410,000**	**125,000**
Appliances & Vehicles			
Appliances & Specialist Vehicles	1,880,000	1,560,000	900,000
Vans & Cars	315,000	200,000	200,000
Total	**2,195,000**	**1,760,000**	**1,100,000**
Information Technology			
ICT Hardware, Software Systems & Installations	1,515,000	870,000	430,000
Total	**1,515,000**	**870,000**	**430,000**
Total Capital Programme	**8,003,316**	**5,030,000**	**2,655,000**
Funding			
Direct Funding From Revenue			
Unsupported Borrowing	5,728,316	4,253,000	2,655,000
Capital Grant - Transformation Funding	950,000		
Use of Specific Reserves	1,325,000	777,000	350,000
Total Funding	**8,003,316**	**5,030,000**	**2,655,000**

Staffordshire Commissioner Fire & Rescue Authority Appendix 9

Capital Programme Detail - 2022/23

Scheme Description	Detail	2022/23 Budget Submission £
IADS		
Brewood Refurbishment	Refurbishment split over 2 years. Due to start in 2022/23	150,000
Abbots Bromley Refurbishment	Refurbishment split due to start in Q1 of 2022/23	363,816
Abbots Bromley Tower	Refurbishment split due to start in Q1 of 2022/24	70,000
Stafford Refurbishment	Carry over from 2021/22. Work ongoing	1,900,000
Stafford - Safe & Sound Project	Allocation of requirements for the year (grant funded)	15,000
Stafford - Training Tower	New training tower at Stafford	150,000
		2,648,816
Building Works - Improvements		
HQ BA Room refurbishment	Carry out refurbishment to BA Training room at HQ	30,000
FBT Improvement works	Forming of walkways, Canopy to Barn, BA Cleaning area, External briefing area	40,000
HQ - Resurfacing Works Phase 1	Rear Of Amenities and BA Maintenance	100,000
Eccleshall - First Floor Refurbishment	Fully refurbish first floor	50,000
HQ - Lighting replacement programme Phase 2	Replace lighting with Energy Efficient LED to old house - 1st Floor	35,000
Stations - Lighting replacement programme Phase 2	Replace lighting with Energy Efficient LED at Barton, JETS (Offices only)	45,000
Sustainability heating system replacement - Stations	Ipstones - Phase out gas heating for sustainable solution	50,000
HQ - Old House FD Replacement Phase 2	Replace all Fire Doors throughout corridors/stairwells - 1st Floor	40,000
Replace Amenities lift HQ	Renew lift cart	70,000
		460,000
Operational Equipment		
Operational Equipment Pool		25,000
Life Jackets	100 x Life jackets (Due to age)	11,000
Water Rescue Equipment	Rescue Sled x1 / Air Tracks x 2	11,000
Appliance Equipment - Refurbished PRLs	Kit for 2 x Scania PRLs	44,000
Thermal Image Cameras	Replacement due to age and performance	150,000
Entry Control Board Batteries	Full replacement	15,000
Boats	2 replacement boats due to age	18,000
Operational PPE	Business case has been approved	450,000
Hydraulic Cutting Equipment	Continued investment in front line appliance equipment	192,000
Appliance Equipment - Refurbished PRL	fully kit reserve (50% carry forward from 21/22)	32,500
FF Decontamination Equipment		30,000
Fireground UHF Radios		40,000
ERP equipment x 2 @ £75k	To include standard equipment and heavy rescue equipment	150,000
ALP equipment x 2 @ £8k	operational equipment for both ALP's	16,000
		1,184,500
Appliances & Vehicles		
Light Fleet	Mix of Cars & Vans	315,000
Pumping Appliance	Refurbishment / fleet transformation to meet demand	250,000
Appliance Pool	2 ERP's	750,000
ALP 1	Full & final payment	580,000
ALP 2	Chassis & Platform	300,000
		2,195,000
Information Technology		
ICT Rolling Programme - Desktop	Rolling program for officers and admin laptop replacement plus desktop solutions such as igels.	150,000
ICT Rolling Programme - Infrastructure	SDWAN (PSN replacement) and Wireless Access Points replacement 5 year investment	250,000
UPS Replacement	DR	30,000
Device Strategy		150,000
Teams Rooms Enablement	Fitting all estate with a Teams capable room Inc L&D	250,000
Alerter Replacement	Alerter Software and hardware Replacement 10 year investment	100,000
ESN Enablement	ESN Project	150,000
Finance System Software Upgrade	Integra Centros	34,000
Telephony Hardware Replacement	Carry-over from 2021/22	150,000
Main Telephony (Software)	Carry-over from 2021/23	150,000
Infographics Integration Project		50,000
Office 365 Upgrade		21,000
Appliance Fixed Phones		30,000
		1,515,000
Overall Total		**8,003,316**

Fees and Charges for April 2022 to March 2023

	Current (Net of VAT) **£**	**Charges from 1st April 2022** (Net of VAT) **£**	**VAT Status**
(a) Special Service Charges			
Attendance per Appliance per hour* (Including crew)	320.30	336.64	Standard
**£336.64 for the first hour and £84.20 per ¼ hour thereafter. E.g. between 1-6 mins round down, or 7-15 mins round up to the nearest ¼ hour interval.*			
Professional services per hour *Eg Officer interviews, provision of advice*	84.20	88.49	Standard
Fire investigation Interviews *£100.10 per hour or part hour*	107.75	113.25	Standard
Fire Investigator detailed Fire report	377.15	396.38	Standard
(b) Other charges			
Extract of Fire reports	89.15	93.70	Exempt

Some information retrieval may incur an additional administration charge of £41.93 ex VAT per search.

Photographic/digital images	Price on Application	P.O.A	Standard

c) Conference Suite
Scale of Charges from 1st April 2022

	Room Hire Only Monday – Friday Whole-day £
Conference Suite	
Room 1	291.67
Room 2	199.24
Room 3 - break out area	152.00
Room 4 (VDR)	199.24
Rooms 1 and 2	410.80
Rooms 1, 2 and 3	513.50

Catering Charges

Catering provide a range of buffets starting from £5.75 per person, including beverages. Prices will be quoted to clients on request taking into account their requirements, location and current food costs.

Charges quoted are subject to VAT at prevailing rates

A 50% charge of the total cost of the Room Hire Booking will be made if a cancellation is not received within 10 working days of the date of the hire.

Half day rates will be charged on a 25% reduction on a whole day rate.

The full charge for catering will be made if a cancellation is not received within 48 hours of the date of the hire. A charge of 25% of the total food cost will be made if the cancellation falls in the period of 5 working days to 48 hours prior to the booking.

Item No. ____ on Agenda

STAFFORDSHIRE COMMISSIONER
Police | Fire and Rescue | Crime

Strategic Governance Board (Fire)

14 February 2022

TREASURY MANAGEMENT STRATEGY 2022/2023

Report of the Staffordshire Commissioner

1. Background

1.1 In addition to the existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However, both remain separate organisations, with separate budgets and governance processes.

1.2 This report will detail the Treasury Management Strategy for the Staffordshire Commissioner Fire and Rescue Authority only; a separate report has been completed and supported by the Board for the Staffordshire Police and Crime Commissioner. Therefore, reference is made only to **Staffordshire Commissioner Fire and Rescue Authority ('the Authority')** as part of this report.

2. Introduction

2.1 This report outlines the Authority's Treasury Management Strategy for the 2022/23 financial year.

2.2 Treasury management comprises the management of the Authority's cash flows, borrowings and investments, and their associated risks. The Authority is exposed to financial risks, including the effects on revenue from changing interest rates on borrowings and investments, and the risks of a potential loss of invested funds. Therefore, it is essential that the Authority successfully identifies, monitors, and controls financial risk as part of prudent financial management.

2.3 The Authority conducts its treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services Code of Practice 2017 Edition* (the CIPFA Code). The CIPFA Code requires that the Authority approves a treasury management strategy before the start of each financial year. In addition, this report fulfils the legal obligation to have regard to the CIPFA Code under the Local Government Act 2003. CIPFA have released an updated Code of Practice at the end of 2021 for adoption which will supersede current practice and will be implemented during 2022/23.

2.4 The Annual Investment Strategy (AIS) for 2022/23 meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government's (now referred to as Department for Levelling up, Communities and

Local Government - DLUHC) in its *Guidance on Local Government Investments 2018 Edition*.

2.5 This strategy has been prepared in conjunction with the Treasury and Pensions team at Staffordshire County Council (SCC), and after consultation with the Director of Finance.

3. Recommendations

3.1 That the Police Fire and Crime Panel note the proposed borrowing strategy for the 2022/23 financial year. The main features are:

a) a borrowing strategy to operate within the prudential limits set out in **Appendix 2**;
b) a borrowing strategy, to use cash as far as is practical with the option to borrow up to £3m long-term where the Director of Finance considers this appropriate in 2022/23;
c) a strategy on borrowing in advance of need that will not be used in 2022/23; and
d) a loan restructuring strategy that is potentially unlimited where this rebalances risk.

3.2 The Strategic Governance Board (Fire) to note in accordance with the MHCLG's Guidance on Local Authority Investments, the adoption of the Annual Investment Strategy (AIS) 2022/23 as detailed in **Section 7** of this report and the risks summarised in **Appendix 5**. Also, to note the policies on:

- reviewing the strategy;
- use of external advisors; and
- training.

4. External Context

Economic background

4.1 The continuing impact on the UK from coronavirus, future trading arrangements with the EU and global inflationary pressures will remain a major influence on the Authority's treasury management strategy for 2022/23.

4.2 The Bank of England (BoE) raised Bank Rate to 0.25% in December 2021 and held its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) increased the rate and discussed further tightening of monetary policy in an effort to curb inflation.

4.3 UK Consumer Price Inflation (CPI) for September 2021 registered 3.1%, this increased to 5.1% in November and is expected to rise as high as 7% in April with the next round of capped gas prices forecast to rise. The MPC see this level of inflation as transitory as it is mainly being driven by gas prices, demand and supply chain issues. The Labour Force Survey unemployment rate fell to 4.2% in November, whilst Her Majesty's Revenue and Customs payroll data has continued to rise strongly. Despite the end of the furlough scheme there are few signs of increased redundancies, and the stock of vacancies has continued to grow leading to staff shortages in some areas with the unemployment rate projected to fall to 4% in January 2022.

4.4 Gross Domestic Product (GDP) growth in the UK has been rapid since the ending of coronavirus restrictions in the summer but the economy is still 1.5% below its pre-pandemic size. It is hoped that the UK economy will reach its pre-pandemic size in Q2 2022. Although recent Bank of England projections on GDP Growth have ended up lower than initially forecast due to the drag in the economy caused by global demand for goods and supply bottlenecks.

4.5 Across the EU the slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is seen as reluctant to raise rates currently.

4.6 In the US Shortages of goods like semi-conductors, are fuelling increases in prices and reducing economic growth. It appears that there has been a sustained drop in the labour force suggesting the pandemic has had a longer-term scarring effect in reducing GDP. Economic growth may be reduced to between 2% and 3% in 2022 and 2023 while inflation is likely to remain higher than the 2% central target.

Credit outlook

4.7 Although bank CDS prices, (market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the intial impact of the pandemic and the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.8 The credit ratings for many UK institutions were downgraded on the back of downgrades to the UK sovereign rating in October 2020. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

4.9 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 2022/23 remains advisable.

Interest rate forecast

4.10 The County Council's treasury management adviser Link is forecasting a steady rise in the Bank of England Base Rate over the next few years, reaching 1.25% by March 2025. As with all projections there are major risks to this model such as the performance of the economy versus expectations, labour and supply shortages, coronavirus mutations, trade agreements and the geopolitical climate.

4.11 Gilt yields are expected to rise steadily over the period of this report in part but there is likely to be short-term volatility, due to economic and political uncertainty and events such as potential increases in coronavirus measures which may once again see a flight to safety by investors.

4.12 Due to the ongoing risks associated with coronavirus, the treasury strategy retains the low-risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

5. Local Context

5.1 On 30 November 2021, the Authority held £17.050m of external borrowing and had £16.769m temporarily invested. The Authority's future requirements for borrowing and investments can be considered by reviewing its balance sheet forecasts.

Balance sheet

5.2 In terms of borrowing, the Authority discloses its Capital Financing Requirement (CFR) as part of its Statement of Accounts. This represents the underlying need to borrow for capital purposes i.e., the amounts that have been financed through external and internal borrowing rather than being permanently financed.

5.3 If the Authority increases debt to fund additional capital expenditure, this will increase its Loans CFR; conversely repaying debt through the Minimum Revenue Provision (MRP) will reduce its Loans CFR. The table below shows forecasts for the Authority's Loans CFR and how this will be financed through external and internal borrowing:

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
Loans CFR	22.1	22.9	27.2	29.4	29.3
Less: External borrowing	(17.1)	(17.1)	(16.8)	(16.7)	(16.2)
Internal / (over) borrowing	**5.0**	**5.8**	**10.4**	**12.7**	**13.1**

5.4 The table shows that the Authority's Loans CFR is forecast to increase steadily over the period, because of its vehicle replacement capital programme. The Authority's internal borrowing requirements move in line with the Loans CFR projections.

5.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total external borrowing should be lower than its highest forecast CFR over the next three years; the previous table shows the Authority will comply with this recommendation in this period.

5.6 For investments, the Authority's total resources available are measured by its usable reserves and working capital less any amounts that have been internally borrowed. This is shown in the following table:

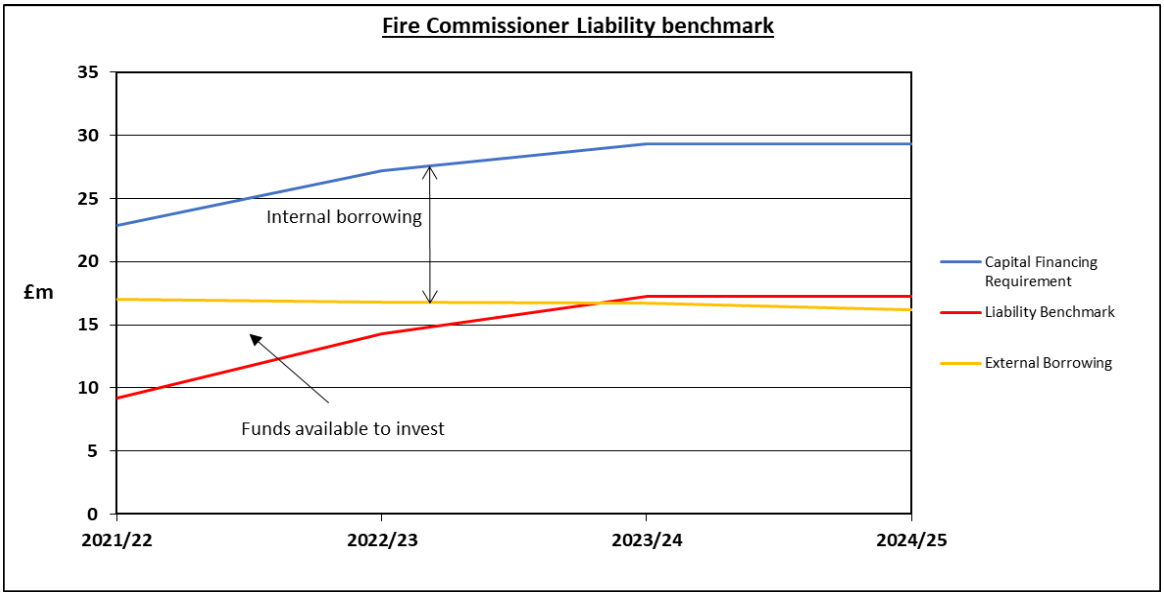
	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
Usable reserves	15.7	13.7	12.9	12.1	12.1

Working capital surplus	0.0	0.0	0.0	0.0	0.0
(Less Internal) / Add Over Borrowing	(5.0)	(5.8)	(10.4)	(12.7)	(13.1)
Investments/ (New borrowing)	**10.7**	**7.9**	**2.5**	**(0.6)**	**(1.0)**

5.7 The table above shows a continuation of the Authority's recent strategy in using internal borrowing to reduce the need for external borrowing and as a result, reduce temporary investment levels. Forecasts indicate that this strategy can continue until 2023/24 if reserves remain at current levels as projected when further borrowing may be required.

Liability benchmark

5.8 The CIPFA Prudential Code requires local authorities to develop their own liability benchmark to manage treasury management risk. The liability benchmark represents the minimum amount of loans required to maintain cash balances at nil i.e., when all usable reserves and working capital surpluses are used to offset the amount of loans borrowed.



5.9 The chart shows that the Authority's Loans CFR (blue line) has been financed through a combination of external borrowing (yellow line) and internal borrowing (the difference between the yellow line and the blue line).

5.10 The chart indicates that Authority will have reducing funds available to invest up until 2023/24. This is because the Authority's Loans CFR, and hence its liability benchmark, has been steadily increasing whilst its level of external loans has been steadily decreasing with loans being repaid upon maturity.

6. Borrowing Strategy 2022/23

6.1 The Authority will hold £17.05m in external loans in 2022/23, as part of its strategy for funding previous years capital programmes. The Authority will need to ensure total amounts borrowed do not exceed the authorised limit of £32.2 million (when excluding other liabilities such as PFI), as disclosed in **Appendix 2**.

Objectives

6.2 The primary objective for the Authority when considering borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Although relatively low interest costs may be secured for the short term, it is more difficult to predict interest costs over the long term. The risks associated with the borrowing Strategy are laid out in **Appendix 3**.

Strategy

6.3 Given the significant cuts to public services and to local government funding in recent years, the Authority continues to address the key issue of affordability without compromising the long-term stability of its debt portfolio. As short-term interest rates have been lower than long term rates, it is more cost effective to use internal resources in lieu of borrowing in the short term.

6.4 The balance sheet analysis at **paragraph 5.3** and the liability benchmark analysis at **paragraph 5.8** both indicate the Authority may need to take out additional borrowing during 2023/24 because of the increased capital programme. In addition, the Authority requires a borrowing strategy to mitigate against changing circumstances or when external borrowing to replace internal debt becomes cheaper.

6.5 It is important to understand that not all of the borrowing requirement needs to be closed with loans; an important aspect of using some cash in the current financial climate is its risk reduction effects:

- Using cash reduces security risk as investment balances are lower. Regulations emphasise the importance of minimising this risk and is discussed later in this report. This action minimises bail-in risk, where certain investors, such as the Authority (as it is classed as a local authority under legislation) will suffer the financial burden of a failing bank rather than the Government, should there be issues in the future.
- There is less exposure to variable interest rate changes; this exposure arises when a fixed term loan is taken out with corresponding variable rate investments. This is avoided when cash is used.
- The low interest rate environment allows a portion of the capital programme to be funded at low cost through the use of cash and this opportunity should continue to be maximised.

6.6 The Authority will monitor the benefits of internal borrowing on a regular basis as this strategy must be balanced against the possibility that long-term borrowing costs may increase in future years, leading to additional costs incurred in deferring borrowing. The Authority will need to determine whether it borrows additional sums at long term fixed rates in 2022/23 with a view to keeping future interest costs low. To this end, the Authority will consult with the Treasury team at Staffordshire County Council.

6.7 The strategy proposed is one that still aims to balance the liquidity needs of day-to-day cash management with the low-risk approach that is offered by using cash. As cash balances may not be sufficient in the future, the Authority will need to consider what loans should be raised to provide the liquidity necessary to allow it to continue to pay its bills.

Sources of borrowing

6.8 The approved sources of long term and short-term borrowing are:

- the Public Works Loans Board (PWLB)
- the UK Municipal Bonds Agency Plc and any other special purpose companies created to enable local authority bond issues
- Other UK public sector bodies
- UK public pension funds
- Approved banks or building societies authorised to operate in the UK
- Any institutions approved for investments.

Short-term loans

6.9 Short-term loans raised from money markets are under 12 months duration. These are low cost, and the Authority can respond flexibly to liquidity pressures by raising these when needed. The disadvantage of short-term loans is one of availability and it can be difficult to raise quickly from banks and building societies.

6.10 The local authority lending market has progressed considerably in recent years and funds are generally available in the short to medium term. However, future availability cannot be predicted as loans raised depend upon other local authorities still having cash balances and being prepared to lend it to the Authority.

Long-term loans

6.11 Long-term loans are those for a duration of more than 12 months. The Authority has previously raised most of its long-term borrowing from the PWLB, a statutory body that issues loans to local authorities. Government consent is not required hence the PWLB continues to be seen as the 'lender of first resort' because of the flexibility and ease of access. However, local authorities are required by law to have regard to the Prudential Code and only borrow within relevant legislation and its borrowing powers.

6.12 The exact type of loan to be raised by the Authority and its duration would have to be considered at the time; but with current interest rates and the maturity profile of the existing loan portfolio, loans towards the shorter end of the yield curve offer better value for money.

6.13 The optimum timing for borrowing cannot be foreseen and decisions often need to be taken at short notice. Because of this, it is proposed to delegate the decision to borrow up to £3m in long-term loans to the Director of Finance at the Authority and reported retrospectively to the Strategic Governance Board (Fire). In addition, the treasury management outturn and half-year reports will update the position later in the year.

6.14 The overall strategy of maximising the use of cash in lieu of borrowing is still considered a relatively low risk strategy, although it is impossible to eliminate all treasury risk. The consequences of using cash are the possibility of increased costs in the future if interest rates rise; this must be balanced with the extra cost now if loans are raised (the cost of carry).

Loan restructuring

6.15 Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:

- Replace existing loans with new loans at a lower rate (known as loan rescheduling).
- Repay loans early without replacing the loans. However, this would increase the use of cash which may not be possible if reserve levels are not adequate.

6.16 Currently loan restructuring would be very expensive and unattractive for the Authority. This is because gilt yields are comparatively low. This would lead to large penalties to compensate the PWLB or its successor body if loans were repaid early.

6.17 The loans position includes a £1m LOBO (Lender Option Borrower Option) loan held with Dexia Bank where the maturity date is uncertain. The bank has an option to amend (i.e., increase) the loan interest rate on pre-determined dates in 2022/23; if this option is exercised then the Authority as a matter of policy will repay the loan.

6.18 In recent years, some banks owning LOBO loans have been actively removing these non-core assets from their balance sheet and were willing to significantly reduce the repayment penalty. Dexia Bank are not currently offering such favourable repayment terms for their LOBO loans, although it is possible, they may do so in future years.

6.19 Aside from a potential restructure, it is judged unlikely in the current interest rate environment that LOBO loans options will be exercised. A repayment of the LOBO loan would further increase the “gap” funded from cash; alternatively, the Authority could take up an alternative loan, say with the Public Works Loan Board (PWLB), or its successor body. A decision would be taken at the time.

6.20 Market conditions and regulations can change, and the outcome cannot be foreseen. It is therefore proposed to allow unlimited loan restructuring with the decision being delegated to the Director of Finance at the Authority and reported retrospectively to the Strategic Governance Board (Fire).

Policy on Borrowing in Advance of Need

6.21 As the borrowing strategy proposed for 2022/23 involves maximising the use of cash until borrowing is required, the policy is not to borrow in advance this year. This will be revisited annually as part of the overall borrowing strategy.

7. Annual Investment Strategy (AIS) 2022/23

7.1 It is the Authority’s borrowing strategy that determines its investment strategy. The current economic environment of relatively low interest rates also favours the use of cash instead of borrowing, hence balances available for temporary investments are likely to be less.

7.2 The Authority may have significant level of funds to invest at different points of the year; this usually represents income received in advance of expenditure plus balances and reserves held. In the first 3 quarters of 2021/22, the Authority’s investment balance averaged at around £16.7m.

MiFID II

7.3 Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) regulations from January 2018, local authorities will automatically be treated as retail clients by financial services firms, unless they meet the criteria and 'opt up' to be professional clients. As a retail client, the Authority would receive enhanced protections, but this would also mean it may face increased costs and restricted access to certain products including money market funds, pooled funds, treasury bills and treasury advice.

7.4 The Authority meets the criteria set out under MiFID II and will continue to be treated as a professional client by regulated financial services firms in 2022/23.

Objectives

7.5 The CIPFA Code requires the local authorities to invest their funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

7.6 The Authority's objective when investing its cash is to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategy

7.7 The main characteristics which should determine an investment strategy are:
- the credit risk of the counterparties invested with;
- the length of the investment; and
- the type of financial instrument that is used.

7.8 The Authority has taken a low-risk approach to investment and the AIS for 2022/23 will continue to do so. Short term unsecured bank investments have generally provided very low returns with additional risk from bail-in regulations. The Authority will continue to concentrate its short-term investments in more secure MMFs and government investments.

7.9 MHCLG Guidance on Local Government Investments specifies the types of financial instruments that local authorities can invest with, and the Authority has divided its approved treasury investments into Standard Investments and Non-Standard Investments.

Standard investments

7.10 The Authority considers Standard Investments to be those made with approved counterparties that do not require further approval from the Director of Finance at the Authority. These investments are for a period of less than a year and are those most frequently used by the Authority. Standard Investments can be invested with:
- UK Government – central government or local authority, parish council or community council
- short term MMFs
- bank and building society investments

i) Government

7.11 The Authority invests with central government by using its Debt Management Account Deposit Facility (DMADF) account. Funds held in the DMADF account are backed by the UK Government so they are very secure; however returns tend to be lower than those received elsewhere.

7.12 The Authority invests in term deposits with local authorities which can provide a higher return depending on the availability of, or the need for cash in the local authority lending market. Like central government investments, local government investments are not subject to bail in risk.

7.13 Although investments in the local authority lending market have a low risk of insolvency, they are not completely without risk. The financial risks of a few local authorities have been documented in the press; the Authority will continue to monitor such developments and seek information from the County Council's Treasury team where necessary.

ii) Money Market Funds (MMFs)

7.14 Money Market Funds have high credit quality and are pooled investment vehicles consisting of money market deposits and similar instruments. Short-term MMFs that offer same day liquidity can be used as an alternative to instant access bank accounts. The Authority has used same day notice MMFs for some time as they have tended to provide greater security and a higher yield than bank accounts.

7.15 EU regulation introduced in January 2019 have meant most same day notice MMFs have converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate in extreme circumstances. However, LVNAV MMFs are allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements. Public debt CNAV MMFs are still available where 99.5% of assets are invested in government debt instruments.

7.16 The Authority will continue to use same day notice MMFs that meet the criteria listed below. These are considered to have sufficient high credit quality to be included on the Authority's Approved Lending List:

- Diversified – MMFs invest across many different investments meaning they achieve more diversification than the Authority could achieve on its own account.
- Short liquidity – cash can be accessed daily.
- Ring-fenced assets – the investments are owned by investors and not the fund management company.
- Custodian – the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

7.17 Like all treasury instruments, MMFs do carry an element of risk:

- The failure of one or more of an MMF's investments could lead to a run on MMFs, especially during a financial crisis; however, the new MMF regulations do limit this risk to some extent.
- If the UK enters a recession, there is a possibility that the Bank Rate could be set at or below zero. This could mean interest earned from MMFs could become negative after the deduction of their fee. In this instance, the Authority could move funds to an alternative category of investment.

iii) Bank and building society accounts

7.18 The Authority can make investments with banks and building societies that meet the minimum threshold **(see paragraph 7.33**) by using call accounts or term deposits, but these investments will run the risk of credit loss via a bail in, if the regulator determines that the bank is failing or likely to fail. Due to this issue and a general cautious approach to bank and building society investments, currently the only bank or building society in use by the Authority is its banking provider, Lloyds Bank (see section below). Use of any further banks or building societies is delegated to the Director of Finance with the outcome reported in the regular treasury management reports to the Strategic Governance Board (Fire).

iv) Operational bank account

7.19 The Authority's banking provider is Lloyds Bank. Cash is retained with Lloyds Bank each night earning interest at a market rate; the amount retained will be set in line with the diversification policy set out at **paragraph 7.23**.

7.20 In respect of the Bank ring-fencing legislation Lloyds Bank has a relatively small investment banking operation meaning that 97% of the bank's assets remain within the 'retail bank' ring-fence. The Authority's business with Lloyds Bank will take place within the 'retail bank' ring-fence (Lloyds Bank Plc) and not form part of their investment banking operations (Lloyds Bank Corporate Markets).

7.21 Lloyds Bank Plc has seen a credit ratings upgrade since ring-fencing legislation was introduced; should the Lloyds credit rating fall, then small balances may be retained with the bank for operational efficiency. The Authority will continue to seek support from the County Council's Treasury team on bank credit risk and any changes will be determined by the Director of Finance at the Authority.

Standard Investment diversification

7.22 Risks to investments, such as those discussed for MMFs in **paragraph 7.17**, point towards the fundamental need for diversification across counterparties and investment categories, where possible. Diversification can help to protect the security of investments by limiting the Authority's loss in the event of a counterparty default. Diversification will not protect the Authority from a systemic failure of the banking sector even if the risk of this has diminished following the bail-in banking regulations.

7.23 Diversification can be achieved by setting a maximum amount to be invested with each counterparty, to limit risk and to ensure a spread of investments.

- No limits are proposed for government investments as these may be utilised for all the Authority's investments in certain circumstances.
- For MMF's a standard limit of £1.5m per MMF is in place to meet liquidity requirements.

7.24 To allow short-term flexibility for investments, the Director of Finance at the Authority has agreed to increase the standard limits for MMFs to temporary limits of £2.5m. The Authority will continue to use the higher temporary limits in 2022/23 until the level of cash balances fall to allow them to revert to the standard limits.

7.25 For Lloyds Bank a limit is set of the lower of 10% of total balances or £1.0m (subject to a minimum upper level of £500k); this amount will minimise processing costs and provide additional liquidity for the Authority. The Treasury team at Staffordshire County Council will review and reset this limit once a month.

7.26 Where cash balances are low then this may mean that all investments are placed with the MMFs and Lloyds Bank. However, balances will be within the limits stated above.

7.27 It is proposed that both the application and amendment of this policy are delegated to the Director of Finance at the Authority with the outcome reported in the regular treasury management reports to the Strategic Governance Board (Fire).

Non-Standard Investments

7.28 The Authority considers Non-Standard Investments to be all other types of approved investment counterparties that are not included as part of Standard Investments i.e., those investments that are used less frequently and may require further approval from the Director of Finance at the Authority.

7.29 Collective Investment Schemes are Non-Standard Investments that range from enhanced MMF's to property and equity funds. These all have varying risk and return profiles. The Authority approved a decision to use this category of investment in 2016/17 by committing to the Royal London Fund, a AAA rated enhanced Cash Plus MMF with a 3-day liquidity notice period.

7.30 The Royal London Cash Plus Fund allows the Authority to earn an increased yield in a low interest rate environment, and where the Authority has high cash balances. Security is maintained as it invests in highly sought after covered (secured) bonds, which are exempt from bail-in. These enhanced duration MMF's have the same characteristics as same day liquidity MMF's but typically have a 3–5-day notice period. They also have a recommended investment duration of at least 6 months, due to their longer investment horizon.

7.31 The financial limit for the Royal London Cash Plus MMF has been set at £1.5m.

The Credit Management Strategy for 2022/23

7.32 Investments made by the Authority should be of 'high credit quality'. Although this can be difficult to define, credit ratings can be used as published by external credit rating agencies (the three main agencies are Moody's, Standard & Poors and Fitch). Credit ratings can be obtained from the County Council's Treasury team, where available.

7.33 For 2022/23, the minimum credit-rating thresholds are set at a long-term rating of 'A- 'where available. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed.

7.34 The following elements are also factored in when evaluating creditworthiness:

- Potential government support.
- Credit Default Swap prices (CDS) (i.e., the cost of insuring against counterparty default).
- Share prices and bond yields.
- Balance sheet structure.
- Macro-economic factors.
- A subjective overlay, i.e., a judgement being made about whether the counterparty should be recommended or not.

7.35 The Authority remains responsible for all its investment decisions. The County Council's Treasury team will continue to have treasury management meetings with the Authority on a quarterly basis where a review of the Lending List will take place.

7.36 Under stressed market conditions, additional meetings with County Council's Treasury team may take place at very short notice. A decision may be made to adjust the Authority's investment risk profile; the end result may involve moving investments to lower risk counterparties or instruments.

<u>Non-treasury investments</u>

7.37 Under the CIPFA Codes and MHCLG Guidance, local authorities may invest in other financial assets and property for financial return, and also make loans and investments for service purposes.

7.38 Such non-treasury investments should be assessed as part of a separate investment strategy. They should set out the specific policies and arrangements for non-treasury investments and ensure the same robust procedures for the consideration of risk and return are applied to these, as for treasury investments.

7.39 In the absence of any legal powers to do so the Authority does not currently hold any non-treasury investments and, therefore, no additional commercial strategy is required.

<u>Risk</u>

7.40 Although guidance sets out security and liquidity as being the main treasury risks, they are not the only investment risks faced by the Authority. **Appendix 5** sets out a high-level risk assessment for six of the key risks which are summarised in the following table:

Risk	**Assessment**
Security	Low
Liquidity	Low to Medium
Interest rate	Low to Medium
Market	Low
Refinancing	Low to Medium
Regulatory and legal	Low

7.41 Within the Authority's AIS there is a balance to be struck between the security of investments and liquidity; the safest investments are not necessarily the most liquid and so a pragmatic approach must be taken.

7.42 The proposed AIS has been evaluated against these risks and the judgement is that the most significant risks have been reduced as far as possible. This is not to say that all risk has been eliminated which is not possible in treasury terms.

8. Review of strategy

8.1 The Authority will prepare a revised strategy when there are significant changes to the following factors:

- the economic environment.
- the financial risk environment.
- the budgetary position.
- the regulatory environment.

8.2 The responsibility for assessing these circumstances and proposing changes to the strategy is allocated to the Director of Finance at the Authority.

9. Policy on the use of external service providers

9.1 Currently the Authority has no contracted external treasury adviser and this is considered appropriate with the simple arrangements set out.

9.2 The treasury service for the Authority is provided by the County Council's Treasury team, who use Link as their external treasury management adviser. The County Council's contract with Link started in 2021 following a tender process. The Authority could use Link to provide consultancy advice on an ad-hoc basis should this be considered necessary.

10. Investment management training

10.1 Treasury management is a specialised area requiring high quality and well-trained staff with an up-to-date knowledge of current issues, legislation and treasury risk management techniques.

10.2 The County Council's Treasury team who provide the treasury service, are experienced and attend regular CIPFA and treasury consultant training seminars throughout the year as well as speaking to brokers and fund managers to further understand the market.

10.3 Training needs for Authority's staff who attend quarterly meetings with the County Council's Treasury team are assessed on an ongoing basis by local managers.

11. Service Level Agreement

11.1 Staffordshire County Council provides treasury management and banking services as part of a Service Level Agreement (SLA) with the Authority. The SLA does not constitute a contract but is a document of good practice; it outlines the range of services offered by the County Council and the degree of co-operation required from the Authority in order for the County Council to fulfil its role.

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Background Documents:

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. The Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)

Appendix 1

Financial Implications

All financial implications are covered in the body of this report.

Legal Implications

Approval of Prudential Indicators and an AIS are necessary in order to meet the requirements of the Local Government Act 2003.

Equality & Diversity Implications

There are no equality and diversity implications.

Risk Implications

Risk is inherent in treasury management operations and is dealt with throughout this report. **Appendices 3 and 5** show a risk assessment for borrowing and investment activities.

Consultation and Engagement Undertaken

Staffordshire County Council's Treasury and Pension Fund Team have provided the economic background and forecasts for this report.

Procurement and Social Value Implications

The daily treasury management function is carried out on behalf of the Authority by Staffordshire County Council, under a Service Level Agreement (SLA).

Protective Security Considerations

Data protection and protective security policies are implemented within Staffordshire County Council and all departments within the County Council. Treasury management activities are undertaken in line with these policies and the agreed SLA.

Appendix 2

Police Fire and Crime Panel
14 February 2022

Treasury Management Indicators

Indicator	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25
1. External Debt	**£m**	**£m**	**£m**
Authorised Limit	32.2	34.4	34.3
Authorised Limit for other liabilities	85.0	83.5	82.0
TOTAL	**117.2**	**117.9**	**116.3**
Operational Boundary	30.2	32.4	32.3
Operational Boundary for other liabilities	85.0	83.5	82.0
TOTAL	**115.2**	**115.9**	**114.3**
External Loans	**17.1**	**16.8**	**16.7**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the Capital Programme. *The Operational Boundary represents the Director's estimate of the day-to-day limit for Treasury Management activity based on the most likely i.e., prudent but not worst-case scenario* *Other liabilities relate to PFI schemes on the balance sheet.*			
2. Interest Rate Exposures	£m	£m	£m
a. Upper Limit (Fixed)	30.1	29.8	30.0
b. Upper Limit (Variable)	(25)	(25)	(25)
Upper limits of fixed and variable borrowing and investments are required to be set. This limits the Authority's exposure to both fixed and variable interest rate movements as part of the overall risk management strategy for treasury management activities. Negative figures are shown in brackets; these relate to investments at a variable rate which are not offset by variable borrowings.			
3. Maturity Structure of Borrowing	Upper Limit	Lower Limit	
Under 12 months	10%	0%	1.47%
12 months and with 24 months	10%	0%	0.59%
24 months and within 5 years	30%	0%	4.69%
5 years and with 10 years	50%	0%	3.81%
10 years and above	100%	25%	89.44%
This indicator identifies the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. *The Authority currently applies the prudent practice of ensuring that no more than 10% of its total gross fixed rate loans mature in any one financial year.*			
4. Total principal sums invested for periods longer than a year	£	£	£
Any investments made for longer than a year will be in accordance with the limits on non-specified investments.	nil	nil	nil

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Risk assessment – Borrowing strategy

Risk heading	Risk description	Relevance to borrowing	Key control	Assessment	Borrowing strategy
Security	A third party fails to meet its contractual obligations (i.e., counterparty risk).	Unlikely that there is a failure between the agreement to borrow and sums being received a few days later. However, if we borrow in advance we must invest until this is needed, and this increases exposure to investment risk.	Usually borrow from the Government (PWLB or its successor body) with funds received within 3 working days from the date of agreement to borrow.	**LOW**	Use of cash to fund borrowing reduces this risk further i.e., less money is held with banks and third parties as a result.
Liquidity	Cash is not readily available when it is needed.	Only borrow for capital – usually borrow from Government (PWLB or its successor body) with a maximum limit of £3m for long-term borrowing set in 2022/23.	Prudential rules on borrowing and consideration of whether Government is secure.	**LOW**	Use of cash to fund borrowing increases this risk as liquidity is reduced when borrowing is avoided. However, the Authority is able to borrow money temporarily using the money markets should it need to, so the overall risk remains low.
Interest rate	Unexpected reduction in short term Interest rates.	Depends on the mix between fixed rate borrowing and variable rate borrowing. Higher exposure to variable rate borrowing helps the budget.	The control is set out below.	**LOW to MEDIUM**	Pursuing a strategy of using cash reduces the overall net exposure to sudden interest rate falls.
Interest rate	Unexpected increase in short term interest rates.	Mix of variable and fixed rates – Lower exposure to variable rate borrowing helps the budget.	Limit variable rate borrowing to a relatively small proportion (e.g., 20%).	**LOW to MEDIUM**	20% limit provides a suitable risk control.

Risk heading	Risk description	Relevance to borrowing	Key control	Assessment	Borrowing strategy
Market	The market value of loans changes substantially (i.e., how much is the borrowing strategy exposed to long term interest rate change).	How much risk is built into the maturity profile of the loans structure. LOBO's (5% of all loans) are the only 'market' instrument in borrowing terms currently used.	This is inversely linked to refinancing risk below.	**MEDIUM**	Use of cash will shorten the duration of the loan portfolio and reduces this risk. Without the use of cash this risk assessment would probably be high.
Refinancing risk	Maturing transactions cannot be renewed on similar terms.	Need to avoid a high level of borrowing over a short period where you are exposed to high interest rates.	The Authority has a policy of limiting maturing loans to 10% of the loans portfolio.	**MEDIUM**	Using cash to fund borrowing potentially increases the refinancing risk. Without the use of cash this risk assessment would probably be low.
Regulatory and legal risk	Rules governing local government borrowing are changed or amended without notice, which has happened in the recent past.	Local government is heavily reliant upon PWLB (or its successor body); cost and ability to reschedule / manage loans are determined by the Government The Government could close the PWLB (or its successor body) and force local authorities to use market loans for all new borrowing.	Market loans will be evaluated and taken if these are good overall value and dilute reliance on the PWLB (or its successor body). The UK Municipal Bonds Agency may provide an alternative in the future. .	**MEDIUM**	One LOBO loan is held. Use of cash means that PWLB (or its successor body) loans are not being taken. If the PWLB (or its successor body) was closed to new business, then market loans would be the only option.

Appendix 4

Police Fire and Crime Panel
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Lending List – January 2022	
	Time Limit
Regulation Investments	
UK Government DMADF account	6 months
UK Local Authority	12 months
Banks	
Lloyds Group (£1.0m max)	overnight
MMF	
Federated (£2.5m max)	call only
Morgan Stanley (£2.5m max)	call only
Aberdeen Standard (£2.5m max)	call only
Enhanced MMF	
Royal London Cash Plus (£1.5m max)	3-day notice

Appendix 5

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14 February 2022

Risk assessment - Investments

Risk heading	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Security	A third party fails to meet its contractual obligations (i.e., counterparty risk).	Crucial that money invested is returned (principal and interest).	Relies on credit management policy including credit risk, diversification, duration and amount of investment, and an ongoing review of the credit environment. Prudential limit on investment over 1 year.	**LOW**	Use of the counterparties identified within the AIS reduces this risk to a low level. The borrowing strategy identified will reduce cash balances and the resulting security risk. With the exception of regulation investments, counterparties have a financial limit to ensure funds are spread amongst them. Overall, this remains a low-risk strategy.
Liquidity	Cash is not readily available when it is needed.	Need to plan investment to match cash requirements.	Managed through detailed cash flow forecast and investment in highly liquid funds – can also borrow temporarily (Local Authorities are a good credit risk if lent money).	**LOW**	Same day access accounts are currently held with: • Federated MMF • Morgan Stanley MMF • Aberdeen Standard MMF • Lloyds Banking Group (as banker) Cash flow plans are completed annually and regularly updated. Overall, the risk is low.

Appendix 5 (continued)

Risk heading	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Interest rate	Unexpected <u>reduction</u> in Interest rate.	Reduces the return on investment and reduces the level of reserves.	Can reduce risk by; A) netting off investment against borrowing to reduce net exposure B) investing for longer periods.	**LOW**	Investments will be short term; this does not protect against an interest rate reduction. The current interest rate environment has interest rates at historically low levels.
Interest rate	Unexpected <u>increase</u> in interest rates.	In order to take advantage of the unexpected return, would need to keep investment short term and increase the amount of cash invested (e.g., by not using cash in lieu of borrowing).	Controlled through the overall strategy.	**MEDIUM**	Current policy allows upturns to be taken advantage of as investments are not fixed for long periods. Using cash to fund borrowing (the proposed borrowing strategy) reduces this risk as the overall exposure to short term interest rates is less.
Market	Unexpected need to liquidate market instrument quickly and accept 'price on the day'.	Only relevant if invest in market instruments (e.g., CD's, Gilts).	Limit investment in market instruments or alternatively have capacity to borrow to avoid need to liquidate. Controlled by limits on Non-Standard Investments.	**LOW**	Market instruments are not in use by the Authority.
Refinancing risk	Maturing transactions cannot be renewed on similar terms.	Reflected in the term (duration) of investments. If everything invested shorter term, there is a higher refinancing risk.	Proportion of investments maturing in the short term.	**LOW/ MEDIUM**	The current policy is to invest in the relatively short term. There is an increased risk with this strategy due to frequent 'refinancing' but this is expected to be advantageous in a rising interest rate environment. Using cash to fund borrowing (the proposed borrowing strategy) reduces this risk as the overall exposure to short term interest rates is less.

Appendix 5 (continued)

Risk heading	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Regulatory and legal risk	Rules governing local government investment powers are changed or amended without notice.	Investment powers are granted through statute and guidance.	None.	**LOW**	The current policy of using cash in lieu of borrowing reduces the Authority's dependency on interest receipts. The AIS is low risk and uses liquid and conservative investment instruments.

Item No.   on Agenda

Report to the Police Fire and Crime Panel

14th February 2022

Reserve Strategy Update

Report of the Staffordshire Commissioner

Introduction

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure. The S151 Officer and Treasurer for the Staffordshire Commissioner Fire and Rescue Authority has a duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its annual budget requirement.

This paper gives due consideration to the overall level of reserves held by the Authority as at 31 March 2021, and the Police Fire and Panel are asked to comment and review the overall position as scheduled within **Appendix 1** and **2** and the overall impact on Reserves as incorporated within the approved Medium Term Financial Strategy (MFTS).

The Reserves Strategy was last approved in February 2021 by the Commissioner following presentation to the Police Fire and Crime Panel has now been updated to incorporate and reflect:

- The revised MFTS for 2022/23 to 2026/27
- The actual Reserves position as per the Audited Statement of Accounts for 2020/21
- The impact of approved reserve utilisation and agreed capital programme utilisation requirements

A number of different reserves are held by the Staffordshire Commissioner Fire and Rescue Authority (both useable and unusable) in line with the CIPFA guidance, however this paper focuses on the two key areas of reserves that impact on the future financial strategy.

- A **<u>General Reserve</u>**, to allow for unexpected / emergency events – balance as at 31 March 2021, £1.9m (see **Appendix 1**), this position is retained and no changes are proposed.

- A **<u>Earmarked (Specific) Reserve</u>** – to meet future known or predicted requirements – balance as at 31 March 2021, £7.5m (see **Appendix 2**), Forecast 31 March 2022, £7.5m

RECOMMENDATIONS

The Police, Fire and Crime Panel is asked to:

a) Note the overall reserves position for both General and Earmarked Reserves as contained within this report,

b) consider the adequacy and proposed earmarking of the Earmarked Reserve that will be incorporated into the budget setting exercise for 2022/23, and utilisation of reserves as incorporated within the approved MTFS

c) Note the updated Reserves Strategy

Ben Adams
Staffordshire Commissioner

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BACKGROUND AND ADDITIONAL INFORMATION

Prudential Code and Capital Spend

1. CIPFA's (The Chartered Institute of Public Finance and Accountancy) Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Staffordshire Commissioner is required to consider all of the resources available, together with the totality of its capital plans and revenue forecasts for the forthcoming year and into the medium term.

2. The statutory reporting regime discussed within this paper and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and CIPFA recommend that there should be clear protocol setting out the following:
   - the reason for / purpose of the reserve;
   - how and when the reserve can be used;
   - procedures for the reserve's management and control; and
   - a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

3. Whilst it is primarily the responsibility of the Staffordshire Commissioner and its S151 Officer and Treasurer to maintain a sound financial position, our external auditors Grant Thornton annually review for any material uncertainties and test to ensure that the Authority remains a going concern as part of the Value for Money judgement. Even where as part of their wider role Grant Thornton report on the Authority's financial position, it is not however, their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

Types of Reserve

4. When considering the Medium Term Financial Strategy and preparing annual budgets the Staffordshire Commissioner should consider the establishment and maintenance of reserves. Reserves can be held for three main purposes:

   - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;

   - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves (see **Appendix 1**);

   - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements. This is also referred to as the Specific Reserves/Earmarked Reserves (See **Appendix 2**)

Reporting of Reserves

5. The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of the Authority analysed into **usable** reserves, (e.g. General and earmarked reserves) and unusable reserves. The Movement in Useable Reserves Statement can be found within the Statutory Accounts for 2020/21, and is shown below:

31-Mar-20 £,000		31-Mar-21 £,000
1,906	**General Fund (1)**	**1,906**
1	**Capital grants unapplied**	**1**
1,109	Earmarked reserves - grants	1,550
5,616	Earmarked reserves - PFI grant	5,577
528	CCU Reserve	718
7,101	Other Reserves (2)	7,485
14,354	**Earmarked Reserves**	**15,330**
16,261	**Total Usable Reserves**	**17,237**

6. The total Useable Reserves as per the statement of accounts is £17.2 million, however only the General Fund £1.9m and Other Reserves £7.5m are considered within this report. The other grant areas are not for general use as they have already identified for a particular use or business area. For example, the £5.6m Earmarked PFI Grant will unwind at the end of the two PFI concessionary periods, however the cash can be used to avoid borrowing during this time.

7. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements (i.e. reconciliation of reporting standards to statutory requirements)

8. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.

Reserves Strategy and Future Outlook

9. This paper gives due consideration to the overall level of reserves held as at 31 March 2021, and the Panel are asked to comment and review the overall position as scheduled within **Appendices 1** and **2**.

    - The Financial Strategy implemented during the significant period of business transformation resulted in an important and deliberate increased the overall level of reserves held, but it is even more important that full scrutiny of our reserves is undertaken, particularly when considering
        - There are no future capital grants proposed by the Government, which means that all capital spend will increase debt and borrowing unless internally funded by either ongoing savings or the use of reserves
        - The future investment required to fund further changes to the Service currently being considered as part of the current Service Transformation work.
        - The use of Reserves to support Revenue Spend into the medium term.

General Reserve

10. The General Reserve scheduled within **Appendix 1** has remained unchanged for a number of years and at £1.9m represents around 4.5% of the annual revenue budget). It is recommended by the Home Office that General Reserves held by Fire Authorities do not exceed 5% of overall funding level. The National Framework Document requests that the Reserves Strategy should clearly justify the reasons for holding a general reserve above five percent of budget.

Earmarked / Specific Reserve

11. The Balance on this reserve as at 31 March 2021 was £7.5m, is scheduled below and is based upon the categorisation approved by the Staffordshire Commissioner in February 2021:

	2019/20 Approved £m	2020/21 Fcast £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Earmarked Reserves							
PFI Reserve (Project Reserve Deductions)	0.7	0.8	0.6	0.6	0.6	0.6	0.6
Operational Budget Holder Reserves	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Budget and MTFS Suppport Reserve	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Refurbishment Reserve Abbots Bromley	0.5	0.4					
Capital Reserves	1.4	1.1	0.6				
Pension Reserve	1.8	1.8	1.8	1.8	1.1	1.1	1.1
Collaboration Rserve	0.5	0.5	0.5	0.5	0.5	0.5	0.5
LCTS Covid Grant Balance		0.2	0.2				
Future Funding Reserve	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Earmarked Reserve	**7.1**	**6.8**	**5.6**	**4.8**	**4.1**	**4.1**	**4.1**
Total Reserves Available	**9.0**	**8.7**	**7.5**	**6.7**	**6.0**	**6.0**	**6.0**

12. The Earmarked/Specific Reserve provision is required not only to fund future projects and investments but also to provide funding, as follows:
    - to support the recurring revenue budget upto 2023 as incorporated within the medium term financial strategy and Efficiency Plan,
    - to provide a provision for future capital investment to avoid additional long term borrowing need,
    - to provide for costs that may be required to support future change and business transformation
    - to provide for any funding uncertainty as discussed within this paper (e.g. pay awards and Pensions)
    - to provide for future contingent liabilities that have been identified within the statutory accounts

13. **Appendix 2** incorporates and update of the assumptions for each of the above reserve provisions for discussion by the Panel; including:

   a. The approved revenue budget set for 2021/22
   b. The revised use of reserves incorporated with the approved MTFS
   c. Planning for future transformation costs of the Service within the Service Transformaytion Project
   d. Any contingent liabilities that needs to be provided for as incorporated within the Statutory Accounts
   e. Any amounts where budget holders have been authorised to earmark a specific expenditure item
   f. Any upward pressures that are anticipated to be placed upon budgets e.g. higher than expected pay awards

14. In the instance where a particular reserve needs to be accessed that has not be previously formally approved approval from The Staffordshire Commissioner would be sought in advance to ensure that plans can be adequately challenged and full transparency exists within the Authority.

15. Whilst it remains the responsibility of the S151 Officer and Treasurer for the Staffordshire Commissioner to advise the Authority about the overall level of reserves that is held; the Service and Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.

Appendix 1

General Reserves Balance for 2022/23

CIPFA guidance indicates that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that chief financial officers should take account of the strategic, operational and financial risks facing the authority.

A risk assessment for general reserves was undertaken as part of the budget setting process for 2022/23 and the overall provision of £1.9m has remained unchanged for a number of years and represents 4.5% of the revenue budget set for the year.

Whilst not a complete list of all the financial risks, the assessment focused on those most likely (High and Medium risks) to have a significant impact on the budget year.

Area of Expenditure	Level of Risk *	Explanation of risk/justification of reserves	2022/23 Provision £000
Loss of Employees / additional pay costs	High	Spate conditions caused by for example; prolonged severe weather conditions (e.g. hot weather or flooding), unexpected loss of staff through COVID-19, Avian Flu / Ebola etc.	500
Failure to achieve efficiency savings	Medium	Risk of not achieving future savings requirements	500
Insurance loss / impact of data breach	Medium	Risk of incurring uninsured losses Risk of breach due to inappropriate information sharing / failure to implement EU GDPR	500
Ill health retirement costs	Medium	Risk of the number of ill health retirements being greater than anticipated due to ageing workforce	150
Other unforeseen costs	Medium	Risk of unforeseen event: emergency incident, waste fires / tipping	150
Other costs	Medium	Risk of failure of strategic partnership / collaboration initiatives	100
TOTAL			**1,900**

Appendix 2

Total Reserves including Earmarked Reserves Balance for 2022/23

In addition to general reserve balances, useable earmarked reserves that are created for specific purposes. Useable earmarked reserves should be held to meet future liabilities and the following table incorporates a suggested categorisation of the balance held for this reserve to be considered by the Staffordshire Commissioner.

Below is a suggested categorisation only, but importantly this must remain flexible based upon future funding settlements, delivery of agreed savings and certainty around MFTS assumptions.

	Mar-21 Final £m	2021/22 Fcast £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m
General Fund	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Earmarked Reserves							
PFI Reserve (Project Reserve Deductions)	0.8	0.8	0.7	0.3	0.3	0.3	0.1
Operational Budget Holder Reserves	0.5	0.3	0.3	0.3	0.3	0.3	0.2
Budget and MTFS Suppport Reserve	0.5	0.7	0.6	0.3	0.2	0.2	0.2
Refurbishment Reserve Abbots Bromley	0.5	0.5					
Capital Reserves	1.2	1.2	0.3				
Pension Reserve	1.8	1.8	1.8	1.8	1.1	1.1	1.1
Collaboration Reserve	0.5	0.5	0.3	0.3	0.3	0.3	0.3
Future Funding Reserve	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total Earmarked Reserve	**7.5**	**7.5**	**5.7**	**4.7**	**3.9**	**3.9**	**3.6**
Total Reserves Available	**9.4**	**9.4**	**7.6**	**6.6**	**5.8**	**5.8**	**5.5**
Percentage of Revenue Budget							
General Reserve		4.5%	4.5%	4.3%	4.2%	4.1%	4.0%
Earmarked Reserve		17.9%	13.4%	10.7%	8.6%	8.4%	7.6%

STAFFORDSHIRE COMMISSIONER
Police | Fire and Rescue | Crime

Item No. on Agenda

Report to the Police Fire and Crime Panel

14 February 2022

Fire Capital Strategy and Capital Programme 2022/23 to 2024/25
(Incl. Minimum Revenue Provision Policy)

Report of the Staffordshire Commissioner

INTRODUCTION

As part of the overall financial strategy for the Staffordshire Commissioner Fire and Rescue Authority a three year Capital Programme has been prepared. This report schedules the proposed investment programme for 2022/23 to 2024/25, and presents the indicators required within the updated Prudential Code. This all forms part of the Capital Strategy for the Staffordshire Commissioner Fire and Rescue Authority for the next three years.

The Prudential Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning. The Capital Strategy is part of the Authority's sound medium term financial planning process, ensuring there is a clear strategy supporting the next three years of capital investment.

The Capital Strategy sets out how the long-term context in which capital investment and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes in line with the current Corporate Safety Plan. It also demonstrates that the Authority takes capital and investment decisions in line with Service objectives and properly takes account of stewardship, value for money, prudence, sustainability and importantly affordability.

This report also reviews the approach that the Authority has taken during the last few years, successfully managing the capital programme, reducing future capital financing requirements, and through the repayment of long term loans reducing interest payments.

This report should also be considered alongside the Treasury Management Strategy, with both reports covering the reporting requirements of CIFPA's Prudential Code and Treasury Management in the Public Sector.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

a) the three year Capital Programme for 2022/23 to 2024/25 as set out in Appendix 1,

b) the detailed capital programme for 2022/23 as set out within Appendix 2

c) the Capital Strategy for 2022/23

d) the Prudential Indicators that are set out within Appendix 3 including the Capital Financing Requirement for the three year period

e) that the funding of capital expenditure from Reserves for the period 2022/23 to 2024/25 is in line with the updated Reserves Strategy

f) the Minimum Revenue Provision (MRP) policy statement incorporated within this report

g) the capital programme and capital strategy supports the main Budget and MTFS paper

Ben Adams
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1. Background

1.1 The Capital Strategy forms a key part of the Staffordshire Commissioner Fire and Rescue Authority's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over the medium term planning horizon.

1.2 The Strategy sets the framework for all aspects of the Commissioner's Fire and Rescue capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment.

1.3 There are four main areas of spend which feature within the Capital Programme;

- Estates and Facilities
- Operational Equipment
- Transport
- Information systems and technology

2. Objectives

2.1 The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the vision, aims and priorities of the Authority;
- set out how the Authority identifies, programmes and prioritises capital requirements and proposals;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the MTFS planning period;
- ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return;
- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment;
- deliver projects that focus on delivering the long term benefits to the Authority and the communities served within Staffordshire and Stoke on Trent.

3. Governance of the Capital Programme

3.1 A governance process is clearly established within the Service and Authority and will continue to be adhered to, will follow standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the Service and revenue budget planning process within the framework of the MTFS. These include:

- The Strategic Governance Board (SGB) which is ultimately responsible for approving the Capital Strategy for investment and the Capital Programme for approving changes to the programme within financial regulations and for the approval of business case submissions.

- The Ethics, Transparency and Audit Panel (ETAP) which is responsible for scrutiny of the MTFS documents and the Capital budget monitoring reports and can make recommendations to the Strategic Governance Board (SGB).

- The Capital Review Group has been established for a number of years and provides detailed scrutiny for all capital spend proposals and monitors delivery of the current year's programme and develops a rolling three year programme. The group consists of key stakeholders from within the Service and holds responsibility for the delivery of the Service's capital programme and has clear Terms of Reference in place. Minutes from this group are reviewed by the Service Delivery Board.

3.2 For new major projects and programmes an outline business case will be submitted through the governance arrangements that needs to include the capital investment requirements, repayment mechanisms, revenue impacts of capital spend and also lifetime costing if applicable.

3.3 For smaller areas of capital spend (based upon a rolling programme of requirements) the proposals may be submitted though the Capital Review Group and approved by the Staffordshire Commissioner Fire and Rescue Authority through the Strategic Governance Board. This is recognising that the programme consists of smaller spend areas that do not require the production of a full outline business case.

3.4 The monthly Resource Control Report is produced and available to all staff within the Authority, in addition quarterly financial progress and monitoring reports are submitted to the Strategic Governance Board with bi-months reports reviewed by the Finance Panel which is a sub group of the Ethics, Transparency and Audit Panel (ETAP).

4. Capital Priorities

4.1 The capital strategy must recognise that the financial resources available to meet the requirements of the Corporate Safety Plan and the four key priority areas:

- Prevention and early intervention
- Protecting Staffordshire and its people
- Public confidence
- Service Reform

4.2 The bringing together of blue light services under a single governance route to the Staffordshire Commissioner provides opportunities to co-locate and share assets to the good of the community, delivering efficiencies and savings.

4.3 Staffordshire Fire and Rescue and Staffordshire Police will continue to build upon the collaboration that has resulted in joint response bases in Tamworth Belgrave and Hanley. The introduction of the new Police Operating Model will see further opportunities to share locations as the joint estate strategy continues to evolve.

4.4 The Staffordshire Commissioner Fire and Rescue Authority will seek to prioritise investment in order to deliver economy and efficiency within the Service. This prioritisation will be achieved though the robust governance arrangements discussed above.

5. Funding Approach

5.1 The Staffordshire Commissioner Fire and Rescue Authority's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under The Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of The Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

5.2 The main sources of capital funding are summarised below:

- **Central Government Funding Grants**
  Capital Grant funding is no longer available from Central Government and ceased in 2012. Funding from the Home Office has been made available since 2012 but only on a bid for basis e.g. transformational funding.

- **The use of internal cash balances**
  Interest rates on cash balances, over recent years, have remained low which has resulted in this being a more efficient use of cash to invest in the capital programme rather that taking additional external debt. The use of internal cash is an approach that has been undertaken successfully by the Authority for a number of years and has continued to deliver savings through lower borrowing costs.

- **The use of Earmarked Reserves**
  The Authority has a Reserves Strategy which includes the Earmarking of Reserves to support the capital programme. Funding into the medium term has been identified though this approach and remains a key funding strategy. To date the vehicle replacement programme has been supported though the use of earmarked reserves, in addition to specific capital project funding e.g. for station refurbishment work such as at Abbots Bromley.

- **The use of Capital Receipts**
  Disposing of surplus assets is a good way to reinvest in the capital programme. Receipts will be targeted at the shortest life assets and then their use considered widely within any flexibility allowed by the appropriate government authority. In accordance with statutory instruments capital receipts may also be used for the repayment of debt.

- **Direct revenue funding**
  Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). In addition to specific revenue funds previously set aside, such as repairs and renewal funds, capital expenditure may be funded by specific revenue budget provision.

  This approach has been adopted successfully funding the capital programme during this time and consequentially reducing the Capital Financing Requirement by £9.0m since 31 March 2013. The capital programme was fully funded in 2019/20 and 2020/21 without the need for additional borrowing.

- **Borrowing and Leasing**
  Under the Prudential Code the Authority has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from the project returns or upon agreement to include in the MTFS estimates.

  This discretion is subject to complying with The Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding additional capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

  The Authority will test the prudence of the borrowing predictions against the prudential indicators set under The Code every year as part of the MTFS process and report on progress against those indicators half yearly.

  Through the use of internal cash and direct revenue financing no new loans have been taken since 2010/11, and following the repayment of £0.5m of loans during 2020/21 the overall loans position reduced to £17.1m by 31 March 2021. This prudent approach to borrowing is inline with the Treasury Management Strategy and will continue into the medium term. However, should borrowing be required the Authority will continue to consider on a cautious and prudent basis as informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team.

  The Authority will utilise operational leases where possible for the purchase of minor equipment, IT and vehicles as supported by an appropriate business case should this be the most efficient way of business delivery within the Service.

6. Risk Management

6.1 Risk is the threat that an event or action will adversely affect the ability to achieve a desired outcome or execute strategies successfully.

6.2 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

6.3 The Director of Finance will report on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

6.4 There are many categories of risk to be mindful of; these are detailed in **Appendix 4:**

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Exchange Rate Risk
- Inflation Risk
- Legal and Regulatory Risk
- Fraud, Error and Corruption

7. Capital Programme 2022/23 to 2024/25

7.1 The Capital Programme for 2022/23 to 2024/25 is contained within **Appendix 1** of this report. The total proposed Capital Programme for 2022/23 is £8.0m, for 2023/24 £5.0m and for 2024/25 £2.7m.

7.2 The detailed scheme analysis supporting the programme for 2022/23 is shown within **Appendix 2**.

7.3 The Staffordshire Commissioner Fire and Rescue Authority is required to set estimates, impose limits and to report and publish actuals in line with The Prudential Code. The indicators for adoption by the Authority for 2022/23, 2023/24 and 2024/25 are set out in **Appendix 3**.

7.4 The Police Fire and Crime Panel should note that due to a number of factors which includes COVID19 a number of capital projects have been delaying during the last 18 months, this has resulted in considerable slippage of spend into 2022/23. Whilst this delay has not had a negative impact upon service delivery it has resulted in a significant programme of investment for 2022/23.

7.5 There are four main areas of spend which feature within the capital programme; Estates and Facilities which includes building and infrastructure work, Operational Equipment, Transport Appliances and Vehicles and finally Information Systems and Technology.

The four areas are discussed in more detail below.

- **Building and Infrastructure Work**

  The budget proposal for 2022/23 includes a total capital requirement of £3.1m, which consists of the following main building and infrastructure projects plus some minor works:

  - Stafford Fire Station, £1.9m. This project was originally included with the 2020/21 Capital Programme and should move to construction during the summer of 2022. This project is a key element of the Service transformation work and will see the redevelopment of part of the Stafford Fire Station site which will allow the disposal of a parcel of land. The planning proposal has been approved which will see an existing building within the site becoming the fire station and training facility and will allow the Authority to realise a capital receipt for the land that is no longer required. This project will be partially funded from the remaining Transformation Funding Grant. Costs have increased for this project and an updated business case will be presented to the Strategic Governance Board during the year.

  - Stafford Fire Station Drill tower - £0.15m - A new drill tower is also budgeted separately for this site which will be funded from the Authority's reserves. This will enable working at height training on this site.

  - The refurbishment of Abbots Bromley fire station, £0.4m. This project being partially funded by the earmarked reserve created utilising the refinancing cash benefit from the PFI1 project (reinvestment back into the estate). This project was originally budgeted for 2018/19 but the scope of the project so far has exceeded the financial envelope. The budget includes additional work for the replacement of the drill tower. This project is scheduled to commence during the spring of 2022 with a majority of the capital spend being incurred during 2022/23.

  - The refurbishment of Brewood is also anticipated to commence in the final quarter of the year. This will be subject to a full business case and funded from the Authorities Earmarked Reserves.

  - Minor works, £0.5m. This includes minor work at Fire headquarters site.

- **Operational Equipment**

  Total investment of £1.2m has been identified and included within the programme for 2022/23:

  - The capital requirement for 22/23 has increased with a number of detailed projects being deferred from the 21/22 capital programme. The carry over is c.£650k.

  - A full list of the detailed projects is included within Appendix 2

  - Replacement of Operational PPE has now commenced during 2021/22 with investment into 2022/23 (£450k) and 2023/24(£400k). The total approved investment is £1.3m

- **Appliances and Vehicles**

  A vehicle replacement programme of £2.2m has been included within the proposed budget for 2022/23:

  In summary the vehicle replacement programme includes the following:

  - Purchase of 2 Rescue Tender Pumping Appliances. This forms part of the Service Transformation project work at £0.75m.

  - Aerial Ladder Replacement (ALP), £0.9m. This total investment of £1.7m has been approved and is spread over 3 years and includes the replacement of both ALP's. The contract for this replacement has been approved and signed off by the Commissioner.

  - Light Vehicles, £0.3m, the programme includes the replacement of light vehicles as part of the rolling vehicle replacement programme and incorporates slippage from 2021/22 due to vehicle availability within the market.

- **Information Technology**

  The ICT programme for 2022/23 of £1.5m includes the following:

  - Ongoing ICT rolling replacement programme for desktop and infrastructure and device replacement strategy, £0.55m

  - Telephony replacement, £0.3m. This work is for professional services and hardware (Routers) costs associated with replacing the existing telephony which will be end of contract. This is a carry-over from 2021/22 and will be required investment in quarter 1 of 2022/23.

  - Full MS teams enablement across the fire estate, £0.25m.

  - PSN core network development, ESN Enablement, £0.15m

  - Other (includes alerter replacement), £0.2m

8. Funding the Programme

8.1 **Appendix 1** also details the proposed funding strategy for the 2022/23 programme together with indications for the funding of the next two years. For 2022/23, the programme will be funded by a combination of Government Grant, Earmarked Reserves and the use of Internal Cash. This is also reviewed within the Treasury Management Strategy Report.

8.2 The Authority will also seek to fund as much of the programme as possible through direct revenue contribution should additional savings be available in year.

9. Minimum Revenue Provision (MRP) Policy Statement

9.1 The Staffordshire Commissioner Fire and Rescue Authority is required each year to set aside some of its revenues as provision for debt repayment. This MRP provision essentially allows the Authority to “pay off” an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).

9.2 The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations, the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers prudent. The new regulation does not itself define “prudent provision”. However, guidance has been issued specifying methods for MRP calculation, which the Secretary of State considers prudent thereby effectively determining prudent provision.

9.3 Regulations require the Authority to approve an MRP Statement in advance of each year. It is recommended that the Authority continue to apply a MRP to capital expenditure funded by borrowing under the ‘Asset Life Method’: which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.

9.4 The total level of debt for this Authority as at 31 March 2021 was £22.1m, and is forecast to increase to £29.0m by March 2025 based upon the capital investment requirements outlined within this paper.

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Appendix 1

Staffordshire Commissioner Fire and Rescue Authority

Summary Proposed Capital Programme 2022/23 to 2024/25

	2022/23 Budget	2023/24 Plan	2024/25 Plan
	£	£	£
Building & Infrastructure Works			
Refurbishment Programme	2,648,816	450,000	450,000
Improvement Works	460,000	540,000	550,000
Total	**3,108,816**	**990,000**	**1,000,000**
Operational Equipment	**1,184,500**	**1,410,000**	**125,000**
Appliances & Vehicles			
Appliances & Specialist Vehicles	1,880,000	1,560,000	900,000
Vans & Cars	315,000	200,000	200,000
Total	**2,195,000**	**1,760,000**	**1,100,000**
Information Technology			
ICT Hardware, Software Systems & Installations	1,515,000	870,000	430,000
Total	**1,515,000**	**870,000**	**430,000**
Total Capital Programme	**8,003,316**	**5,030,000**	**2,655,000**
Funding			
Direct Funding From Revenue			
Unsupported Borrowing	5,728,316	4,253,000	2,655,000
Capital Grant - Transformation Funding	950,000		
Use of Specific Reserves	1,325,000	777,000	350,000
Total Funding	**8,003,316**	**5,030,000**	**2,655,000**

Appendix 2

Staffordshire Commissioner Fire and Rescue Authority

Detailed Capital Programme 2022/23

Scheme Description	Detail	2022/23 Budget Submission £
IADS		
Brewood Refurbishment	Refurbishment split over 2 years. Due to start in 2022/23	150,000
Abbots Bromley Refurbishment	Refurbishment split due to start in Q1 of 2022/23	363,816
Abbots Bromley Tower	Refurbishment split due to start in Q1 of 2022/24	70,000
Stafford Refurbishment	Carry over from 2021/22. Work ongoing	1,900,000
Stafford - Safe & Sound Project	Allocation of requirements for the year (grant funded)	15,000
Stafford - Training Tower	New training tower at Stafford	150,000
		2,648,816
Building Works - Improvements		
HQ BA Room refurbishment	Carry out refurbishment to BA Training room at HQ	30,000
FBT Improvement works	Forming of walkways, Canopy to Barn, BA Cleaning area, External briefing area	40,000
HQ - Resurfacing Works Phase 1	Rear Of Amenities and BA Maintenance	100,000
Eccleshall - First Floor Refurbishment	Fully refurbish first floor	50,000
HQ - Lighting replacement programme Phase 2	Replace lighting with Energy Efficient LED to old house - 1st Floor	35,000
Stations - Lighting replacement programme Phase 2	Replace lighting with Energy Efficient LED at Barton, JETS (Offices only)	45,000
Sustainability heating system replacement - Stations	Ipstones - Phase out gas heating for sustainable solution	50,000
HQ - Old House FD Replacement Phase 2	Replace all Fire Doors throughout corridors/stairwells - 1st Floor	40,000
Replace Amenities lift HQ	Renew lift cart	70,000
		460,000
Operational Equipment		
Operational Equipment Pool		25,000
Life Jackets	100 x Life jackets (Due to age)	11,000
Water Rescue Equipment	Rescue Sled x1 / Air Tracks x 2	11,000
Appliance Equipment - Refurbished PRLs	Kit for 2 x Scania PRLs	44,000
Thermal Image Cameras	Replacement due to age and performance	150,000
Entry Control Board Batteries	Full replacement	15,000
Boats	2 replacement boats due to age	18,000
Operational PPE	Business case has been approved	450,000
Hydraulic Cutting Equipment	Continued investment in front line appliance equipment	192,000
Appliance Equipment - Refurbished PRL	fully kit reserve (50% carry forward from 21/22)	32,500
FF Decontamination Equipment		30,000
Fireground UHF Radios		40,000
ERP equipment x 2 @ £75k	To include standard equipment and heavy rescue equipment	150,000
ALP equipment x 2 @ £8k	operational equipment for both ALP's	16,000
		1,184,500
Appliances & Vehicles		
Light Fleet	Mix of Cars & Vans	315,000
Pumping Appliance	Refurbishment / fleet transformation to meet demand	250,000
Appliance Pool	2 ERP's	750,000
ALP 1	Full & final payment	580,000
ALP 2	Chassis & Platform	300,000
		2,195,000
Information Technology		
ICT Rolling Programme - Desktop	Rolling program for officers and admin laptop replacement plus desktop solutions such as igels.	150,000
ICT Rolling Programme - Infrastructure	SDWAN (PSN replacement) and Wireless Access Points replacement 5 year investment	250,000
UPS Replacement	DR	30,000
Device Strategy		150,000
Teams Rooms Enablement	Fitting all estate with a Teams capable room Inc L&D	250,000
Alerter Replacement	Alerter Software and hardware Replacement 10 year investment	100,000
ESN Enablement	ESN Project	150,000
Finance System Software Upgrade	Integra Centros	34,000
Telephony Hardware Replacement	Carry-over from 2021/22	150,000
Main Telephony (Software)	Carry-over from 2021/23	150,000
Infographics Integration Project		50,000
Office 365 Upgrade		21,000
Appliance Fixed Phones		30,000
		1,515,000
Overall Total		**8,003,316**

Appendix 3

Staffordshire Commissioner Fire and Rescue Authority
Prudential Indicators

A. Indicators for Affordability, Prudence and Capital Expenditure

1. Ratio of Financing Costs to Net Revenue Stream

Estimate 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %
5.1	6.6	7.1

This shows the capital financing costs (interest charges/receipts and repayment of loans) as a proportion of government grant (revenue) and Council Tax. This allows the Authority to track how much of its annual income is needed to pay for its capital investment plans proportionate to its day to day running costs.

2. Estimates of Capital Expenditure

Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
8.0	5.0	2.7

Expressed in absolute terms rather than as a ratio, this shows the overall level of capital investment irrespective of how it is being funded.

3. Capital Financing Requirement/Gross Debt

Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
27.2	29.4	29.3

This indicator effectively shows the level of the Authority's underlying need to borrow for capital purposes.

Net borrowing is not expected to exceed the total of the capital financing requirement (except in the short term)

It is a key indicator of prudence that, over the medium term, net borrowing is only for capital purposes.

B. Indicators for Treasury Management

1. <u>Treasury Management Code of Practice</u>

   The Authority has adopted the CIPFA Code of Practice on Treasury Management

2. <u>External Debt</u>

	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
Authorised Limit	32.2	34.4	34.3
Operational Boundary	30.2	32.4	32.3

This indicator identifies two limits in relation to external debt, and excludes PFI.

The *Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of borrowing assumed in the Capital Programme.*

In addition *an Operational Boundary is required which represents the Treasurer's estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worst case scenario.*

The above excludes the PFI Balance Sheet debt position.

Appendix 4

Glossary of Risk Management Categories

Credit Risk is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly we will ensure that robust due diligence procedures covers all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. The exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Appropriate interventions will occur as early as possible.

Interest Rate Risk is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Exchange Rate Risk is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Inflation Risk is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible any exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Legal and Regulatory Risk is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, we will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

Fraud, Error and Corruption is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. This is supported by the national Code of Ethics and detailed policies such as Counter-Fraud and Corruption and Declaration of Interests.

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.