West Yorkshire
Fire & Rescue Authority

OFFICIAL

Quarterly Financial Review

Finance & Resources Committee

Date: 29 January 2016

Agenda Item: **5**

Submitted By: Chief Finance & Procurement Officer

Purpose To present a Quarterly Review of the financial position of the Authority.

Recommendations Members note the content of the report

Summary This report provides a summary of the revenue and capital expenditure to date and provides a forecast of the financial outturn.

Local Government (Access to information) Act 1972

Exemption Category: Nil

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Background papers open to inspection: None

Annexes:
Appendix 1 Capital Plan Summary
Appendix 2 Schemes approved by Management Board

SECTION 1 – REVENUE EXPENDITURE MONITORING

1 Introduction

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

1.2 This report is based on expenditure to the beginning of September and includes salary payments to the end of December 2015. The actual projected outturn is based on expenditure to date which is forecast based on previous expenditure trends.

2 Revenue Budget Revision

2.1 When the revenue budget is approved an amount is included in contingencies for future pay and price increases and other budget adjustments. There have been no changes to the revenue budget since the last meeting.

3 Expenditure Monitoring

3.1 Overall, the latest forecast indicated there will be an under spending of £2.149m in the current financial year which is an increase of £0.7m from the previous forecast, the main difference being the forecast increase in the underspending on whole time firefighters' salaries..

3.2 There has been a significant increase in overtime expenditure and retained call out over the Christmas period owing to the flooding. This had not been paid at the time the report was prepared and consequently is not included in this forecast. The cost of out of county activity can be recovered from the other authorities, although it is likely the Authority will receive similar charges from other authorities. In terms of recovering costs for the floods within West Yorkshire, this is covered by the Bellwin Scheme. However, the threshold below which no claim can be made is £170,300 for this Authority which means that only expenditure above this can be reclaimed. An update on the costs incurred will be presented at the meeting.

3.3 The table below summarises the most significant variations with an explanation of the causes detailed below.

	FORECAST £000	**APPROVED BUDGET £000**	**VARIANCE £000**
Whole time firefighters	49,828	50,326	-498
Retained firefighters	1,829	2,472	-643
Support staffing	7,442	7,700	-258
Transport costs	2,091	2,249	-158
Supplies and services	4,317	4,787	-470

3.4 **Whole time firefighters** **-£0.498m**

Whilst overall expenditure is forecast to be very close to the approved budget there are some variations with these expenditure heads.

- Basic pay -£600k
  As in previous financial years there is an underspending on basic pay as more firefighters leave the organisation than was forecast when the budget was prepared in January 2015.
- Overtime +£200k
  Whilst overall there has been an increase in overtime payments in the current financial year, monthly expenditure has now fallen. It should be noted however that the floods in December will result in a further one off increase in overtime spending.

3.5 **Retained firefighters** **-£0.643m**

Expenditure on retained firefighters is to a large extent dependent upon activity as a result of the number of call outs. As with the whole-time firefighters, the flooding in December will have resulted in increased activity which will result in increased salary payments in January.

3.6 **Support staffing** **-£0.258m**

This is a result of the current vacancies within the support staff establishment.

3.7 **Supplies and services** **-£0.470m**

There is a general trend of underspending on the majority of the equipment expenditure heads coupled with a forecast underspending on the communications budgets.

3.8 **2016/2017 Revenue Budget**

The underspending described above has been reflected in the 2016/2017 approved revenue budget and will deliver significant long term sustainable savings.

4 Impact on Revenue Balances

Description	General Reserve
Balance at 1 April 2015	19.4m
Impact of forecast	2.1m
Forecast balance at 31/3/2016	21.5m

REVENUE EXPENDITURE FORECAST						
Jan-16						
EXPENDITURE	**PAYMENTS TO DATE**	**EXPEND FORECAST**	**APPROVED BUDGET**	**VIREMENT**	**REVISED BUDGET**	**FORECAST VARIANCE**
	£000	**£0**	**£000**		**£000**	**£000**
Wholetime Firefighters	£38,586	£49,828	£50,326		**£50,326**	**-£498**
Retained Firefighters	£1,242	£1,829	£2,472		**£2,472**	**-£643**
Firefighters Pensions		£2,460	£2,460		**£2,460**	**£0**
Brigade Control	£1,299	£1,664	£1,632		**£1,632**	**£32**
Support Staff	£5,750	£7,442	£7,700		**£7,700**	**-£258**
Training courses	£336	£709	£668		**£668**	**£41**
Other Employee Expenses	£132	£191	£193		**£193**	**-£2**
Insurance	£800	£859	£859		**£859**	**£0**
Premises Expenses	£2,176	£3,251	£3,246		**£3,246**	**£5**
Transport Costs	£1,256	£2,091	£2,249		**£2,249**	**-£158**
Supplies and Services	£2,882	£4,317	£4,787		**£4,787**	**-£470**
Lead Authority Charges		£288	£288		**£288**	**£0**
Capital Financing Charges		£6,878	£6,878		**£6,878**	**£0**
Provision for Pay & Prices		£491	£491		**£491**	**£0**
Total Expenditure	**£54,459**	**£82,298**	**£84,249**	**£0**	**£84,249**	**-£1,951**
Grants		£1,373	£1,355		**£1,355**	**£18**
Other Income	£925	£1,212	£1,032		**£1,032**	**£180**
Total Income	**£925**	**£2,585**	**£2,387**	**£0**	**£2,387**	**£198**
Net Expenditure	**£53,534**	**£79,713**	**£81,862**	**£0**	**£81,862**	**-£2,149**

SECTION 2 – CAPITAL EXPENDITURE MONITORING

1 Introduction

1.1 At its meeting on 20 February 2015, the Authority approved a five year capital programme of £35.39m which included schemes to the value of £15.686m for the current financial year.

2 Schemes slipped between financial years and capital virement

2.1 The nature of major capital schemes means that expenditure often straddles a number of financial years, particularly the case in major building schemes. This has been particularly relevant in recent years when the Authority is in the process of constructing a number of new fire stations as part of the IRMP.

2.2 The table below details adjustment to the capital schemes

Revised plan October 2015		**£22,392,790**
Increase in cost of IRMP	IRMP	£883,000
Schemes slipped to future years		
FSHQ conference room	Property	-£10,000
Window external cladding	Property	-£60,000
Security and control system	Property	-£50,000
Drainage interceptors	Property	-£40,000
Washing and toilet facilities	Property	-£40,000
Roof replacement Skelmonthorpe	Property	-£50,000
Security access and safety systems	Property	-£250,000
Shower and washing facilities	Property	-£80,000
Computer hardware	IT	£35,000
Revised capital plan		**£22,730,790**

2.3 As in previous years, it is anticipated that schemes currently programmed for completion within the financial year will suffer delays and it is likely that the overall plan will reduce as the year progresses.

2.4 At the Authority AGM in 2010 the Management Board was given delegated power to approve individual virement between capital schemes of up to £100,000. Details of any approvals will be reported to committee throughout the year as part of this report. There have been no approvals in the current financial year.

3 Capital Payments 2015/2016

3.1 The actual capital payments to date total £8.117m which represents 36% of the revised capital plan.

3.2 This year there has already been significant progress on construction with the opening of new fire stations at Rastrick, Killingbeck and Batley Carr. In addition, it is anticipated that there will be significant progress on both Osset and Shipley within the year.

3.3 A summary of the capital plan is attached to this report in Appendix 1 showing details of expenditure on each individual scheme.

4 Approvals under financial procedure 3.11

4.1 Under financial procedures 3.11 the Management Board can approve expenditure on schemes in the approved capital plan up to an amount of £100,000. This approval is subject to approvals being reported to the Finance and Resources Committee. Details of these approvals are attached in Appendix 2 of this report.

SECTION 3 – DEBTORS

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

2. The level of outstanding debt owed to the Authority to the end of January 2016 is £212,362. This can be profiled as follows:

Less than 60 days -	£ 132,186
Greater than 60 days -	£ 80,176

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

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

As detailed above, there is currently £80,176 of debt which is at the recovery stage.

APPENDIX 1

CAPITAL BUDGET MONITORING 2015/16
SUMMARY

Directorate	2015/16 Capital Plan	Virement	Slippage	2015/16 Revised Capital Plan	Expenditure 2015/16	Balance Uncommitted
Property services	£1,570,000	£150,000	£730,550	£2,450,550	£792,108	£1,658,442
IRMP	£9,661,000	£519,528	£3,591,235	£13,771,763	£4,638,434	£9,133,329
Information Technology	£1,026,500	£0	£1,043,262	£2,069,762	£335,836	£1,733,926
Transport	£1,660,000	£0	£446,392	£2,106,392	£841,084	£1,265,308
Operations	£1,769,000	£0	£562,823	£2,331,823	£1,183,785	£1,148,038
	£15,686,500	£669,528	£6,374,262	£22,730,290	£7,791,248	£14,939,042

CAPITAL BUDGET MONITORING 2015/16

SERVICE SUPPORT

PROPERTY

Details of Scheme	2015/16 FINANCIAL YEAR Capital Plan	Virement	Slippage	Revised Capital Plan	Expenditure to date	Balance Uncommitted
FSHQ						
Roof Replacement - transport workshops	£600,000			**£600,000**	£34,882	£565,118
Conference Room refurbishment Phase 1	£10,000		-£10,000	**£0**	£0	£0
Training Centre						£0
Windows & external cladding	£60,000		-£60,000	**£0**	£0	£0
Security and Control System	£50,000		-£50,000	**£0**	£0	£0
						£0
SPECIFIC REFURBISHMENTS						£0
Drainage Interceptors & refuelling pads	£40,000		-£40,000	**£0**	£0	£0
Washing & Toilet Facilities Upgrade -	£40,000		-£40,000	**£0**	£0	£0
Roof Replacement - Skelmanthorpe	£50,000		-£50,000	**£0**	£0	£0
Security Access and Safety Systems	£250,000		-£250,000	**£0**	£0	£0
Shower & Washing Facilities - Garforth & Bingley	£80,000		-£80,000	**£0**	£0	£0
GENERAL				**£0**		£0
Appliance Bay Doors Upgrade	£150,000			**£150,000**	£0	£150,000
Health & Safety improvements	£30,000			**£30,000**	£0	£30,000
Electrical, Heating and other services equipment improvements	£40,000			**£40,000**	£4,762	£35,238
Training Towers & Lightening Surge Protection	£50,000			**£50,000**	£0	£50,000
Asbestos Mangement and removal	£30,000			**£30,000**	£0	£30,000
DDA Access	£10,000			**£10,000**	£0	£10,000
Internal fabric refurbishments	£30,000			**£30,000**	£7,647	£22,353
External fabric refurbishments	£30,000			**£30,000**	£3,950	£26,050
Drill Ground & Road Surface Replacements	£20,000			**£20,000**	£8,746	£11,254
TOTAL CAPITAL PLAN 2015/16	£1,570,000	£0	-£580,000	**£990,000**	£59,987	£930,013

CAPITAL BUDGET MONITORING 2015/16

SERVICE SUPPORT

IT

	2015/16 FINANCIAL YEAR					
Details of Scheme	**Capital Plan**	**Virement**	**Slippage**	**Revised Capital Plan**	**Expenditure to date**	**Balance Uncommitted**
Computer Hardware	£90,000		£35,000	**£125,000**	£33,229	£91,771
Software Licences	£252,000		£160,000	**£412,000**	£76,272	£335,728
New WAN (enabling work)	£110,000			**£110,000**	£0	£110,000
Servers and Storage	£84,000		£40,000	**£124,000**	£32,518	£91,482
New Data Network	£50,000		£50,000	**£100,000**	£56,583	£43,417
Networking hardware	£113,000			**£113,000**	£26,340	£86,660
Mobile Device Management Solution	£63,000			**£63,000**	£0	£63,000
CRM Upgrade	£110,000			**£110,000**	£0	£110,000
Microsoft Project Service Software Licences	£40,000			**£40,000**	£0	£40,000
Photocopiers	£39,500			**£39,500**	£0	£39,500
SAP Upgrade	£40,000			**£40,000**	£22,927	£17,073
GIS	35000			**£35,000**		£35,000
MDT replacement			£545,600	**£545,600**	£33,695	£511,906
Appliance CCTV			£33,872	**£33,872**	£30,819	£3,053
Fire Station Transmitting Infrastructure			£28,790	**£28,790**	£16,453	£12,337
Retained Station Pager Replacement Option B			£150,000	**£150,000**	£0	£150,000
HR training records	£0		£0	**£0**	£7,000	-£7,000
TOTAL CAPITAL	£1,026,500	£0	£1,043,262	£2,069,762	£335,836	£1,733,926

CAPITAL BUDGET MONITORING 2015/16

SERVICE SUPPORT

TRANSPORT

	2015/16 FINANCIAL YEAR					
Details of Scheme	**Capital Plan**	**Virement**	**Slippage**	**Revised Capital Plan**	**Expenditure to date**	**Balance Uncommitted**
Vehicle replacement	£1,375,000			**£1,375,000**	£515,378	£859,622
Prime Mover	£100,000			**£100,000**	£58,713	£41,287
Demountable PODS	£40,000			**£40,000**	£0	£40,000
Ladders	£30,000			**£30,000**	£17,080	£12,920
Commercial Vehicle Brake Tester	£35,000			**£35,000**	£0	£35,000
Vehicle Telematics	£80,000			**£80,000**	£1,175	£78,826
Command Unit Lite (Grant funded)	£0		£67,213	**£67,213**	£9,355	£57,858
Silent Witness	£0		£22,054	**£22,054**	£8,496	£13,558
Leeds CARP	£0		£265,325	**£265,325**	£125,805	£139,520
Wildfire Vehicles	£0		£91,800	**£91,800**	£105,083	-£13,283
TOTAL CAPITAL	**£1,660,000**	**£0**	**£446,392**	**£2,106,392**	**£841,084**	**£1,265,308**

CAPITAL BUDGET MONITORING 2015/16

SERVICE DELIVERY

OPERATIONS

Details of Scheme	Capital Plan	Virement	Slippage	Revised Capital Plan	Expenditure to date	Balance Uncommitted
	2015/16 FINANCIAL YEAR					
Lay Flat Hose	£12,000	£12,000		**£24,000**	£12,769	£11,231
Thermal Image Cameras	£26,000			**£26,000**	£29,680	-£3,680
PPV Fans	£12,000			**£12,000**	£12,010	-£10
Water Rescue Equipment	£25,000	-£12,000		**£13,000**	£12,619	£381
BA Compressor	£44,000			**£44,000**	£13,089	£30,911
BA Telemetry	£500,000			**£500,000**	£344,019	£155,981
Hydrants	£450,000			**£450,000**	£179,446	£270,554
Home Fire Safety Checks	£700,000			**£700,000**	£319,456	£380,544
TOTAL CAPITAL PLAN 2015/16	£1,769,000	£0	£0	**£1,769,000**	£923,088	£845,912
SLIPPED SCHEMES						
Premises Risk Database			£12,000	**£12,000**	£0	£12,000
Mobile IT Devices			£63,000	**£63,000**	£0	£63,000
New Control Project Contingency	£0		£343,974	**£343,974**	£1,610	£342,364
New Control Project West Yorks	£0			**£0**	£41,163	-£41,163
New Control Project South Yorks Collaboration	£0			**£0**	£56,156	-£56,156
New Control Project (Premises costs)	£0		£74,707	**£74,707**	£20,677	£54,030
Impact Driver	£0		£19,000	**£19,000**	£19,018	-£18
BA Compressor	£0		£25,000	**£25,000**	£111,369	-£86,369
Line Rescue Equipment	£0		£15,000	**£15,000**	£462	£14,538
Gas Tight Suits	£0		£10,142	**£10,142**	£8,222	£1,920
Cold Cut Cobra					£2,021	-£2,021
TOTAL CAPITAL	**£1,769,000**	**£0**	**£562,823**	**£2,331,823**	**£1,183,785**	**£1,148,038**

Schemes Approved by Management Board			
Month	Directorate	Description	Amount
April	Service support	SAP upgrade	£40,000
		IT hardware	£90,000
		HQ data network	£50,000
		Servers and storage	£84,000
		Mobile data	£63,000
		Microsoft licenses	£40,000
		Integrated GIS	£35,000
		Photocopiers	£39,500
	Service delivery	Lay flat hose	£12,000
		BA compressors	£44,000
August	Service delivery	Water rescue equipment	£25,000
		PPV fans	£12,000
		Thermal image cameras	£26,000
December	Fire safety	Mobile IT devices	£63,000

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Treasury Management Strategy 2016/2017

Finance & Resources Committee

Date: 29 January 2016

Agenda Item: **6**

Submitted By: Chief Finance & Procurement Officer

Purpose

To present the Treasury Management Strategy 2016/2017

Recommendations

Members are asked to :
(i) approve the investment strategy outlined in section 2.3 and Appendix A;
(ii) approve the borrowing strategy outlined in section 2.4;
(iii) approve the policy for provision of repayment of debt outlined in Appendix C
(iv) approve the treasury management indicators in Appendix D

Summary

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

Local Government (Access to information) Act 1972

Exemption Category: Nil

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Background papers open to inspection:

Annexes:

A Investment Strategy
B Credit Ratings
C Policy for provision of repayment of debt
D Treasury Management Indicators

1 Purpose of report

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

1.2 This report meets the requirements of both the Code and the DCLG Guidance.

1.3 The Finance and Resources Committee undertake a scrutiny role with regard to treasury management. Training has been provided to members of that committee.

2 Key points

2.1 Outlook for the economy, credit risk and interest rates

2.1.1 Domestic demand has grown robustly, supported by sustained real income growth, low inflation and falling unemployment. The MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. The outcome of the forthcoming referendum on the UK's relationship with the EU could put downward pressure on UK growth and interest rates. China's growth has slowed, reducing global demand for commodities and contributing towards emerging market weakness. However, US growth remains strong and there is a good possibility that interest rates will soon begin to rise stateside. In contrast, the European Central Bank finally embarked on Quantitative Easing in 2015 in order to counter the perils of deflation.

2.1.2 The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

2.1.3 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union and USA. Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, recent changes to compensation schemes in the UK and Europe mean that most private sector investors are partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority.

2.1.4 The first rise in official interest rates is forecast in the third quarter of 2016, rising by 0.5% a year thereafter finally settling between 2% and 3% in several years' time. Their forecast for interest rates for the next three years is as follows:

Table 1: Interest Rate Forecasts

	Average Base Rate	**20 Year PWLB Rate**
2016/17	0.75%	3.5%
2017/18	1.25%	3.7%
2018/19	1.75%	3.9%

2.2 Borrowing and Investment – General Strategy for 2016/17

2.2.1 As at 31 March 2016, the Authority is expected to have £46.3 million of external debt liabilities and £2.0 million of investments.

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

	2016/17 £m	**2017/18 £m**	**2018/19 £m**
CFR	66.9	67.6	68.5

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

2.2.4 Prior to 2009/10 the Authority's policy had been to borrow up to its CFR and investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Authority's balances. This coincided with dramatic falls in investment returns making the budgetary benefit of maximising external borrowing more marginal. The Authority has attempted to minimise monies externally invested and instead has used balances to offset new borrowing requirements. This practice is made more complicated by the Government's method of funding pension contributions – the year's funding plus any shortfall from the previous year, is paid as a lump sum in July each year. The grant in 2015/16 was £32.0 million.

2.2.5 The Chief Finance & Procurement Officer believes that the borrowing and investment strategy for 2016/17 must continue to place emphasis on the security of the Authority's balances. As noted in section 2.1, credit conditions have been steadily improving but the global recovery is still fragile and regulation changes will increase local authority exposure in the event of a possible default of any financial institutions.

2.2.6 As at 31 March 2016, the Authority is expected to have around £2 million invested externally, primarily in instant access accounts or short-term deposits, with the major British owned banks, building societies or Money Market Funds (MMFs). This figure includes the remainder of a £3.6m grant awarded jointly to West Yorkshire and South Yorkshire Fire Authorities to fund a joint control centre. The balance of the grant is being ring-fenced as an investment until it is required to fund expenditure.

2.3 Investment Strategy

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

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

- Specified investments are those offering high security and liquidity. All such investments should be in sterling with a maturity of no more than a year. Investments made with the Government (DMADF) and a local authority automatically count as specified investments, as do investments with bodies or investment schemes of "high credit quality". It is for individual authorities to determine what they regard as "high credit quality".
- Non-specified investments have greater potential risk, being investments with: bodies that have a credit rating below "high credit quality"; bodies that are not credit rated at all; and investments over a year.

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

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

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

Key features of the strategy are as follows:

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

The above criteria would apply to the Authority’s specified investments. The limits on non-specified investments are as follows:

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

2.3.6 A maximum limit of £6 million applies to any one counterparty and this applies to a banking group rather than each individual bank within a group. For illustrative purposes, the last column of Appendix A lists which banks and building societies the Authority could invest with based on credit ratings as at the beginning of January 2016.

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

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

2.3.9 The Authority uses credit ratings from the three main rating agencies - Fitch, Moody’s and Standard & Poor’s to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default).

Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

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

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

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

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

2.3.13 Investments may be made using the following instruments:

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

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

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

2.4 Borrowing Requirement and Strategy

2.4.1 As at 31 March 2016, the Authority is expected to have £46.3 million of external debt liabilities and £2 million of investments. Forecast changes in these sums for the next three years are shown in the balance sheet analysis below:

Balance Sheet Forecast

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
CFR	63.6	66.9	67.6	68.5
Less: External borrowing	46.3	57.4	63.1	68.5
Internal Borrowing	17.3	9.5	3.5	0.0
Investments	2.0	2.0	2.0	2.0

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

2.4.3 It is predicted that as at 31 March 2016, the Authority will have total external borrowing and other long-term liabilities of around £46.3 million. This is analysed as follows:

	Estimated Total debt as at 31 March 2016 £m	%
PWLB fixed loans	44.3	95.7
LOBOs	2.0	4.3
Temporary borrowing	0.0	0.0
TOTAL	46.3	100.0

2.4.4 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and also flexibilities to restructure and make possible savings. Although, the Government decided to raise rates for new PWLB loans in October 2010 by around 0.90%, it has since introduced a discounted rate for local authorities joining the new "certainty rate" scheme. The Authority has joined the scheme and will have access to loans discounted by 0.20% in 2016/17.

2.4.5 The Authority also has a LOBO (Lender's Option, Borrower's Option) loan. The way this loan works is that the Authority pays interest at a fixed rate for an initial period and then the lender has the option in the secondary period to increase the rate. If the option is exercised, the Authority can either accept the new rate or repay the loan. The Authority's loan is in its secondary period with intervals of 5 years between options. The next option date is May 2016. The treasury management budget has been prepared on the basis that the lender will not exercise their option to amend the rate.

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

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

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

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

2.5 Statement of Policy on the Minimum Revenue Provision

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

2.6 Other Matters

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

(i) <u>Investment Consultants</u>

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

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment decisions;
- Notification of credit ratings and changes;
- Other information on credit quality;
- Advice on debt management decisions;

- Accounting advice;
- Reports on treasury performance;
- Forecasts of interest rates; and
- Training courses.

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

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

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

2.6.2 Banking
The Authority moved its current account banking to Barclays in July 2015. The new accounts are working well without any significant issues.

3 Implications for the Authority

3.1 The strategies outlined have been reflected in the treasury management budget.

4 Consultees and their opinions

4.1 This report has been prepared by the Chief Finance & Procurement Officer.

5 Next steps

5.1 This will be considered at the meetings of the Finance & Resources Committee and the Full Authority and monitored in future reports submitted to Finance & Resources Committee as outlined within the report.

6 Officer recommendations and reasons

6.1 Members are asked to approve the following:

i) the investment strategy outlined in section 2.3 and Appendix A;

ii) the borrowing strategy outlined in section 2.4;

iii) the policy for provision of repayment of debt outlined in Appendix C of the report;

iv) the treasury management indicators in Appendix D.

APPENDIX A

Specified

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Jan 2016
	Fitch	**Moody's**	**S & P**	**£m**	**Period (3)**	
Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	6	Up to 364 days	HSBC, Std Chartered, Goldman Sachs, Coventry BS, Santander UK, Close Bros, Nationwide, Lloyds Group, Various foreign banks
	AAA,AA+,AA, AA-,A+,A	Aaa,Aa1,Aa2, Aa3,A1,A2	AAA,AA+,AA, AA-,A+,A			
MMF (2)	-	-	-	6	Instant access/ up to 2 day notice	
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	Unlimited	Up to 364 days	

Non-Specified (1)

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Jan 2016
	Fitch	**Moody's**	**S & P**	**£m**	**Period (3)**	
UK Banks / Building Societies (Fixed term deposits)	F1,F2	P-1,P-2	A-1,A-2	6	<2mth	Barclays, Nottingham BS, Leeds BS, Yorkshire BS, RBS Group
	Higher than BBB	Higher than Baa2	Higher than BBB			
Unrated Building Societies (Fixed term deposits)	-	-	-	1	<2mth	Cumberland, Darlington, Scottish, Furness, Vernon, Harpenden, Hinckley & Rugby, Leek, Marsden, Loughborough, Mansfield, Nat Counties, Mkt Harborough, Newbury, Melton Mowbray Tipton & Coseley, Stafford Railway

(1) Overall limit of £18 million.
(2) Overall limit for investments in MMFs of £24 million.
(3) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

APPENDIX B

Credit ratings

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

APPENDIX C

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

1. Background

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

2. Prudent Provision

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

The guidance provides two basic criteria for prudent provision:-

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

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

3. Proposed policy for 2016/17

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

3.2 It is recommended that this policy is continued for 2016/17. The features of the policy can be summarised as follows:

- Provision to be made over the estimated life of the asset for which borrowing is undertaken
- To be applied to supported and unsupported borrowing
- Provision will increase over the asset life using sinking fund tables
- Provision will commence in the financial year following the one in which the expenditure is incurred

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

Appendix D

TREASURY MANAGEMENT INDICATORS

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

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

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures for 2016/17, 2017/18 and 2018/19 of 100% of its net interest payments. It is further recommended that the Authority sets an upper limit on its variable interest rate exposures for 2016/17, 2017/18 and 2018/19 of 40% of its net interest payments.

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

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

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

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

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

OFFICIAL

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

Finance & Resources Committee

Date: 29 January 2016 | Agenda Item: **7**

Submitted By: Chief Finance & Procurement Officer

Purpose

To present a draft capital investment plan, a draft revenue budget and medium term financial plan.

Recommendations

That the report be noted as the basis for the political groups to consider their budget proposals.

Summary

This report presents details of the draft revenue budget for 2016/2017 along with the four year medium term financial plan and capital programme. Included within the report are details of the Draft Local Government Finance Settlement 2016/2017, a standstill budget, and a summary of activity in the 2015/2016 financial year.

Local Government (Access to information) Act 1972

Exemption Category:	Nil
Contact Officer:	Geoff Maren – Chief Finance & Procurement Officer T: 01274 655711 E: geoff.maren@westyorksfire.gov.uk
Background papers open to inspection:	Budget working papers Local Government Finance Settlement CIPFA's Code of Practice on Treasury Management in the Public Services; CIPFA's Prudential Code for Capital Finance in Local Authorities; Local Government Act 2003.
Annexes:	A – Draft Capital Plan 2014/2105 to 2018/2019

1 Introduction

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

(i) a Capital Investment Plan for the five years to 2020/2021;
(ii) the Prudential Indicators to support the financing of the Capital Plan;
(iii) a Revenue Budget and Medium Term Financial Plan for the same period.

2 Proposed Capital Investment

<u>CAPITAL INVESTMENT</u>

2.1 The Management Board are proposing a five year capital investment plan which will see the completion of the station rationalisation approved as part of the 2012 and 2013 Integrated Risk Management Plan (IRMP) and includes the first stage of the implementation of the Information Strategy review. A detailed plan is attached at **Appendix A** to this report with a brief summary provided below.

2.2 The total cost of the plan is £32.191m over the five year period with over £11.873m in the financial year 2016/2017.

Directotrate	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**Total Plan**
Service support						
Property	£890,000	£635,000	£475,000	£0	£0	£2,000,000
IT	£1,673,600	£790,000	£700,000	£700,000	£280,000	£4,143,600
Transport	£1,793,500	£1,548,500	£1,423,500	£2,173,500	£2,208,500	£9,147,500
Training	£112,500	£0	£0	£0	£0	£112,500
Finance and procurement	£34,000	£0	£0	£0	£0	£34,000
Service Delivery						
IRMP	£5,877,300	£4,784,000	£0	£0	£0	£10,661,300
Fire safety	£700,000	£700,000	£700,000	£700,000	£700,000	£3,500,000
Operations	£793,000	£450,000	£450,000	£450,000	£450,000	£2,593,000
Draft capital plan	**£11,873,900**	**£8,907,500**	**£3,748,500**	**£4,023,500**	**£3,638,500**	**£32,191,900**
Financing						
Capital receipts	£1,900,000	£600,000	£1,200,000			£3,700,000
Borrowing	£9,973,900	£8,307,500	£2,548,500	£4,023,500	£3,638,500	£28,491,900
Capital financing	**£11,873,900**	**£8,907,500**	**£3,748,500**	**£4,023,500**	**£3,638,500**	**£32,191,900**

CAPITAL FINANCING

2.3 There are three main sources of capital finance expenditure; capital grants, capital receipts, and borrowing, as explained below.

2.4 **Capital Grants**

The Authority does not anticipate the receipt of any capital grants in 2016/2017.

2.5 **Capital Receipts**

The IRMP process, once fully implemented, will release up to 17 sites which will be available for disposal. These sites will not be available until each of the new stations is operational and the value will depend upon the size, location and planning approvals as well as the market condition. The Authority has realised the first of these capital receipts in the current year and it is forecast that further receipts of £3.7m will be generated over the next 3 years.

2.6 **Borrowing**

The balance of the expenditure will be funded by borrowing, although the table shows a total borrowing requirement of £2.85m over the period; this does not take account of existing debt fall out and debt repayment. In addition, the positive cash flow position of the Authority means that it will be able to fund a large proportion of this expenditure by 'internal borrowing' for the majority of the 2016/2017 financial year. The next section of the report on prudential indicators includes details of the estimated borrowing requirement and forecast debt outstanding.

3 Prudential Indicators

3.1 The CIPFA Prudential Code requires that local authorities produce a number of prudential indicators before the beginning of each financial year and have them approved by the same executive body that approves the budget. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting the level of capital expenditure, the impact on borrowing levels, and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

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

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

The Authority's capital expenditure projections, detailed in paragraph 2, are summarised below. Capital expenditure impacts directly on the Capital Financing Requirement (CFR) and the Authority's debt position. The CFR reflects the Authority's underlying need to borrow for a capital purpose. When external borrowing is below the CFR, this reveals that the Authority is using some internal balances, such as reserves/creditors, to temporarily finance capital expenditure (as has been the case in recent years).

3.3 **Limits to Borrowing Activity**

The first key control over the Authority's borrowing activity is a Prudential Indicator to ensure that, over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year, plus the estimates of any additional capital financing requirement for 2015/16 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

Other than for short periods of time and to manage cash flow requirements, the Authority comfortably complied with the requirement to keep net borrowing below the relevant Capital Financing Requirement in 2014/2015, and no difficulties are envisaged for the current or future years.

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

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

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

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Authorised limited for external debt	75	65	73	75
Operational boundary for external debt	70	60	68	70

3.5 **Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators but within this framework prudential indicators are required to assess the affordability of the capital investment plans. The following two indicators provide an indication of the capital investment plans on the overall finances of the Authority:

3.5.1 *Ratio of financing costs to net revenue stream*

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

	Actual 2014/15	**Rev Est 2015/16**	**Estimate 2016/17**	**Estimate 2017/18**	**Estimate 2018/19**
Ratio of financing costs to net revenue stream	8.02	8.21	7.98	9.09	9.92

3.5.2 *Effect on the Precept*

This indicator estimates the incremental impact of capital investment decisions proposed in the budget report, over and above capital investment decisions that have been previously taken by the Authority:

	Proposed Budget 2016/17	Forward Projections 2017/18	 2018/19
Increase in expenditure (£000s)	3	170	759
Increase in Precept (Band D)	0	0.27	1.20

The increase in the precept is a result of a forecast increase in the cost of borrowing over the next 3 years.

4 Revenue Budget and Medium Term Financial Plan

Attached to the report, at **Appendix B**, is a Draft Revenue Budget for 2016/17 and a Medium Term Financial Plan covering the period to 2019/2020 the end of the next spending review period. Whilst the Authority will only be required to approve the precept for 2016/2017 it is important that the Authority consider the medium term impact of the decision.

This section is split into 3 key areas:-

1. review of the current year's budget and financial performance;
2. the cost of a standstill budget for 2016/17;
3. revenue balances.

4.1 Review of 2015/2016

4.1.1 National Context

Economic Outlook

The general election in May delivered a small working majority for the Conservative Party who formed the Government. The Chancellor of the Exchequer in his spring budget announced the need for continuing financial restraint including an in year cut of 5% in government departmental spending. All the indications were that the funding and expenditure reductions of the previous parliament would continue through the next parliament. This position was confirmed in the autumn budget.

Local Government Finance

4.1.2 Impact on West Yorkshire FRA

In overall funding terms, the Authority once again saw a significant reduction in government funding with a cut in formula funding grant of £4.6m, a cut of just over 9%.

Once again, the Secretary of State encouraged authorities to freeze their precept by offering a grant equivalent to a 1% precept increase and set a general limit of 2% increase above which authorities would be required to hold a referendum.

The Authority considered its revenue budget and precept strategy on 20 February 2015 and approved a precept increase of 1.99% requiring a package of revenue savings totalling £4.0m.

Once again, 2015/2016 has proved a challenging year for the Fire Authority commencing with periods of industrial action over the firefighters' pension scheme. This dispute remains unresolved although the periods of industrial action have been suspended pending the outcome of a judicial review. Over the Christmas period the Authority has had to deal with unprecedented periods of rainfall resulting in serious flooding in West Yorkshire and other counties within the North of England. The costs of the resultant activity are yet to be fully established.

In terms of the financial outturn, the Authority has forecast to under-spend the budget by around £2m for the financial year.

4.2 A Standstill Budget – Maintaining the current level of service

A standstill budget has been prepared for 2016/2017, for the purpose of providing a baseline from which to measure changes in the proposed budget. This is calculated by updating the 2015/2016 budget for increases in pay and prices, new financing charges and other adjustments. A standstill budget for 2016/2017 would amount to £84.152m. The changes from the 2015/2016 budget are detailed in the table below.

		£m
2015/2016 approved revenue budget		£81.862
Pay and price increase 2015/2016		£0.784
National insurance changes		£1.295
Capital financing charges		£0.040
Insurance premiums		£0.050
Other changes		£0.033
Reduction in government grants		£0.000
Changes in level of income		£0.088
2015/2016 standstill budget		£84.152

The main changes to the 2015/2016 budget are explained below:

- Pay increases 2015/2016. This is the full year cost of the 2015/2016 pay award for both grey and green book staff.
- The estimated increase in the cost of national insurance following the removal of ‘opted out’ pension schemes.
- There is an increase in the cost of the liability package insurance premium.
- It is likely the Authority will have to borrow to fund the capital plan in the last quarter of 2016/2017 and this is the net impact of the additional capital financing charges.
- This is a combination of a number of changes where the budget has been adjusted to reflect actual expenditure levels

4.3 Revenue Balances

4.3.1 Based on current expenditure patterns and the balances at the beginning of the financial year, it is forecast that the Authority will have general fund balances of around £21.5m at the beginning of 2016/2017 financial year.

4.3.2 *Minimum Revenue Balances*

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

The minimum level of balances required is calculated using the Authority’s corporate risk register. This document identifies all the major risks to business continuity the Authority may face, evaluates the potential cost and looks at measures to control or limit the risk. The risk register is maintained by the Risk Management Group, which is chaired by the Deputy Chief Fire Officer and reports annually to the Audit Committee. The current risk matrix was approved by the Audit Committee in September 2015.

The current register identifies a requirement to maintain a minimum revenue balance of £5.0m.

4.3.3 *Strategy for Use of Balances*

The Authority has in recent years been able to fund the full cost of the service through government grants and precept without the use of revenue balances. The use of revenue balances to fund on-going expenditure is not sustainable and the strategy for their use must reflect this.

As explained in Section 5 of the report, the government has announced a 4 year settlement with a further £8m cut in grant over the period with the majority of the savings having to be made in the first 2 years. It will be possible using balances to match the savings required with the retirement profile and other savings.

The report to the full Authority will provide recommendations for the use of balances in 2016/17 along with the budget options.

5 Local Government Finance Settlement

5.1 Provisional Local Government Finance Settlement 2016/2017

Provisional Settlement

5.1.1 A consultation paper on the Local Government Finance Settlement was published on 17 December 2015, including the provisional grant allocations for 2016/2017. In addition to the provisional grant allocation for 2016/17 the settlement included indicative grant allocations for the 4 year period ending 2019/2020. Local Authorities can accept the 4 year settlement providing they submit an efficiency plan covering the 4 year period. Details of the type of submission have not yet been provided, however the Authority will be required to make a decision on whether it wishes to accept the four year settlement as part of the budget approval process.

5.1.2 The final report to the Authority will include the recommendation of the Chief Finance and Procurement Officer on the 4 year settlement.

Provisional settlement 17 December 2015

Comparison	2015/2016 Final	2016/2017 Provisional	2017/2018 Provisional	2018/2019 Provisional	2019/2020 Provisional	VARIANCE
Top up grant central pool	£14,540,401	£14,661,571	£14,949,939	£15,390,974	£15,882,897	**£1,342,496**
Top up grant local	£7,910,375	£7,976,294	£8,133,176	£8,373,110	£8,640,730	**£730,355**
Growth in business rates	-£40,514					
Base line funding (business rates)	**£22,410,262**	**£22,637,865**	**£23,083,115**	**£23,764,084**	**£24,523,627**	**£2,113,365**
Revenue support grant	£23,398,756	£20,496,934	£16,751,228	£14,669,804	£13,339,001	**-£10,059,755**
Local government finance settlement	**£45,809,018**	**£43,134,799**	**£39,834,343**	**£38,433,888**	**£37,862,628**	**-£7,946,390**
Grant loss		**-£2,674,219**	**-£3,300,456**	**-£1,400,455**	**-£571,260**	
		-5.84%	**-7.20%**	**-3.06%**	**-1.25%**	**-17.35%**

In 2016/2017, the Authority will receive formula grant of £43.13m, a reduction of £2.67mm (5.84%) from the 2015/2016 settlement**.** The total grant loss for the spending review period will be £7.95m (17.35%) although this will be front loaded with a loss of £5.97m in the first 2 years.

Precept Freeze Grant

5.1.3 The government have again indicated that there will be a grant equivalent to a 1% precept increase available to those Authorities that freeze the precept.

Referendum Principles

5.1.4 As in the previous three years the Government will set a maximum precept increase limit for capping purposes. If authorities wish to exceed this limit they are required to hold a referendum of all council tax payers and are bound by the results.

5.1.5 The proposed limit for 2016/2017 included in the draft settlement is 2% as in previous years.

Increase in Business Rates

5.1.6 The settlement indicates the Authority will receive £22.637m in business rate income with £14.7m paid directly from central government in the form of top up grant and the balance of £7.97m being paid by the five district councils which is 1% of the income they collect. The latest information received from the districts shows significant losses on collection in 2015/2016, principally as a result of appeals and it is likely that the actual grant received will be significantly below the estimate of £7.9m.

5.2 Precept Income

5.2.1 As Members are aware, the Authority is also dependent upon precept income from the five districts which provided £35.4m of its income in 2015/2016. This income is dependent upon two factors:

- The precept set by the Authority;
- The tax base set by the five district councils. The districts have notified the Fire Authority of the provisional tax base for 2016/2017 which is an overall growth of 2.09% which delivers additional precept income of £0.7m. It is anticipated that this growth in tax base will offset, to some degree, the loss in business rates income.

5.2.2 To date the Authority has only been notified of a small surplus on collection funds in the region of £300k, the up to date position will be reported to the Full Authority meeting.

6 Positive Assurance Statement

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

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

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

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

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

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

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

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

(ii) The detailed work on risk assessments.

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

7 Medium Term Financial Planning

7.1 As mentioned in the introduction to the report, the Authority will be asked to approve a four year Medium Term Financial Plan, including the Revenue Budget for 2016/2017, to align with the Capital Plan and the implementation of the Integrated Risk Management Plan (IRMP). This is particularly important as the decisions taken on the IRMP will be delivered over the next four years.

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

7.3 As mentioned in paragraph 5, the Government have provided details of the four year settlement that is available to those authorities that submit a 4 year efficiency plan. The grant figures included within this offer have been incorporated in the medium term financial plan which is provided in and summarised below.

	2016/2017	2017/2018	2018/2019	2019/2020
Forecast expenditure	**£83,890,000**	**£85,161,000**	**£86,440,000**	**£87,727,000**
Precept income	£36,509,300	£37,611,900	£38,747,800	£39,918,000
Revenue support grant settlement	£43,134,799	£39,834,343	£38,433,888	£37,862,628
Total income	**£79,644,099**	**£77,446,243**	**£77,181,688**	**£77,780,628**
Budget shortfall	-£4,245,901	-£7,714,757	-£9,258,312	-£9,946,372

7.4 The forecast shows that based on an annual precept increase of 2% coupled with moderate growth in tax base, the Authority will be required to identify further annual savings of £9.96m by 2019/2020.

7.5 The report to the full Authority will include options for the 2016/2017 revenue budget and medium term financial plan.

8 Proposed Revenue Budget

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

9 Officer Recommendations and Reasons

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

DRAFT CAPITAL PLAN 2016/2017 TO 2020/2021

APPENDIX A

DEPARTMENT	BID NUMBER	DESCRIPTION	2016/17	2017/18	2018/19	2019/20	2020/21	ESTIMATED TOTAL CAPITAL COST
		PROPERTY						
		Oakroyd Hall	£10,000	£150,000	£50,000	£0	£0	£210,000
		FSHQ	£20,000	£10,000	£0	£0	£0	£30,000
		Training centre	£265,000	£0	£0	£0	£0	£265,000
		Specific refurbishment	£210,000	£90,000	£40,000	£0	£0	£340,000
		Strategic refurbishment	£385,000	£385,000	£385,000	£0	£0	£1,155,000
	SUB TOTAL		£890,000	£635,000	£475,000	£0	£0	£2,000,000
		INFORMATION TECHNOLOGY						
		Computer Hardware	£45,000	£40,000	£30,000	£30,000	£30,000	£175,000
		Software Licences	£170,000	£170,000	£170,000	£170,000	£170,000	£850,000
		New WAN (enabling work)	£170,000	£20,000	£0	£0	£0	£190,000
		Servers and Storage	£20,000	£20,000	£0	£0	£80,000	£120,000
		Networking Hardware	£190,000	£30,000	£0	£0	£0	£220,000
IT		Telephone Systems	£85,000	£10,000	£0	£0	£0	£95,000
		Remote Access Systems	£40,000	£0	£0	£0	£0	£40,000
		Implemantation of IT review	£800,000	£500,000	£500,000	£500,000	£0	£2,300,000
		COMMUNICATIONS						
		Retained Pagers	£153,600	£0	£0	£0	£0	£153,600
	SUB TOTAL		£1,673,600	£790,000	£700,000	£700,000	£280,000	£4,143,600
HR		**HUMAN RESOURCES**						
		Station Based Fitness Equipment	£112,500	£0	£0	£0	£0	£112,500
	SUB TOTAL		£112,500	£0	£0	£0	£0	£112,500
		TRANSPORT						
		Ladders	£30,000	£30,000	£30,000	£30,000	£30,000	£150,000
TRANSPORT		POD Refurbishments	£40,000	£40,000	£40,000	£40,000	£40,000	£200,000
		Vehicle Replacement	£1,473,500	£1,478,500	£1,353,500	£2,103,500	£2,138,500	£8,547,500
		Flood Vehicles	£250,000	£0	£0	£0	£0	£250,000
	SUB TOTAL		£1,793,500	£1,548,500	£1,423,500	£2,173,500	£2,208,500	£9,147,500
	DIRECTORATE TOTAL		£4,469,600	£2,973,500	£2,598,500	£2,873,500	£2,488,500	£15,403,600

FIRE SAFETY		**FIRE SAFETY**						
		Smoke Alarms	£700,000	£700,000	£700,000	£700,000	£700,000	£3,500,000
	DIRECTORATE TOTAL		£700,000	£700,000	£700,000	£700,000	£700,000	£3,500,000
FINANCE & PROCUREMENT		**FINANCE & PROCUREMENT**						
		Photocopiers	£34,000	£0	£0	£0	£0	£34,000
	DIRECTORATE TOTAL		£34,000	£0	£0	£0	£0	£34,000
OPERATIONS		**OPERATIONS**						
		IRMP Phase 2	£5,877,300	£4,784,000	£0	£0	£0	£10,661,300
		Lay Flat Hose	£50,000	£0	£0	£0	£0	£50,000
		Thermal Image Cameras	£150,000	£0	£0	£0	£0	£150,000
		Line Rescue	£12,000	£0	£0	£0	£0	£12,000
		Gas Tight Suits	£14,000	£0	£0	£0	£0	£14,000
		Lance Firefighting Equipment	£105,000	£0	£0	£0	£0	£105,000
		Water Rescue	£12,000	£0	£0	£0	£0	£12,000
		Hydrants	£450,000	£450,000	£450,000	£450,000	£450,000	£2,250,000
	DIRECTORATE TOTAL		£6,670,300	£5,234,000	£450,000	£450,000	£450,000	£13,254,300
	GRAND TOTAL		£11,873,900	£8,907,500	£3,748,500	£4,023,500	£3,638,500	£32,191,900