BUDGET BOOKLET

MEDIUM TERM FINANCIAL STRATEGY

INCORPORATING:

REVENUE BUDGET, CAPITAL PROGRAMME, RESERVES & BALANCES POLICY AND TREASURY MANAGEMENT STRATEGY 2021/22

LANCASHIRE COMBINED FIRE AUTHORITY

CAPITAL PROGRAMME AND REVENUE BUDGET 2021/22

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SECTION 1

EXECUTIVE SUMMARY

The booklet sets out the agreed revenue and capital budget set by the Combined Fire Authority at its meeting in February 2021.

The annual budget is the means by which the Authority expresses, in financial terms, its plans for service provision during the forthcoming year.

Revenue Budget

In considering its council tax requirements the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to: -

- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account of known and anticipated pressures
- maintain an adequate level of reserves

The final proposed gross revenue budget for 2022/22 is £58.5m, an increase of 2.0%.
The Local Government Finance Settlement confirmed funding at £24.2m an increase of £50k (0.2%), and that the council tax referendum level is 2.0%.

Based on the council tax referendum limit the Authority has a funding gap of £0.3m and will need to either identify additional savings or utilise reserves to set a balanced budget. Doing so will result in a net budget of £58.2m, and a council tax requirement of £72.27 per Band D property, an increase of 1.99% (£1.41 per annum, less than 3p per week). The shortfall of £0.3m will be met by a combination of delivering additional savings or by drawing down general reserves in order to deliver a balanced budget in 21/22.

Until such time as the outcome of next year's Spending review is published it is impossible to provide any meaningful funding forecast, however for the purpose of medium-term financial planning we have assumed that funding is increased by 1.5%, and the 2% council tax referendum principle continues to apply. Based on this the Authority is still faced with a funding gap of approx. £1.0m in subsequent years.

Looking at the medium-term plans it is clear that the key variables remain pay awards, pension costs and funding. Any significant increase in pay award over and above those built into the budget or in the cost of FF pensions will add in significant financial pressures. Similarly, should the settlement in 2022/23 and beyond be worse than the 1.5% budgeted for then the level of deficit will increase accordingly.

Currently the Authority remains in a good financial position with reserves able to offset the financial challenges next year. The position becomes more challenging thereafter however by that time the Authority should have greater certainty on future funding, pay awards and future referendum limits, which will enable it to deliver a more reliable medium-term financial plan in order to address any funding gap that exists.

Capital Strategy/Budget

In terms of the Authority's Capital Programme our capital strategy is designed to ensure that the Authorities capital investment: -

- assists in delivering the corporate objectives
- provides the framework for capital funding and expenditure decisions, ensuring that capital investment is in line with priorities identified in asset management plans
- ensures statutory requirements are met, i.e. Health and Safety issues
- supports the Medium-Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets
- demonstrates value for money in ensuring the Authority's assets are enhanced/preserved

- describes the sources of capital funding available for the medium term and how these might be used to achieve a prudent and sustainable capital programme.

In light of this the capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, potential relocation of Headquarters, new IT requirements and new operational equipment. This gives rise to a capital program of £34.7m over the next five years.

The programme over the next three years is affordable as it balances to available reserves, however there is a shortfall of £11.1m in the subsequent years. This shortfall would either require an amended (reduced) programme, or an additional £9.1m of borrowing.

Reserves and Balances

In terms of reserves and balances, the Authority has identified a General Reserves minimum target of £3.5m and a maximum target of £10.0m. After allowing for the anticipated usage the Authority estimates it will hold £6.0m of uncommitted reserves by 31 March 2021. Utilising £0.3m in 21/2 ill still leave £5.7m of uncommitted reserves. This is within its target range, hence at the current level the Treasurer considers these are adequate to meet our requirements. Medium term financial plans show a requirement to continue to utilise reserves in future years in order to deliver a balanced budget, However, general reserves are sufficient to meet funding gaps identified in the draft revenue budget until 2024/25.

Treasury Management

The Treasury Management strategy shows the Authority holding surplus cash, which is available for investment or to pay off existing debt. However, given the penalty associated with debt repayment, and uncertainty around the potential relocation of Service Headquarters, it is not considered appropriate to pay off debt at this point in time.

SECTION 2

REVENUE BUDGET 2021/22-2025/26

In line with the Authority's objective to deliver affordable, value for money services the Authority's Budget Strategy remains one of: -

- Maintaining future council tax increases at reasonable levels, reducing if possible;
- Continuing to deliver efficiencies in line with targets;
- Continuing to invest in improvements in service delivery;
- Continuing to invest in improving facilities;
- Setting a robust budget;
- Maintaining an adequate level of reserves.

Draft Budget

In order to determine the future budget requirement, the Authority has used the approved 2020/21 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Preceding Years Draft Net Budget Requirement	57.3	58.5	60.0	61.4	62.6
Add back previous years unidentified savings target	0.5	-	-	-	-
Add back previous years Vacancy Factors	1.3	1.4	1.2	1.1	1.2
Inflation	0.6	1.2	1.4	1.4	1.5
Other Pay Pressures	(0.3)	-	-	-	-
Committed Variations	0.1	0.1	0.1	-	0.2
Growth	0.6	-	(0.2)	(0.1)	0.1
Efficiency Savings	(0.2)	-	-	-	-
Gross Budget Requirement	59.9	61.2	62.5	63.8	65.6
Vacancy Factors	(1.4)	(1.2)	(1.1)	(1.)	(1.3)
Net Budget Requirement	58.5	60.0	61.4	62.6	64.3

Inflation

The following amounts have been added to the budget in respect of inflationary pressures: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
A pay freeze in 2021/22 (the increase of £0.2m representing the full year effect of previous pay awards plus the increase of £250 per annum for employees paid less than £24k) followed by 2% for all future pay-awards	0.2	0.8	1.0	1.0	1.0
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.4	0.4	0.5
	0.6	1.2	1.4	1.4	1.5

Each 1% pay award in excess of the above assumptions equates to an additional cost of £400k per year for grey book personnel, and if this is mirrored for green book personnel and additional £75k. To give a flavour of the potential impact of significant increases over and above those budgeted for a 2.5% pay award would add in a further £0.9m in year and a recurring additional cost of £1.2m.

Other Pay Pressure

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Pay has been re-costed, taking account of changes to personnel, grades etc. Given this accounts for the majority of the overall budget it is worth highlighting some of the assumptions used: - Whole-time Pay • Approx. 25% of personnel are currently paid at development rates of pay, it is assumed that this continues at this level throughout the budget period. (If all personnel were paid at competent rates of pay this would cost an additional £1.0m) • Approx. 75% of personnel are currently paid Continuing Professional Development allowance (CPD), it is assumed that this continues at this level throughout the budget period. (if all personnel were paid CPD this would cost an additional £0.1m) • Approx. 5% of personnel are currently 'opted out' of the FF pension scheme, it is assumed that this continues at this level throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.3m) • The mix of personnel in the various FF pension schemes reflects the original timing of retirements and/or transfers to the 2015 scheme. Obviously, this will be subject to change as a result of the transitional arrangements however it is assumed that the additional cost of this will be met by additional Govt grant. On-Call Pay • Approx. 50% of all on-call personnel are currently paid at development rates of pay, it is assumed that this continues at this level throughout the budget period (if all personnel were paid at competent rates of pay this would cost an additional £0.2m) • Approx. 25% of on-call personnel are currently paid either CPD, it is assumed that this continues at this level throughout the budget period (if all personnel were paid CPD this would cost an additional £0.1m) • Approx. 25% of personnel are currently 'opted out' of the FF pension scheme, it is assumed that this continues at this level throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.2m) • The mix of personnel in the various FF pension schemes reflects the assumed timing of retirements and/or transfers to the 2015 scheme. Obviously, this will be subject to change as a result of the transitional arrangements however it	(0.3)	-	-	-	-

is assumed that the additional cost of this will be met by additional Govt grant Support Pay • The budget is based on the assumed scale points of personnel in post at 1 April 2021. No allowance has been made for future incremental progression or staff turnover where typically new starters commence at the bottom of the pay grade. • Approx. 15% of personnel are currently 'opted out' of the LGPS pension scheme, it is assumed that this number remains consistent throughout the budget period (if all personnel were in the pension scheme this would cost an additional £0.1m)					
	(0.3)	-	-	-	-

Committed Variations

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
The Service currently draws down approx. £200k from the apprentice levy and a further £50k from the apprentice reserve previously created in order to support training requirements for apprentice Fire-fighters. This will reduce in future years as the historic surplus on the levy fund runs out and as the reserve is fully utilised.	-	0.1	0.1	-	-
Last year's operational equipment budget was increased as a one off reflecting the scale of equipment scheduled for replacement in that year, the adjustments shown reflect current planned expenditure levels in subsequent years	(0.1)	(0.1)	-	-	-
Additional financing cost associated with reduction in cash balances, and interest rates and new borrowing to support the 5-year capital programme, as reported elsewhere on the agenda	0.2	0.1	-	-	0.2
	0.1	0.1	0.1	-	0.2

Growth

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
It is assumed that the Protection Transformation Team continue to be funded from specific additional grant of £300k throughout the duration of the budget plans	-	-	-	-	-
Recruitment of apprentice FFs each year (this is the cost whilst on the recruit's course): - • 21/22 – 48 apprentices • 22/23 – 54 apprentices • 23/24 – 24 apprentices • 24/25 – 18 apprentices • 25/26 – 42 apprentices Note these numbers will be subject to change to reflect actual retirements/leavers	0.2	-	(0.2)	(0.1)	0.1

Additional capacity within corporate support functions' such as HR, Procurement and Property, the latter including the cost of a project manager to lead the SHQ relocation project	0.3	-	-	-	-
Additional budget to address maintenance issues relating to drill towers and other facilities	0.1				
	0.6	-	(0.2)	(0.1)	0.1

Efficiency Savings

The Authority has a good track record of delivering efficiency savings, with the following savings identified below: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Removal of fixed term temporary posts	(0.1)	-	-	-	-
Reduction in Fleet vehicle R&M budget due to management of LCES contract (this offsets part of the increase factored in last year)	(0.1)	-	-	-	-
	(0.2)	-	-	-	-

Gross Budget Requirement

As set out above the overall gross budget requirement for each year is as follows: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Draft Gross Budget Requirement	59.9	61.2	62.5	63.8	65.6

Vacancy Factors

The budget needs to take account of forecast vacancy factors arising from retirement and recruitment profiles: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
The vacancy factor for whole-time has also been updated (see appendix 2) and is based on the following: - • It is assumed that all personnel will retire as soon as they accrue full pension rights • There will be 6 'early leavers' in the year, this includes personnel who retire before reaching forecast retirement date or who resign or are dismissed. • Recruit numbers are as set out earlier This provides a broadly balanced position each year. However, actual retirements may vary from this due to the impact of either the transitional pension arrangements or making allowances pensionable, which may increase early leavers leading to a higher vacancy factor.	(0.2)	(0.1)	0.1	-	(0.1)
The On-call vacancy factor has been increased marginally to 18% reflecting the current level of staffing, and assuming this remains constant.	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
The support staff vacancy factor has been set at 3.75% in 21/22, which is closer to the average over the last 2 years. However, this is mainly due to one	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)

or two problem areas (ICT and Service Development) and has therefore reduced to 2.5% in subsequent years on the assumption that this is a temporary problem.					
	(1.4)	(1.2)	(112)	(1.2)	(1.3)

Net Budget Requirement

As set out above the overall net budget requirement for each year is as follows: -

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Draft Budget Requirement	58.5	60.0	61.4	62.6	64.3
Budget Increase	2.0%	2.6%	2.3%	2.1%	2.7%

<u>Analysis of Budget by Service Area</u>

	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Central Admin Hub	0.807	0.828	0.855	0.872	0.889	0.907
Control	1.251	1.298	1.363	1.431	1.502	1.577
Corporate Communications	0.314	0.361	0.348	0.333	0.340	0.347
Executive Board	1.058	1.039	1.063	1.085	1.107	1.129
Finance	0.142	0.148	0.153	0.156	0.159	0.162
Fleet Services	2.822	2.724	2.708	2.780	2.872	2.940
Health & Safety	0.234	0.242	0.250	0.255	0.261	0.267
Human Resources	0.651	0.731	0.754	0.724	0.739	0.754
ICT	2.817	2.710	2.800	2.807	2.886	2.968
Occupational Health	0.241	0.244	0.251	0.257	0.263	0.269
Procurement	0.892	0.959	0.985	1.008	1.032	1.056
Property	1.353	1.586	1.630	1.671	1.714	1.708
Areas	34.970	35.261	36.029	36.914	37.623	38.366
Service Development	4.351	4.569	4.650	4.714	4.810	4.908
Special Projects	0.035	0.035	0.035	0.035	0.036	0.036
Training	4.130	4.443	4.495	4.425	4.449	4.743
Pensions Expenditure	1.309	1.287	1.326	1.355	1.394	1.434
Other Non-DFM Expenditure	0.404	0.020	0.308	0.541	0.576	0.754
Gross Budget Requirement	**57.779**	**58.484**	**60.001**	**61.363**	**62.651**	**64.326**
Unidentified Savings/Use of Reserves	(0.440)	(0.309)				
Net Budget Requirement	**57.339**	**58.175**	**60.001**	**61.363**	**62.651**	**64.326**

Analysis of Budget by Type of Expenditure

	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Employee						
Uniformed	39.329	39.155	39.874	40.557	41.202	42.148
Support staff	6.542	7.033	7.223	7.361	7.507	7.606
Pensions	1.302	1.280	1.318	1.347	1.387	1.427
Other Employee Related Exp	0.056	0.058	0.059	0.061	0.062	0.064
	47.230	47.526	48.475	49.326	50.158	51.245
Premises						
R&M	0.898	1.023	1.048	1.074	1.101	1.129
Utilities	0.583	0.598	0.613	0.628	0.643	0.660
Cleaning	0.276	0.282	0.289	0.296	0.304	0.311
PFI	0.690	0.707	0.725	0.743	0.761	0.780
Other	0.037	0.038	0.039	0.040	0.041	0.042
Rent/Rates	1.329	1.395	1.464	1.537	1.613	1.692
	3.813	4.043	4.178	4.317	4.463	4.613
Transport						
Repairs	0.825	0.778	0.798	0.818	0.838	0.859
Running Costs	0.475	0.435	0.446	0.457	0.468	0.479
Travel costs	0.640	0.666	0.683	0.700	0.718	0.735
insurance	0.182	0.198	0.203	0.208	0.213	0.219
Other	0.005	0.005	0.005	0.005	0.006	0.006
	2.127	2.083	2.135	2.188	2.243	2.298
Supplies & Services						
Hydrants	0.114	0.075	0.076	0.078	0.080	0.082
Operational equipment	0.738	0.684	0.614	0.660	0.702	0.720
Clothing & Uniform	0.598	0.615	0.629	0.644	0.660	0.675
Printing, stationery, postage	0.183	0.188	0.192	0.197	0.201	0.206
Comms-Network Costs	1.021	1.046	1.072	1.099	1.127	1.155
Telephony	0.195	0.199	0.204	0.209	0.214	0.219
Computers	1.319	1.349	1.383	1.417	1.452	1.489
Subsistence	0.093	0.096	0.098	0.100	0.103	0.105
Fire Safety Expenses	0.295	0.302	0.310	0.317	0.325	0.333
Training Expenses	0.448	0.459	0.471	0.482	0.494	0.507
insurance	0.299	0.309	0.315	0.322	0.329	0.336
Members Expenses	0.166	0.175	0.179	0.184	0.189	0.193
Misc. Equipment	0.087	0.090	0.092	0.094	0.096	0.098
Other	1.295	1.547	1.744	1.880	1.969	2.062
Catering	0.084	0.086	0.088	0.090	0.092	0.095
PTV Residential	0.095	0.098	0.100	0.103	0.105	0.108
	7.029	7.316	7.567	7.876	8.138	8.382
Other						
Contracted Services	0.793	0.875	0.897	0.920	0.943	0.967
Other	0.004	0.004	0.004	0.004	0.004	0.004
	0.796	0.879	0.901	0.924	0.947	0.971
Capital Financing Costs						
Capital Financing Costs	2.250	2.350	2.350	2.350	2.350	2.493
	2.250	2.350	2.350	2.350	2.350	2.493
Income						
Income	(5.465)	(5.713)	(5.606)	(5.619)	(5.647)	(5.677)
	(5.465)	(5.713)	(5.606)	(5.619)	(5.647)	(5.677)
Gross Budget Requirement	57.779	58.484	60.001	61.363	62.651	64.326
Unidentified Savings/Use of Reserves	(0.440)	(0.309)				
Net Budget Requirement	**57.339**	**58.175**	**60.001**	**61.363**	**62.651**	**64.326**

Revenue Funding 2020/21-2024/25

Grant Funding

The Governments Budget sets overall total for public sector spending which will is then allocated out to departments as part of the Spending Review, and these are in turn allocated out to individual Authorities as part of the Local Government Finance Settlement.

Due to economic uncertainty the anticipated 4 year Sending Review was reduced to a single year review, covering 2021/22, with a new Spending Review planned for next year. This is anticipated to cover 2022-2025.

This year should have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current pandemic and economic uncertainty both of these have been put on hold for at least a further 12 months.

The 2021/22 Local Government Finance Settlement showed an increase in the Governments Settlement Funding Assessment of 0.19%. (The Settlement Funding Assessment comprises

• Revenue Support Grant	£8.5m
• Business Rates (from local billing authorities)	£4.4m
• Business Rates Top-Up (from the Government)	£11.3m
	£24.2m

Looking beyond this, it is assumed that this will grow in line with anticipated inflation, and hence we have allowed for 1.5% growth each year. The table below sets out our assumed level of funding (Settlement Funding Assessment) over the next 5 years: -

	2021/22	2022/23	2023/24	2024/25	2025/26
Estimated Settlement Funding Assessment	(£24.2m)	(£24.6m)	(£25.0m)	(£25.4m)	(£25.7m)
Growth	-	1.5%	1.5%	1.5%	1.5%

Business Rates

The actual Business Rates calculated by billing authorities are lower than the Governments estimate allowed for above, £4.3m as opposed to £4.4m.

In addition to the above Business Rates the Authority receives Section 31 grant from the Government to compensate for specific reliefs it has agreed as part of policy decisions, i.e. small business relief etc. This year the anticipated grant remains at £1.3m, the same as last year. We have assumed this increase in line with inflation in future years.

During the year the Government announced additional business rate reliefs, such as retail, nursery and newspaper reliefs, recognising the impact of the pandemic on businesses. The Government provided Section 31 grants direct to billing authorities to offset these new reliefs, however as they have to account for these outside the business rate collection fund, this results in a very large deficit across the collection funds of all authorities. Our share of this deficit is £2.0m. The rate relief grant will eventually feed through to preceptors as part of the business rate year end reconciliation, when billing authorities will be required to repay a proportion of the reliefs provided and when the Govt will make an additional grant to ourselves for our share of these. Until the year end it is impossible to accurately calculate these figures, hence we have used an approximation of the amount due based on the NNDR1 returns already submitted by billing authorities, in line with the latest CIPFA guidance. In our case we anticipate receiving an extra £1.9m grant in respect of this in 21/22. (It is worth emphasising that the actual additional grant in respect of in-year rate reliefs will not be known for some time and may vary from this.)

The government also announced proposals to support billing authorities by allowing authorities to spread the remaining in-year deficit over 3 years to smooth the effect of this and providing additional grant equivalent to 75% of the relevant reduction in collection rates. Billing authorities have provided details of the 3-year spread of the deficit, with the net in-year collection fund deficit of £0.2m being spread £79k each year. However, they are not in a position to calculate the 75% additional grant at the present time and hence for the purpose of budget setting we have ignored this. (It is also worth noting that the relevant reduction in collection rates on which the 75% additional grant is calculated excludes some items and hence this will not cover the full deficit.)

As such the net collection fund position for 21/22 is a marginal surplus of £63k. We have assumed that future collection rates will broadly breakeven and hence the only deficit in future years relates to the 3-year spread set out above.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Business Rates Adjustment	0.1	0.1	0.1	0.1	0.1
Section 31 Grant – Business Rates Reliefs	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)
Less Business Rates Collection Deficit	2.0	-	-	-	-
Add Outstanding Section 31 Grant new rate reliefs	(1.9)	-	-	-	-
3-year spread of in-year collection fund deficit	(0.2)	0.1	0.1	-	-
Total Business Rates Adjustment	(1.3)	(1.1)	(1.2)	(1.3)	(1.3)

Council Tax

In setting the council tax, the Authority aims to balance the public's requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

The Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services. Our council tax of £70.86 is still below the national average of £78.56, and our increase of just 11.3% since 2010/11 compares with an average increase of 19.1% over the same period and is the third lowest of any Fire Authority.

The Government confirmed that the council tax referendum threshold will remain at 2%.

Council Tax-Base

Billing authorities have confirmed a council tax base of 442,730 a 0.25% reduction on last year's position. This compares to historic position which has seen a year on year growth averaging approx. 1.7%. A significant proportion of this is due to the increase in the Local Council Tax Support Scheme, whereby discounts are provided to council tax payers recognising their personnel circumstances. The take up of this has increased in year therefore eroding the tax base. In order to offset the impact next year, the Government has allocated £670m of Local Council Tax Support Grant to councils, of which our share is £0.8m. If we allow for this the net impact on our tax base is an increase of 2.2%. There is no indication whether this will be one off funding or whether it will be maintained in future years, hence for the purpose of medium term planning we have assumed that it is a one-off grant, and that the tax base in future years grows by 1% per annum.

In terms of the council tax collection fund this has historically generated a surplus of approx. £0.4m per year. The billing authorities have now confirmed that this has moved into a deficit position, with our share standing at £0.4m. We have assumed this gradually returns to a £300k surplus over the following 3 years.

The government also announced proposals to support billing authorities by allowing authorities to spread the in-year deficit over 3 years to smooth the effect of this and providing additional grant equivalent to 75% of the relevant reduction in collection rates. Billing authorities have provided details of the 3-year spread of the deficit, with the net in-year collection fund deficit of £0.4m being spread £121k each year. However, they are not in a position to calculate the 75% additional grant at the present time, and hence for the purpose of budget setting we have ignored this. (it is also worth noting that the relevant reduction in collection rates on which the 75% additional grant is calculated excludes bad debt provision, which will account for the majority of the in-year deficit.)

In terms of medium-term financial planning we have allowed for the 3-year spread as set out by billing authorities and have assumed that excluding this the collection fund would be in a breakeven position in subsequent years.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Local Council Tax Support Grant	(0.8)	-	-	-	-
Less Council Tax Collection Deficit/(Surplus)	0.4	(0.1)	(0.2)	(0.3)	(0.3)
3-year spread of in-year collection fund deficit	(0.2)	0.1	0.1	-	-
	(0.6)	-	(0.1)	(0.3)	(0.3)

Draft Council Tax Requirements

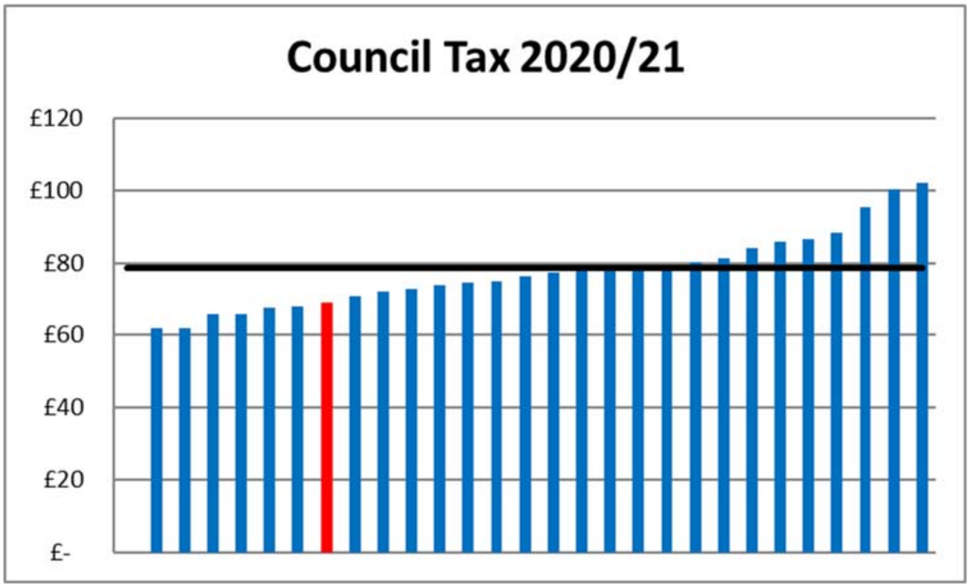
Based on the assumptions outlined the budget requirement would result in a council tax increase of 3.0%, exceeding the referendum limit, and as such the Authority will need to reduce the budget requirement. A reduction of £0.3m being required if council tax is increased by 1.99% and £0.9m if council tax is frozen: -

	Raw Budget	Budget based on Referendum Limit	Budget based on Council Tax Freeze
	£m	£m	£m
Raw Budget Requirement	58.5	58.5	58.5
Budget Reduction	-	(0.3)	(0.9)
Net Budget Requirement	57.8	58.2	57.6
Less Settlement Funding Assessment	(24.2)	(24.2)	(24.2)
Net Business Rates Adjustment	(1.3)	(1.3)	(1.3)
Net Local Council Tax Adjustment	(0.6)	(0.6)	(0.6)
Equals Precept	31.9	31.4	30.8
Estimated Number of Band D equivalent properties	442,730	442,730	442,730
Equates to Council Tax Band D Property	£72.97	£72.27	£70.86
Increase in Council Tax	3.0%	1.99%	Freeze

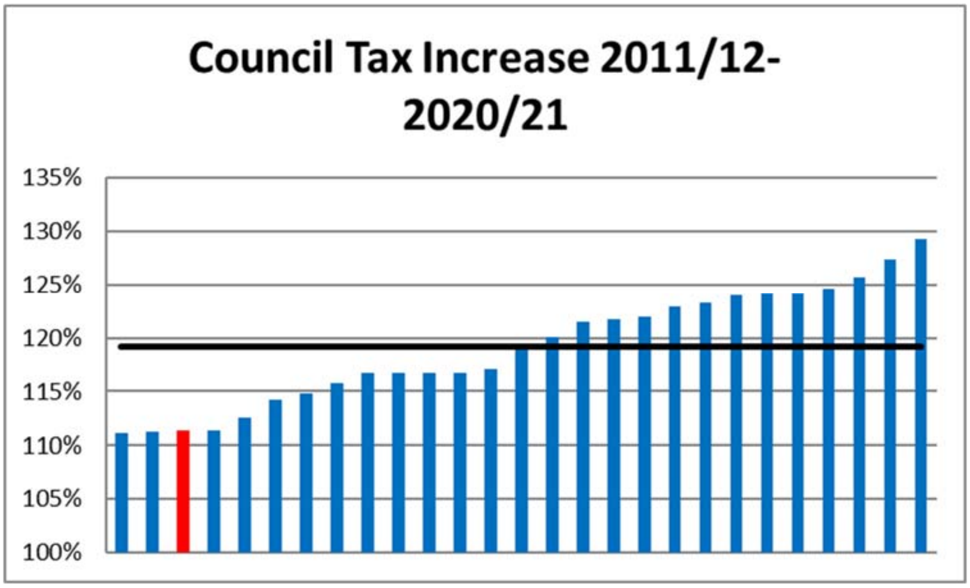
Each 1% increase in council tax generates an additional £0.3m of precept, and equates to a £0.71 increase in the annual council tax figure: -

- 2% increase equates to £1.41 per annum, less than 3p per week, and generates approx. £0.6m of additional precept
- 1% increase equates to £0.71 per annum, just over 1p per week, and generates approx. £0.3m of additional precept

It is worth re-iterating that our budget increases have been constrained by capping/referendum principles as well as the Authorities desire to deliver value for money services, hence our current council tax of £70.86 is below the national average of £78.56.



Furthermore, our increase of just 11.3% since 2010/11 compares with an average increase of 19.1% over the same period and is the third lowest of any Fire Authority.



It is also worth noting that Fire accounts for approx. 3.5% of the overall council tax charged in Lancashire.

Reserves and Balances

As set out in the Reserves and Balances Policy, a reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, industrial dispute etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement.

In line with guidance issued by CIPFA a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority’s financial management arrangements. The assessment focuses on both medium and long-term requirements, taking account of the Medium-Term Financial Strategy and the draft budgets.

This has identified: -

- A minimum target reserve level of £3.5m, 6.0% of the 2021/22 net revenue budget, higher than last year which reflects the continuing funding uncertainty, uncertainty around pay awards and future pension costs.
- the maximum reserve limit is maintained at £10.0m

As at 31 March 2021 we anticipate holding £6.0m, providing scope to utilise approx. £2.5m of reserves. The drawdown of £0.3m required to deliver balanced budget in 21/22 would reduce the general balance to £5.7m, still within our target range.

It should be noted that reserves are being used to fund recurring expenditure and hence this can only be a short-term solution, with recurring savings being required to offset the shortfall. However, having reviewed the level of general reserves required and the anticipated utilisation of these, the Treasurer considers these are at an appropriate level to meet future expenditure requirements in 2020/21. The level of these will be reviewed again as part of the year end outturn process and reported on to the Resources Committee.

In addition to the general reserves the Authority also holds earmarked reserves, created for specific purposes to meet known or anticipated future liabilities, capital reserves and receipts, to provide additional funding to support the capital programme in future years, and provisions for outstanding insurance claims and potential business rate appeals. Further details relating to these are included in the reserves policy and based on the professional opinion of the Treasurer these are adequate to meet future requirements in the medium term.

Council tax 2021/22 and beyond

2019/20 was the last year of a four-year settlement. Whilst the Government intends to continue with the principle of multi-year settlements a 4-year Spending Review has now been postposed in each of the last 2 years, and hence is now planned for 2021/22.

This year should also have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current economic uncertainty both of these have been put on hold for at least 12 months.

In terms of 2022/23 and beyond this will be determined by the Governments overall budget and the subsequent Spending Review. The Budget will set overall total for public sector spending which will then be allocated out to departments as part of the Spending Review. Until such time as the outcome of this is known it is impossible to accurately predict future funding levels, however for the purposes of planning we have assumed the trajectory outlined in this year’s settlement is maintained, i.e. increases in line with current inflation of 1.5%.

Based on this the draft budget as presented, and allowing for a 1.99% increase in council tax in 21/22, delivers the following council tax increases in future years: -

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Draft Budget Requirement	60.0	61.4	62.6	64.3
Less Settlement Funding Assessment	(24.6)	(25.0)	(25.4)	(25.7)
Net Business Rates Adjustment	(1.1)	(1.2)	(1.3)	(1.3)
Net Local Council Tax Adjustment	-	(0.1)	(0.3)	(0.3)
Equals Precept	34.3	35.1	35.7	37.0
Estimated Number of Band D equivalent properties	447,158	451,629	456,146	460,707
Equates to Council Tax Band D Property	£76.60	£77.78	£78.31	£80.30
Increase in Council Tax	5.2%	1.5%	0.7%	2.5%

As can be seen the increase in 22/23 is above the referendum limit, due to the removal of the additional Government Grant in respect of the Local Council Tax Support Scheme. It is worth re-iterating that there is a great deal of uncertainty about future funding

As previously advised holding a referendum is extremely expensive, costing in excess of £1m, and is unlikely to deliver an increase in excess of the referendum threshold. As such we will need to either deliver additional savings or utilise reserves in order to balance the budget in future years, the extent of which is dependent upon current and future council tax decisions, and the accuracy of expenditure and funding forecasts.

As in previous years we have modelled the funding gap based on different council tax scenarios in future years: -

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
2% increase in council tax each year	(1.3)	(1.2)	(0.7)	(1.0)
1% increase in council tax each year	(1.6)	(1.8)	(1.8)	(2.4)
Council tax freeze each year	(1.9)	(2.5)	(2.8)	(3.7)

It must be stressed that there are a whole host of assumptions underpinning these projections, particularly around vacancy profiles, pension costs, future inflation, pay awards and funding beyond March 2022.

As can be seen, whichever level of council tax is agreed our current budget requirement will exceed funding each year.

Robustness of the Revenue Budget 2021/22

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer is required to make a statement about the robustness of the budget.

The professional opinion of the Treasurer is that the budget has been prepared on a robust basis for the following reasons:

- The budget is reflective of existing service plans;
- The budget takes account of the anticipated on-going revenue impact of current and future capital programmes (no allowance has been made for any potential borrowing associated with the capital programme as we are still finalising this);
- The allowances included for inflation and pay awards represent a best estimate of the likely cost of this, at

	2021/22	Subsequent Years
Uniformed Pay Award	-	2.0%
Non-Uniformed Pay Award	-	2.0%
Non-Pay Inflation	2.5%	2.5%

- As part of the budget setting process all estimates, including savings and income forecast, are assessed for reasonableness;
- The situation in respect of future funding, and in particular the outcome of next year's Spending Review and the longer-term impact of the pandemic on business rates and council tax will be kept under review and reported to the Authority in due course.
- The level of and appropriateness of reserves has been reviewed by the Treasurer, based on the potential risks faced by the Authority;
- The following significant financial risks have all been assessed and the Treasurer feels that these are adequately covered within the budget estimates presented or within the level of reserves currently held: -
- Reductions in funding levels over and above those forecast;
- Reduction in funding via Business Rates retention scheme;
- Reduction in council tax funding due to changes in collection rates, localisation of council tax support, reducing tax base and/or council tax referendum limits;
- Higher than anticipated inflation;
- Larger increases in future pension costs/contributions;
- Significant changes in retirement profiles;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;

- Inadequacy of insurance arrangements

Summary and Conclusions

In considering its council tax requirements for 2021/22 the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to: -

- deliver services as outlined in the Risk Management Plan and other plans;
- maintain future council tax increases at reasonable levels;
- continue to deliver efficiencies in line with targets;
- continue to invest in improvements in service delivery and facilities;
- set a robust budget that takes account of known and anticipated pressures;
- maintain an adequate level of reserves.

The pandemic has had an impact on council tax base, local business rates and on the collection funds for both of these. Comparing the current year projections for these with those that based on last year's budget shows a loss of income of £0.25m in 21/22.

As a result, and despite the budget not providing for any increase in pay costs there is still funding shortfall of £0.3m. Therefore, in order to deliver a balanced budget based on a 2% increase in council tax the Service needs to either deliver additional savings or draw down general reserves to offset the shortfall: -

	2020/21
	£m
Gross Budget Requirement	58.5
Utilisation of reserves/additional savings	(0.3)
Final Budget Requirement	58.2
Less Settlement Funding Assessment	(24.2)
Business Rates Adjustment	0.1
Section 31 Grant – Business Rates Reliefs	(1.3)
Add Business Rates Collection Deficit	2.0
Less Outstanding Section 31 Grant new rate reliefs	(1.9)
Less 3-year spread of in-year business rate collection fund deficit	(0.2)
Less Local Council Tax Support Grant	(0.8)
Add Council Tax Collection Deficit	0.4
Less 3-year spread of in-year council tax collection fund deficit	(0.2)
Equals Precept	32.0
Estimated Number of Band D equivalent properties	442,730
Equates to Council Tax Band D Property	£72.27
Increase in Council Tax	1.99%

The council tax of £72.27, represents a 1.99% increase (£1.41 per annum, 3p per week).

If any of the assumptions outlined in the report prove to be inaccurate further review will be required, which may include both the use of reserves and the identification of additional savings in order to deliver a sustainable budget.

The following table compares 2020/21 funding with the proposed funding set out above: -

	2020/21	2021/22	% Change
	£m	£m	
Settlement Funding Assessment (Grant)			
• Revenue Support Grant, direct from the Government	8.5	8.5	
• Individual Authority Business Rates Baseline	4.4	4.4	
• Business Rates Top-Up, from the Government	11.3	11.3	
	24.2	**24.2**	**-**
Other Business Rates			
• Section 31 Grant - Business Rates Reliefs	1.3	3.3	
• Business Rates collection fund surplus/(deficit)	0.1	(1.9)	
• Other Business Rate adjustments	(0.1)	(0.1)	
	1.3	**1.3**	**-**
Council Tax			
• Council Tax	31.4	32.0	
• Local Council Tax Support Grant	-	0.8	
• Council Tax collection fund surplus/(deficit)	0.4	(0.1)	
	31.8	**32.7**	**2.8%**
Total Funding	**57.3**	**58.2**	**1.6%**

Until such time as the outcome of next year's Spending Review is published it is impossible to provide any meaningful funding forecast, however for the purpose of medium term financial planning we have assumed that funding is increased by 1.5% in subsequent years, based on this, and assuming council tax is increased in line with 2% council tax increase referendum principles in future years the Authority is still faced with a funding gap in the region of £1.0m in subsequent years.

Looking at the medium-term plans it is clear that the key variables remain pay awards, pension costs and funding. As such additional scenarios are presented below showing the potential impact of a 2% pay award in 21/22, a funding freeze in 2022/23 and beyond, a 10% reduction in funding in 2022/23 and beyond, and a potential 5% increase in employer pension contributions as a result of the McCloud pension judgement. As can be seen all of these have a significant impact on the remainder of the medium-term strategy ranging up to a £4.0m loss of funding or a £1.5m increase in costs.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Current Budget Gap	(0.3)	(1.3)	(1.2)	(0.7)	(1.0)
Revised Gap - 2% Pay award in 21/22 (2% is already allowed for in subsequent years)	(1.1)	(2.3)	(2.2)	(1.7)	(2.0)
Revised Gap - Funding Freeze 2022/23-2025/26	(0.3)	(1.7)	(1.9)	(1.9)	(2.5)
Revised Gap - 10% Funding Reduction 2022/23-2025/26	(0.3)	(2.3)	(3.2)	(3.8)	(5.0)
Revised Gap – Increased Pension costs	(0.3)	(1.3)	(2.7)	(2.2)	(2.5)

Currently the Authority remains in a good financial position with reserves able to offset the financial challenges next year. The position becomes more challenging thereafter however by that time the Authority should have greater certainty on future funding, pay awards and future referendum limits, which will enable it to deliver more reliable medium-term financial plans in order to address any gap that exists.

Whilst the council tax is expressed as a Band D equivalent figure, there are actually 8 property bandings, each of which has a council tax set in proportion to the band D figure (i.e. a band A property is 2/3rds that of a band D charge, and band H is twice that of a band D charge). The individual Council Tax bandings are set out below: -

Council Tax band	A	B	C	D	E	F	G	H
Precept	£48.18	£56.21	£64.24	£72.27	£88.33	£104.39	£120.45	£144.54

The overall precept is then apportioned between the 14 District & Unitary Authorities pro-rata to their Council Tax base, and they are responsible for billing and collection of this, which they will pay over to the Fire Authority on a pre-determined instalment basis. The precept for each Authority is: -

Blackburn With Darwen Borough Council	£2,524,981
Blackpool Borough Council	£2,663,367
Burnley Borough Council	£1,681,579
Chorley Borough Council	£2,708,405
Fylde Borough Council	£2,238,564
Hyndburn Borough Council	£1,462,673
Lancaster City Council	£2,999,205
Pendle Borough Council	£1,727,109
Preston City Council	£2,834,574
Ribble Valley Borough Council	£1,734,986
Rossendale Borough Council	£1,472,863
South Ribble Borough Council	£2,617,577
West Lancashire District Council	£2,657,662
Wyre Borough Council	£2,672,593
TOTAL	£31,996,138

SECTION 3

CAPITAL STRATEGY/BUDGET 2020/21-2024/25

The Authority's capital strategy is designed to ensure that the Authority's capital investment:

- assists in delivering the corporate objectives
- provides the framework for capital funding and expenditure decisions, ensuring that capital investment is in line with priorities identified in asset management plans
- ensures statutory requirements are met, i.e. Health and Safety issues
- supports the Medium-Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets
- demonstrates value for money in ensuring the Authority's assets are enhanced/preserved
- describes the sources of capital funding available for the medium term and how these might be used to achieve a prudent and sustainable capital programme.

Managing capital expenditure

The Capital Programme is prepared annually through the budget setting process, and is reported to the Authority for approval each February. The programme sets out the capital projects taking place in the financial years 2021/22 to 2025/26, and will be updated in May to reflect the effects of the final level of slippage from the current financial year (2020/21).

The majority of projects originate from approved asset management plans, subject to assessments of ongoing requirements. Bids for new capital projects are evaluated and prioritised by Executive Board prior to seeking Authority approval.

A budget manager is responsible for the effective financial control and monitoring of their elements of the capital programme. Quarterly returns are submitted to the Director of Corporate Services on progress to date and estimated final costs. Any variations are dealt with in accordance with the Financial Regulations (Section 4.71). Where expenditure is required or anticipated which has not been included in the capital programme, a revision to the Capital Programme must be approved by Resources Committee before that spending can proceed.

Proposed Capital Budget

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

The 2021/22 programme includes various items of estimated slippage expected from the 2020/21 programme as they are not expected to be incurred within the year due to the ongoing pandemic and associated capacity issues – which are: -

Aerial Ladder Platform (to be replaced with a Turn Table Ladder)	£0.590m
Command Units (Mobile Fire Stations)	£0.580m
Pumping appliances x 5 (1920 & 2021 budgets)	£1.060m
Water tower	£0.500m
Softrack All-Terrain Vehicle	£0.083m
Pod x 3 (1819, 1920 & 2021 budgets)	£0.083m
Various support vehicles	£0.174m
Future firefighting – reserve appliances	£0.027m
CCTV on appliances	£0.150m
Fleet Workshop	£3.375m
Morecambe NWAS co-location	£0.132m
Enhanced station dormitory and shower facilities	£0.350m

Drill tower replacements	£0.200m
Performance management system	£0.100m
Hydrant management system	£0.050m
Incident command system (linked to command units)	£0.100m
VMDS/MDT hardware replacement (linked to ESMCP)	£0.400m
Incident ground radios (linked to ESMCP)	£0.180m
On-Call alerters (linked to ESMCP)	£0.065m
ESMCP (Airwave replacement)	£1.000m
Total	**£9.199m**

A summary of all capital requirements is set out in the table below.

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicles	4.525	0.996	0.947	1.592	1.712	**9.772**
Operational Equipment	0.444	1.000	0.250	0.530	-	**2.224**
Buildings	4.325	1.200	8.450	3.400	11.200	**28.575**
IT Equipment	2.005	0.350	-	0.220	0.600	**3.175**
	11.299	**3.546**	**9.647**	**5.742**	**13.512**	**43.745**

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives: -

	No of Vehicles				
Type of Vehicle	**2021/22 (inc Slippage)**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Pumping Appliance	7	3	3	5	6
Command Unit	2	-	-	-	-
Water Tower	2	-	-	-	-
Turntable Ladder	1	-	-	-	-
All-Terrain Vehicle	1	1	-	-	-
Prime mover	2	-	-	-	-
Pod	3	-	-	-	-
Operational Support Vehicles	17	16	10	17	12
	35	**20**	**13**	**22**	**18**
	Budget (£m)				
Pumping Appliance	1.490	0.661	0.677	1.158	1.424
Command Unit	0.580	-	-	-	-
Water Tower	1.000	-	-	-	-
Turntable Ladder	0.675	-	-	-	-
All-Terrain Vehicle	0.083	0.016	-	-	-
Prime mover	0.215	-	-	-	-
Pod	0.083	-	-	-	-
Operational Support Vehicles	0.400	0.319	0.270	0.434	0.288
	4.525	**0.996**	**0.947**	**1.592**	**1.712**

This is a very large programme and hence some slippage may occur. However, as the previous Head of Fleet Services retired in December and his replacement only started in February it is not possible to predict this with any accuracy at this point in time.

It is worth noting that LFRS currently has several vehicles provided and maintained by CLG under New Dimensions (5 Prime Movers and 1 Incident Response Units), which under LFRS replacement schedules would be due for replacement during the period of the programme. However, our understanding is that CLG will issue replacement vehicles if they are beyond economic repair, or if the national provision requirement changes. Should LFRS be required to purchase replacement vehicles, grant from CLG may be available to fund them. Based on the current position, we have not included these vehicles (or any potential grant) in our replacement plan.

In addition, Fleet Services continue to review future requirements for the replacement of all vehicles in the portfolio, hence there may be some scope to modify requirements as these reviews are completed, and future replacement programmes will be adjusted accordingly.

Operational Equipment

The following plan allows for the replacement of items at the end of their current asset lives, based on current replacement cost:

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Thermal Imaging Cameras	-	-	0.250	-	-
Breathing Apparatus (BA) and Telemetry equipment	-	-	-	0.530	-
Cutting and extrication equipment	-	1.000	-	-	-
Future firefighting – reserve appliances	0.027				
Light Portable Pumps	0.150	-	-	-	-
Defibrillators	0.087	-	-	-	-
CCTV on appliances	0.150	-	-	-	-
Drone	0.030	-	-	-	-
	0.444	**1.000**	**0.250**	**0.530**	**-**

Each of these groups of assets is subject to review prior to replacement, which may result in a change of requirements or the asset life.

Buildings

In terms of all the building proposals it must be noted that we are still developing requirements/designs hence costings are to provide some context for decision making.

Again, this is a very large programme of works, which will be a challenge to deliver alongside on-going day to day property issues, and any new initiatives that are identified at a later date.

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Fleet workshop/trainer facilities/etc	3.375	-	-	-	-
Preston fire station rebuild	-	-	-	-	8.000
SHQ relocation	0.150	0.750	8.000	3.100	-
Fulwood replacement	-	-	-	-	2.500
Morecambe NWAS	0.150	-	-	-	-
STC works - Astley House	-	-	-	-	0.400

Dormitories:					
W30	0.200	-	-	-	-
E70	0.150	-	-	-	-
Community room - S56		0.150			
P73 Extension & porta cabin	-	-	0.150	-	-
Drill tower replacements (notional 2 per year)	0.300	0.300	0.300	0.300	0.300
	4.325	**1.200**	**8.450**	**3.400**	**11.200**

The costs and timing for both Preston Fire Station and the SHQ relocation are estimates only at this stage, based on current information. As plans are refined further updates will be provided for specific approval.

ICT

The sums identified for the replacement of various ICT systems are in line with the software replacement lifecycle schedule incorporated into the ICT Asset Management Plan. All replacements identified in the programme will be subject to review, with both the requirement for the potential upgrade/replacement and the cost of such being revisited prior to any expenditure being incurred.

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Performance management	0.100	-	-	-	-
Hydrant Management system	0.050	-	-	-	-
Incident Command system	0.100	-	-	-	-
Vehicle specification crash recovery software	-	0.020	-	-	-
Pooled PPE system	-	0.080	-	-	-
Asset Management system	0.050	-	-	-	-
HR & Payroll system*	-	0.150	-	-	-
Community Fire Risk Management Information System (CFRMIS)	-	0.100	-	-	-
Rota management package (WT/On call)	-	-	-	0.100	-
Storage Area Network	-	-	-	0.120	-
GIS Risk Info (Cadcorp)	-	-	-	-	0.100
WAN (Intrinsic)	-	-	-	-	0.450
IRS/MIS (3TC)	-	-	-	-	0.050
	0.200	**0.350**	**-**	**0.220**	**0.600**
Operational Communications					
ESMCP (Airwave replacement – assumed fully funded by government grant)	1.000	-	-	-	-
Vehicle Mounted Data Systems (VMDS) hardware replacement	0.400	-	-	-	-
Alerters for RDS/DCP staff	0.065	-	-	-	-
Incident Ground Radios	0.180	-	-	-	-
UPS batteries replacement	0.060	-	-	-	-
	1.705	**-**	**-**	**-**	**-**
Total ICT Programme	**2.005**	**0.350**	**-**	**0.220**	**0.600**

* The HR & Payroll system appears on the plan in line with allocated asset lives, however it is unlikely that we would be replacing these in the timeframes shown as it is outsourced and forms part of on-going SLA.

Capital Funding

Capital expenditure can be funded from the following sources:

Prudential Borrowing

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, any future borrowing will incur a financing charge against the revenue budget for the period of the borrowing.

Given the financial position of the Authority we have not needed to borrow since 2007, and repaid a large proportion of our borrowing in October 2017.

Capital Grant

Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

The ESMCP project carried forwards from 2020/21 is anticipated to receive £1.0m grant funding which is included in the programme. To date no other capital grant funding has been made available for 2021/22, nor has any indication been given that capital grant will be available in future years, and hence no allowance has been included in the budget.

Capital Receipts

Capital receipts are generated from the sale of surplus land and buildings, with any monies generated being utilised to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The Authority expects to hold £1.7m of capital receipts as at 31 March 2021. This will be fully utilised during the 5-year programme.

There is no allowance for the potential sale of the existing Fulwood site as this cannot be disposed of until such time as any changes required to Fulwood Fire Station are enacted. Once this is complete sale proceeds are forecast to be in excess of £2m, depending on which Fulwood Fire Station option is undertaken.

Capital Reserves

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. The Authority expects to hold £18.7m of capital reserves as at 31 March 2021. Over the life of the programme we anticipate utilising all these reserves.

Revenue Contribution to Capital Outlay (RCCO)

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The revenue contribution remains the same over the life of the programme, at £2.25m

Drawdown of Earmarked Reserves

No allowance has been made for the drawdown of any earmarked reserves.

Drawdown of General Reserves

No allowance has been made for the drawdown of any of the general reserve.

Total Capital Funding

The following table details available capital funding over the five-year period:

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Grant	1.000	-	-	-	-	**1.000**
Capital Receipts	-	-	-	1.663	-	**1.663**
Capital Reserves	8.049	1.296	7.397	1.828	0.150	**18.720**
Revenue Contributions	2.250	2.250	2.250	2.250	2.250	**11.250**
	11.299	**3.546**	**9.647**	**5.741**	**2.400**	**32.633**

Summary Programme

Based on the draft capital programme as presented we have a shortfall of £11.1m:

	2021/22 (inc Slippage)	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Requirements	11.299	3.546	9.647	5.741	13.512	**43.745**
Capital Funding	11.299	3.546	9.647	5.741	2.400	**32.633**
Surplus/(Shortfall)	**-**	**-**	**-**	**-**	**(11.112)**	**(11.112)**

This a very large funding gap, demonstrating that the programme as set out is not achievable without significant borrowing.

Impact on the Revenue budget

It is worth noting that the capital programme and its funding directly impacts on the revenue budget in terms of capital financing charges and in terms of the revenue contribution to capital outlay.

The capital programme shows the Authority utilising all of its capital reserves and receipts part way through 2025/26, meaning that the remainder of the capital programme will need to be met from either capital grant (if available), additional revenue contributions or from new borrowing.

Based on the provisional 1-year settlement, and future forecasts, the position in respect of the revenue budget appears sustainable until March 2024. Dependent upon the outcome of the next Spending Review and its impact on future funding the revenue contribution to capital (RCCO) could come under increasing pressure. It therefore appears unlikely that there will be any scope to increase RCCO in future years. (It is worth noting that the existing contribution of £2.25m is only sufficient to meet the current vehicle replacement programme, any capital requirements over and above must be funded in another way.)

This means that the Authority needs to borrow to meet future capital requirements and this will impact the revenue budget as capital financing (interest payable and Minimum Revenue Provision) charges.

As we have already set aside funds (prepaid MRP) to offset our existing £2.0m of PWLB borrowing we would need to take out new borrowing of £9.1m. This would have a significant impact on the revenue budget, in terms of interest payments and setting aside a sum equivalent to the Minimum Revenue Provision (MRP). Two examples are provided below showing the position over a 25 and a 50-year period, based on current long-term interest rates.

	25 Year	50 Year
	1.67%	1.56%
Interest per annum	£159k	£142k
MRP	£364k	£182k
	£523k	**£324k**

The final year of the revenue budget, presented elsewhere on this agenda, includes the sum of £142k to meet the costs associated with this borrowing, however the impact on the MRP Is not felt until 2026/27.

Programme Assumptions

It is also worth highlighting that the programme is based around a number of assumptions which could change: -

- The programme allows for two additional Water Towers in 2021/22. An option for an enhanced facility incorporating a further 2 water towers was presented to the Authority in December and will be considered further at some point in the next 5 years;
- New Dimensions vehicle replacements are expected to be carried out by CLG, however this position may change;
- All operational equipment item replacements are at estimated costs, and would be subject to proper costings nearer the time;
- The costs and timing for both Preston Fire Station and the SHQ relocation are estimates only at this stage, based on current information, but clearly if/when either of them goes ahead will create a need for external borrowing;
- Property project timings are front-loaded and as such are expected to vary between years;
- Operational Communications replacements (ESMCP) are subject to a great deal of uncertainty in terms of both timing and costs as they are related to a national replacement project, in addition there may be grant funding available for this which is also unknown at this time;
- The HR & Payroll system appear on the plan in line with allocated asset lives, however it is unlikely that we would be replacing these in the timeframes shown;
- ICT software replacements are based largely on the ICT asset management plan, and are subject to review prior to replacement, which has led in the past to significant slippage;
- Capital grant may be made available in future years, in order to assist service transformation and greater collaboration;

Summary

Over the next three years the programme is balanced, and as such can be considered prudent, sustainable and affordable. Should all the items in the five-year programme go ahead, significant external borrowing would be required in the final year of the programme.

However as noted above, should any of the funding assumptions or expenditure items within the programme change, this will have an impact on the overall affordability of the programme.

Prudential Indicators

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However, in determining the level of borrowing, the Authority must prepare and take account of a number of Prudential Indicators aimed at demonstrating that the level and method of financing capital expenditure is affordable, prudent and sustainable. These Indicators are set out at Appendix 1, along with a brief commentary on each. The Prudential Indicators are based on the programme set out above. These indicators will be updated to reflect the final capital outturn position, and reported to the Resources Committee at the June meeting.

The main emphasis of these Indicators is to enable the Authority to assess whether its proposed spending and its financing is affordable, prudent and sustainable and in this context, the Treasurer's assessment is that, based on the Indicators, this is the case for the following reasons: -

- In terms of prudence, the level of capital expenditure, in absolute terms, is considered to be prudent and sustainable at an annual average of £8.2m over the 3-year period. The trend in the capital financing requirement and the level of external debt are both considered to be within prudent and sustainable levels. No new borrowing is currently planned during the three years.
- In terms of affordability, the negative ratio of financing costs arising from borrowing reflects interest receivable exceeding interest payable and Minimum Revenue Provision payments in each of the three years. This reflects the effect of the previous decision to set aside monies to repay debt.

Capital Expenditure and Financing

The objective in consideration of the affordability of the Authority's capital plans is to ensure that total capital expenditure remains within sustainable limits.

Capital expenditure 2019/20 to 2023/24

The actual expenditure for 2019/20 and forecast expenditure 2020/21, and estimates of capital expenditure to be incurred in future years, as per the proposed capital programme and allowing for slippage from the 2020/21 programme, are:

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	£m	£m	£m	£m
Capital Expenditure	2.860	2.020	11.299	3.546	9.647

This indicator for 2020/21 will also be updated at the year-end to reflect actual capital expenditure incurred.

Capital financing 2019/20 to 2023/24

All capital expenditure must be financed, either from external resources (government grants and other contributions), the Authority's own resources (revenue contributions, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	£m	£m	£m	£m
Grants and Contributions	-	-	1.000	-	-
Own Resources	2.860	2.020	10.299	3.546	9.647
Debt	-	-	-	-	-
Total	**2.860**	**2.020**	**11.299**	**3.546**	**9.647**

Borrowing Strategy

Capital Financing Requirement (CFR) 2019/20 to 2023/24

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	£m	£m	£m	£m
Capital Financing Requirement (Debt only)	-	-	-	-	-

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose, and reflects the effects of previous investment decisions as well as future planned expenditure. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending, but in the medium term the Treasurer anticipates that borrowing is undertaken for capital purposes only. These capital financing requirements then feed through into the anticipated level of external debt as reported in the Treasury Management Strategy elsewhere on the agenda, but repeated here for completeness. As reported in the Treasury Management Strategy the Authority has made additional MRP provisions since 2010/11 in order to reduce capital financing requirements to nil.

Authorised limit and operational boundary for its total external debt

In respect of its external debt the Authority is required to set two limits over the three-year period: an authorised limit and an operational boundary. Both are based on the planned capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. It should be noted that these limits have then been uplifted to include potential borrowing associated with a future decision to go ahead with a replacement Headquarters.

The operational boundary is based on the most likely, but not worst case, scenario and represents the maximum level of external debt projected by these estimates. However, unexpected cashflow movements can occur during the year and some provision needs to be made in setting the authorised limit to deal with this.

The two indicators are as follows:

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Authorised Limit for External Debt					
Borrowing	6,000	6,000	6,000	6,000	6,000
Other long-term liabilities	30,000	30,000	30,000	30,000	30,000
Total	**36,000**	**36,000**	**36,000**	**36,000**	**36,000**
Operational Boundary for External Debt					
Borrowing	3,000	3,000	3,000	3,000	3,000
Other long-term liabilities	18,000	18,000	17,000	16,000	15,000
Total	**21,000**	**21,000**	**20,000**	**19,000**	**18,000**

Gross debt and the Capital Financing Requirement

The Prudential Code requires that debt does not exceed the Capital Financing Requirement except in the short term, in order to ensure that over the medium term that debt will only be for capital purposes. This is a key indicator of prudence.

As reported in the Treasury Management Strategy, the Authority has made additional MRP provisions since 2010/11 in order to reduce Capital Financing Requirements and hence the charges associated with this, and in order to set monies aside to pay off debt as it matures. It used these monies to pay off £3.2m of debt in October 2017. As a result of this the level of debt now held, £2.0m, exceeds the capital financing requirement, which will be zero after MRP payments made during 2019/20: -

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Debt	2.000	2.000	2.000	2.000	2.000
Capital Financing Requirement	-	-	-	-	-

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (MRP, or debt repayments) are charged to revenue, offset by interest receivable. The net annual charge is known as financing costs.

As shown within the Treasury Management Strategy report elsewhere on the agenda, the financing costs are as follows:

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Interest payable	0.090	0.090	0.090	0.090	0.090
MRP	0.197	0.010	0.010	0.010	0.010
Interest receivable	(0.332)	(0.322)	(0.175)	(0.075)	(0.060)
Net financing costs	**(0.045)**	**(0.222)**	**(0.175)**	**0.025**	**0.040**

Proportion of financing costs to net revenue stream

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Net financing costs	(£0.045m)	(£0.222m)	(£0.175m)	£0.025m	£0.040m
Ratio of Financing Costs to Net Revenue Stream	(0.42%)	(0.39%)	(0.13%)	0.04%	0.07%

The negative percentage of this indicator reflects the low level of underlying debt (following the repayment of the majority of our long-term loans during 2017/18) for the Authority in comparison to the authority's level of investment income, i.e. interest receivable is greater than interest payable.

SECTION 4

RESERVES AND BALANCES POLICY 2020/21-2024/25

The National Framework includes a section on reserves. The main components of which are: -

- General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
- Each fire and rescue authority should publish their reserves strategy on their website. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should provide information for at least two years ahead.
- Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium-term financial plan.
- Information should be set out in a way that is clear and understandable for members of the public, and should include:
  - how the level of the general reserve has been set;
  - justification for holding a general reserve larger than five percent of budget;
  - whether the funds in each earmarked reserve are legally or contractually committed, and if so what amount is so committed; and
  - a summary of what activities or items will be funded by each earmarked reserve, and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

The reserves policy complies with these requirements.

General Reserves

These are non-specific reserves which are kept to meet short/medium term unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed in the medium term.

The Authority needs to hold an adequate level of general reserves in order to provide: -

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events;
- A means of smoothing out large fluctuations in spending requirements and/or funding available.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	General Fund
Purpose	This covers uncertainties in future years budgets, such as: • future grant settlements being lower than forecast; • higher levels of inflation than budgeted; • increasing cost of and changes to pensions; • service demands increasing, putting additional pressure on demand led budgets; • changes in legislation impacting on future service provision; • potential cost of industrial action.
Utilisation	This is utilised to offset any in-year overspend that would occur when comparing budget requirement to the level of funding generated.
Controls	The utilisation of this is agreed as part of the annual budget setting process. Any further utilisation requires the approval of the Resources Committee.
Review	The adequacy of this is reviewed annually, as part of the budget setting process.

Review of Level of Reserves

In determining the appropriate level of general reserves required by the Authority, the Treasurer is required to form a professional judgement on this, taking account of the strategic, operational and financial risk facing the Authority. This is completed based on guidance issued by CIPFA, and includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority's financial management arrangements. In addition, the assessment should focus on both medium and long-term requirements, taking account of the Medium-Term Financial Strategy (as set out in the draft budget report elsewhere on this agenda).

For Lancashire Combined Fire Authority this covers issues such as: uncertainty surrounding future funding settlements and the potential impact of this on the revenue and capital budget; uncertainty surrounding future pay awards and inflation rates; the impact of changes to pension schemes and the remedy for the McCloud judgement; demand led pressures; risk of default associated with our investments as set out in the Treasury Management Strategy, cost associated with maintaining operational cover in the event of Industrial Action etc.

Funding for 2021/22 is subject to a one-year settlement, with a further four-year Spending Review planned for 2022/23. Based on December's the Local Government Finance Settlement, the Authority will receive a 0.2% inflationary increase for 2021/22.

There is greater degree of uncertainty over long term funding than in recent years as the impact of both Brexit and the Pandemic on public finances and the national economy are still unknown. Furthermore, the outcome of the fair funding review of relative needs and resources and the Government intention to move to greater retention of Business Rates will take effect over the next Spending Review period.

As such the Treasurer considers it prudent to increase the minimum target reserves level at £3.5m, 6% of the 2021/22 net revenue budget, reflecting the increasing level of uncertainty. This is slightly higher than the 5% threshold identified by the Home Office above which the Authority is required to justify why it holds the level of reserves, reflecting the increasing uncertainty about future funding, pension costs and pay awards.

Should reserves fall below this minimum level the following financial year's budget will contain options for increasing reserves back up to this level. (Note, this may take several years to achieve.)

Whilst this exercise sets a minimum level of reserves it does not consider what, if any, maximum level of reserves is appropriate. In order to do this the level of reserves held should be compared with the opportunity cost of holding these, which in simple terms means that if you hold reserves that are too high you are foregoing the opportunity to lower council tax or invest in further service improvements.

However, given the limited scope to increase council tax without holding a local referendum the ability to restore depleted reserves in future years is severely limited. Hence any maximum reserve limit must take account of future anticipated financial pressures and must look at the long-term impact of these on the budget and hence the reserve requirement. Based on professional judgement, the Treasurer feels that this should be maintained at £10.0m.

Should this be exceeded the following financial year's budget will contain options for applying the excess balance in the medium term, i.e. over 3-5 years.

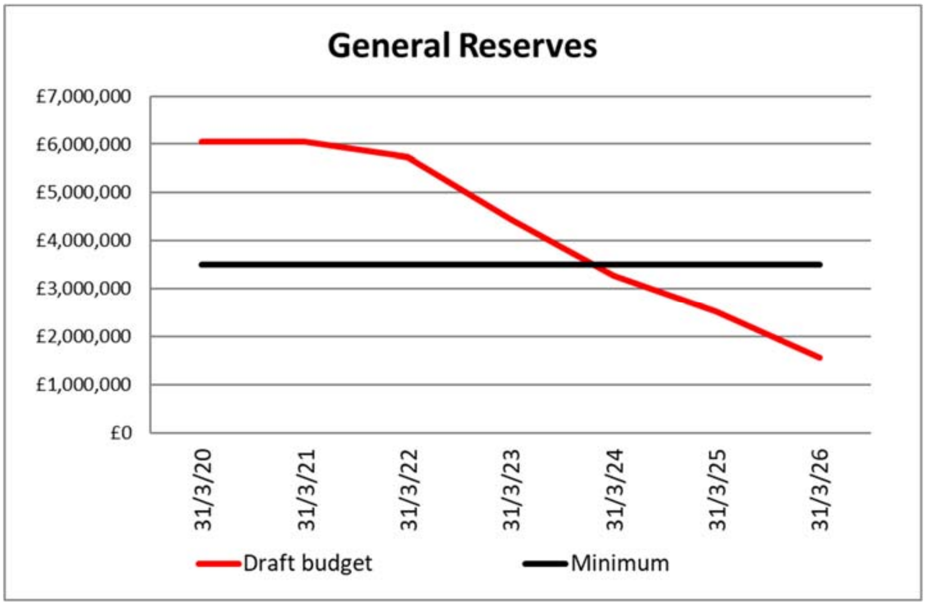
Level of General Reserves

The overall level of the general fund balance, i.e. uncommitted reserves, anticipated at the 31 March 2021 is £6.0m, providing scope to utilise approx. £2.5m of reserves.

The proposed drawdown of £0.3m in 21/22 would reduce the general balance to £5.7m. After allowing for this the Treasurer considers these are at an appropriate level to meet expenditure requirements in 2021/22. (No allowance has been made in the revenue budget shortfall for potential costs arising from the McCloud pension remedy, as it is assumed these are reflected in future changes to pension contribution rates.)

It should be noted that reserves are being used to fund recurring expenditure and hence this can only be a short-term solution, with recurring savings being required to offset the shortfall.

Future requirements are less clear but based on our existing draft revenue budget general reserves are sufficient to balance the budget over the next 3 years, falling below our current minimum level by 31 March 2024, however that is subject to a great deal of uncertainty, particularly around pension costs, funding, vacancy profiles, future inflation and pay awards and council tax increases.



Earmarked Reserves

These are reserves created for specific purposes to meet known or anticipated future liabilities and as such are not available to meet other budget pressures. They can only be used for that specific purpose, for which they were established, and as such it is not appropriate to set any specific limits on their level, but as part of the annual accounts process their adequacy will be reviewed and reported on.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Earmarked
Purpose	This covers monies set aside for specific purposes.
Utilisation	Once set up these reserves can only be used for the specific purpose for which they were established.
Controls	The utilisation of these are discussed at quarterly DFM meetings between the budget holder, relevant Executive Board member, and the Director of Corporate Services.
Review	The level of earmarked reserves is reviewed each year as part of the revenue outturn/annual accounts process to ensure these are reasonable and remain relevant.

The Director of Corporate Services has delegated authority to create new earmarked reserves valued at up to £100,000; any request which exceeds this must be reported to the Resources Committee for approval.

Specific earmarked reserves will be closed when there is no longer a requirement to hold them, at which point they will either hold a nil balance or when any outstanding balance will be transferred into the general reserve.

<u>Level of Earmarked Reserves</u>

The following table provides a breakdown of the £10.1m of earmarked reserves forecast to be held at 31st March 2021, and a forecast of the anticipated position as at 31 March 2026: -

	Forecast at 31 March 2021	Forecast at 31 March 2026	
	£m	£m	
Section 21 Business Rate Relief Grant	1.9	-	The Government provided Section 31 Rate Relief grant to individual billing authorities, in order to cover the additional in-year reliefs provided as a result of the pandemic. Business rates are split between the Government, billing authorities, Lancashire County Council and ourselves, we receive 1% of the total. As such this grant should be split in line with business rates. However, the Govt allocated all of this to billing authorities to aid cash flow, with the correct distribution anticipated in the new year, once the outturn business rates position has been agreed. As such we have accrued for our anticipated share of this in 20/21 but need to carry this forward via this reserve in order to meet the business rate collection fund shortfall that has arisen due to these additional reliefs. This is fully committed against our 21/22 budget.
C/Fwd. 20/21 Underspend Relating to Timing of Activities	0.5	-	Within the revenue budget there are a number of items that have been delayed by the pandemic, and which therefore need funding carried forward from 20/21 to 21/22. These relate to areas such as fire safety, training provision, property maintenance, organisational development and Digital transformation, and are purely a timing issue. At present there are no contractual or legal obligations against this reserve, although we anticipate utilising all of this in 21/22 as we catch up on delayed activities
Specific Grant C/Fwd. 20/21	0.2	-	This reserve carries forward unspent specific grants provided in 20/21 in respect of • Protection Uplift Grant • Building Risk Review Grant • Grenfell Infrastructure Grant The first two grants are committed in the new financial year, predominantly against staff costs. There are no contractual or legal obligations against the outstanding Grenfell Infrastructure Grant, but this will be used in 21/22 for the purchase of appropriate equipment.
Covid Funding	0.2	-	The Government provided £1.4m of total funding to meet costs associated with the Covid pandemic in 2020. As at 31 March 2021 we anticipate having spent £1.2m, with the balance of this being held in an earmarked reserve. It is assumed that this funding is either fully utilised or is returned to the Government in 2021/22. There are no contractual commitments against this at the present time.
DFM Reserve	0.3	0.2	Devolved Financial Management Reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits. The Service has strong financial management ethos and hence has a track record of managing within individual budget allocations, hence has not previously utilised these reserves to a large degree. However, as the Service comes under increasing pressure and departmental budgets are squeezed this provides greater flexibility to individual budget holder and optimises the use of resources. Examples of areas where these balances have been used previously would-be one-off replacements of equipment, or enhancement to station facilities etc. The levels of individual DFM reserves are reviewed each year as part of the revenue outturn/annual accounts process, to

			ensure that they are reasonable and that budget holders are not building up excessive reserves. At present there are no contractual or legal obligations against this reserve, as any such commitments would be included in the base revenue budget.
PFI Reserves	4.4	3.7	Private Finance Initiative Reserve, which is used to smooth out the annual net cost to the Authority of the existing PFI scheme, and will be required to meet future contract payments. The utilisation of this is set out in the budget agreed at the start of the year, any variance in requirements from this are agreed by the Treasurer as part of the revenue outturn/annual accounts process. Assuming CPI continues at 2% the whole of this reserve is contractually committed over the next 20 years.
Insurance Aggregate Stop Loss (ASL)	1.1	1.1	The Authority has aggregate stop losses (ASLs) on both its combined liability insurance policy (£0.4m) and its motor policy (£0.3m). This means that in any one year the Authority's maximum liability for insurance claims is capped at the ASL. As such the Authority can either meet these costs direct from its revenue budget or can set up an earmarked reserve to meet these. Within Lancashire we have chosen to meet the potential costs through a combination of the two. Hence the amount included in the revenue budget reflects charges in a typical year, with the reserve being set up to cover any excess over and above this. As such the reserve, combined with amounts within the revenue budget, provides sufficient cover to meet 2 years' worth of the maximum possible claims, i.e. the ASL. (It is worth noting that the revenue budget allocation has also been reduced in recent years reflecting the claims history. Without holding this reserve to cushion any major claims that may arise this would not have been possible.) None of this reserve is legally committed at the present time, although as soon as a claim arose this position would change.
Prince's Trust	0.5	0.1	This reserve has been established to balance short term funding timing differences and also to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found. Without this reserve any significant loss of funding would have an immediate impact on our ability to deliver the PT programme, and hence improve the lives of younger people. This reserve has been capped at £0.5m. There are no legal or contractual commitments against this, however forecasts show this budget reducing reflecting the uncertainty over future funding
Apprentices	0.1	-	This reserve was created from previous in-year underspends relating to the appointment of apprentices, which was delayed awaiting national developments. As such the reserve was set up to offset some of the pay/training costs that will be incurred in future years, with the balance being met direct from the revenue budget. This clearly contributes to addressing apprenticeship targets, set by the Government, as well as addressing capacity issues within departments. There are no contractual commitments against this.
Fleet & Equipment	0.2	-	This reserve was created to meet the cost of replacement projects which were not completed by year end, hence whilst we anticipate carrying some over into 22/22 but anticipate this being fully utilised by March 2022. There are no contractual or legal commitments against this at the present time.

Innovation Fund	0.5	-	The Authority created an Innovations Fund to meet costs arising from new initiatives/developments which improve service delivery or fire fighter safety but which are not included in the capital programme. Any requests to utilise the fund require the approval of the Executive Board. None of this reserve is contractually or legally committed at the present time.
	9.9	**5.1**	

It is worth noting that of the anticipated balance of £5.1m at 31 March 2026, £3.7m (nearly 75%) of this relates to the PFI reserve.

Based on this the Treasurer believes these are adequate to meet future requirements in the medium term.

Capital Reserves and Receipts

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years; as such they cannot be used to offset any deficit on the revenue budget, without having a significant impact on the capital programme that the Authority can support.

Capital Receipts are generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme. Under revised regulations receipts generated between April 2016 and March 2020 can be used to meet qualifying revenue costs, i.e. set up and implementation costs of projects/schemes which are forecast to generate on-going savings. The on-going costs of such projects/schemes do not qualify. Whilst the Authority currently holds £1.7m of capital receipts only £0.2m of this arose in the relevant time period. Given the small amount eligible we do not currently have any plans to use this in line with new regulations and hence for the purpose of planning all capital receipts will be used to meet future capital costs, not qualifying revenue expenditure.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Capital reserves and receipts
Purpose	This covers monies set aside to fund the future capital programme.
Utilisation	Once set up these reserves can only be used to fund capital expenditure
Controls	The proposed utilisation of these is reported to the Authority as part of the capital programme setting and monitoring arrangements.
Review	These are reviewed on an annual basis as part of the year end outturn, reported to Resources Committee and as part of the capital budget setting report to the Authority.

At 31 March 2021 the Authority anticipates holding £20.4m of capital reserves and receipts, after allowing for the transfer of the anticipated £0.5m year-end underspend into this reserve. Based on the capital programme presented elsewhere on this agenda we anticipate fully utilising these by 31 March 2025. Of the total reserve £3.5m is contractually committed.

Based on this the Treasurer believes these are adequate to meet future requirements in the medium term.

Provisions

The Authority has two provisions to meet future estimated liabilities: -

<u>Insurance Provision</u>

This covers potential liabilities associated with outstanding insurance claims. Any claims for which we have been notified and where we are at fault will result in a legal commitment, however as the extent of these cannot be accurately assessed at the present time this provision is created to meet any element of cost for which we are liable, i.e. which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits. This provision fully covers all estimated costs associated with outstanding claims.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Insurance Provision
Purpose	This covers monies set aside to meet future insurance claims.
Utilisation	Once set up the provision can only be utilised to meet insurance claims.
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee.
Review	The level of the provision is reviewed annually based on existing and anticipated outstanding insurance claims to ensure these are reasonable and remain relevant.

This provision stood at £0.5m at 31 March 2020. Given the uncertainty in terms of future insurance claims we have assumed that the provision will be maintained at this level throughout the 5-year period. There are no existing legal obligations associated with this provision, as the legal obligation only arises when settlement of outstanding claims is agreed.

Business Rates Collection Fund Appeals Provision

This covers the Authority's share of outstanding appeals against business rates collection funds, which is calculated each year end by each billing authority within Lancashire based on their assumptions of outstanding appeal success rates, as part of their year-end accounting for the business rates collection fund.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Business Rates Collection Fund Appeals Provision
Purpose	This covers monies set aside to meet the Authority's share of the cost of successful business rates appeals.
Utilisation	Once set up the provision can only be utilised to meet costs associated with settlement of such appeals.
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee.
Review	The level of the provision is reviewed annually based on each billing authority's assumptions regarding success rates to ensure these are reasonable and remain relevant.

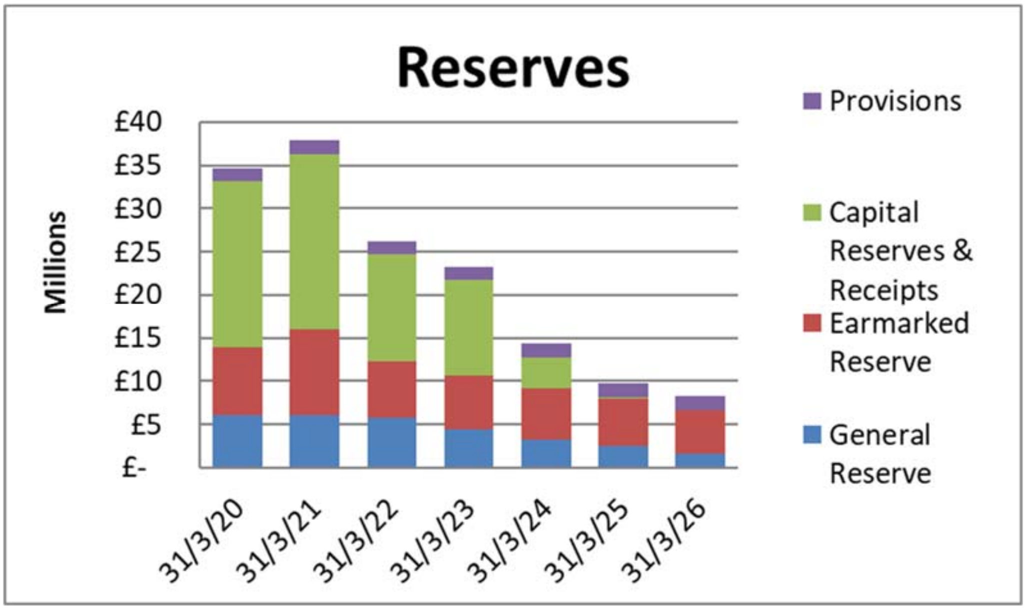
At 31 March 2020 this provision stood at £1.0m to cover anticipated costs of outstanding business rates appeals. Whilst a significant element of this will be utilised in the current financial year, reflecting the settlement of outstanding appeals, it is impossible to accurately predict the extent of this usage or the need for any additional provision to meet appeals that arise in year, until such time as a full review is undertaken by billing authorities as part of the financial year end process. Therefore, for the purpose of this report we have assumed that the level of business rates appeals provision remains unchanged. Until the outcome of any appeal is known there is no legal obligation arising from the appeal.

The Treasurer feels that the levels of provisions are sufficient to meet future requirements in the medium term.

Summary Reserve Position

The following table sets out the summary anticipated position in terms of reserves and balances, a more detailed year on year analysis by reserve is attached as appendix 1: -

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Total Usable Reserves	Provisions
	£m	£m	£m	£m	£m
Balance 31/3/20	6.0	7.8	19.2	33.1	1.6
Change in year	0.0	2.1	1.1	3.3	(0.0)
Balance 31/3/21	6.0	9.9	20.4	36.4	1.6
Change in year	(0.3)	(3.3)	(8.0)	(11.7)	0.0
Balance 31/3/22	5.7	6.6	12.3	24.7	1.6
Change in year	(1.3)	(0.4)	(1.3)	(3.0)	0.0
Balance 31/3/23	4.4	6.2	11.0	21.7	1.6
Change in year	(1.2)	(0.4)	(7.4)	(8.9)	0.0
Balance 31/3/24	3.3	5.9	3.6	12.8	1.6
Change in year	(0.7)	(0.4)	(3.5)	(4.6)	0.0
Balance 31/3/25	2.5	5.5	0.2	8.2	1.6
Change in year	(1.0)	(0.4)	(0.1)	(1.5)	0.0
Balance 31/3/26	1.6	5.1	0.0	6.7	1.6



As this shows, next year we remain in a healthy position. The reduction in the level of reserves becomes more of a concern thereafter with the overall level reducing by over £20m over the next three financial years. With our general reserve potentially moving below our minimum target level from April 24 onwards. However, this position will be subject to significant change as pension costs, funding, inflation, pay awards and other pressures all become clearer in future years. The annual refresh of this policy will identify the impact of any changes as they develop.

Further details of the year on year change in reserves is shown over the page

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
General	**6.0**	**6.0**	**5.7**	**4.4**	**3.3**	**2.5**	**1.6**
Earmarked							
Section 31 Business Rate Relief Grant	-	1.9	-	-	-	-	-
C/Fwd Timing Issues	-	0.5	-	-	-	-	-
Specifc Grants	-	0.2	-	-	-	-	-
Covid Funding	0.2	0.2	-	-	-	-	-
DFM	0.3	0.3	0.2	0.2	0.2	0.2	0.1
PFI	4.5	4.4	4.3	4.2	4.0	3.9	3.7
Insurance ASL	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Princes Trust	0.4	0.5	0.5	0.4	0.3	0.2	0.1
Apprentices	0.2	0.1	0.1	-	-	-	-
Equipment	0.6	0.2	-	-	-	-	-
Innovation Fund	0.5	0.5	0.4	0.3	0.2	0.1	-
	7.7	**9.9**	**6.6**	**6.2**	**5.8**	**5.5**	**5.1**
Capital Reserves & Receipts	**19.2**	**20.4**	**12.3**	**11.0**	**3.6**	**0.2**	**0.0**
Provisions							
Insurance	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Business Rate Collection Fund Appeals	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	1.6	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**
	34.5	**37.9**	**26.2**	**23.2**	**14.3**	**9.7**	**8.2**

SECTION 5

TREASURY MANAGEMENT STRATEGY 2020/21

Treasury Management is defined as “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Combined Fire Authority adopts the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice (*the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. The authority also adheres to investment guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). In 2018 the MHCLG issued new guidance which widens the definition of investments. For treasury management investments the guidance requires authorities to prioritise security, liquidity and yield in that order of importance. This is consistent with previous guidance. In addition, the guidance definition of investments includes financial and non-financial assets which are held primarily or partially to generate a profit.

Where an authority holds non-treasury investments it is required to produce a separate investment strategy. The definition of non-treasury investments is wide ranging covering for example loans to third parties and the holding of property to make a profit. However, it is not considered that the Combined Fire Authority hold any such assets and it does not propose to engage in any such investments in 2021/22.

Statutory requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Authority to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

This report fulfils the Authority’s legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance.

Treasury Management Strategy for 2021/22

This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code of Practice. Accordingly, the Lancashire Combined Fire Authority's Treasury Management Strategy will be approved by the full Authority, and there will also be a mid-year and a year-end outturn report presented to the Resources Committee. In addition, there will be monitoring and review reports to members in the event of any changes to Treasury Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Authority has adopted the following reporting arrangements in accordance with the requirements of the revised Code: -

Area of Responsibility	Committee/ Officer	Frequency
Treasury Management Policy Statement	Resources Committee/ Authority	Annually
Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval	Resources Committee/ Authority	Annually before the start of the year
Treasury Management mid-year report	Resources Committee	Mid-year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Resources Committee	As required

Annual Treasury Management Outturn Report	Resources Committee/ Authority	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Director of Corporate Services	Quarterly
Treasury Management Practices	Director of Corporate Services	Annually

The Treasury Management Strategy, covers the following aspects of the Treasury Management function: -

- Prudential Indicators which will provide a controlling framework for the capital expenditure and treasury management activities of the Authority;
- Current Long-term debt and investments;
- Prospects for interest rates;
- The Borrowing Strategy;
- The Investment Strategy;
- Policy on borrowing in advance of need.

Setting the Treasury Management Strategy for 2021/22

In setting the treasury management strategy the following factors need to be considered as they may have a strong influence over the strategy adopted:

- economic forecasts,
- Interest rate forecasts
- the current structure of the investment and debt portfolio
- future Capital Programme and underlying cash forecasts

Economic Context

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Interest Rate Forecast and Prospects for Market Liquidity

The treasury management consultant Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The latest forecast is shown in the table below:

	Bank Rate %	3-month money market rate%	I year money market rate%	5-year gilt yield %	10-year gilt yield %	20-year gilt yield %	50-year gilt yield %
March 21	0.10	0.10	0.15	0.00	0.25	0.70	0.60
June 21	0.10	0.10	0.15	0.00	0.30	0.70	0.60
September 21	0.10	0.15	0.25	0.05	0.35	0.75	0.65
December 21	0.10	0.15	0.25	0.10	0.25	0.75	0.65
March 22	0.10	0.20	0.30	0.15	0.40	0.75	0.65
June 22	0.10	0.20	0.30	0.20	0.40	0.80	0.70
September 22	0.10	0.20	0.30	0.20	0.45	0.80	0.70
December 22	0.10	0.20	0.30	0.20	0.45	0.85	0.75
March 23	0.10	0.20	0.30	0.25	0.50	0.85	0.75
June 23	0.10	0.20	0.30	0.25	0.55	0.85	0.75
September 23	0.10	0.20	0.30	0.25	0.55	0.85	0.75
December 23	0.10	0.20	0.30	0.25	0.55	0.90	0.80
March 24	0.10	0.20	0.30	0.25	0.60	0.90	0.80

In the above table 'bank rate' refers to the policy rate of the Bank of England. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long-term interest rates. The Authority can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 1.05%, 0.25% plus 0.80%.

Current Treasury Portfolio Position

At the 31 December 2020 the debt and investments balances were: -

Debt	Principal £m	%
Fixed rate loans from the Public Works Loan Board	2.000	100%
Variable rate loans		-
	2.000	100%
Investments		
Variable rate investments with Lancashire County Council	24.110	61.6
Fixed rate investments	15.000	38.4
	39.110	100%

The level of investments represents the Authority's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is a net investment figure of £37.110m.

Borrowing and Investment Requirement

In the medium term LCFA borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which currently exists, this gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing. The table gives an indication of the minimum borrowing or investment requirement through the period.

The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme which currently assumes that there will be no borrowing in the next three years. A voluntary MRP was made in 2019/20 to take the future loans element of the MRP to nil.

	31/3/2020	31/3/2021	31/3/2022	31/3/2023
	£m	£m	£m	£m
Capital Financing Requirement	13.799	13.382	12.930	12.439
Less long-term liabilities (PFI and finance leases)	(13.799)	(13.382)	(12.930)	(12.439)
Less external borrowing	(2.000)	(2.000)	(2.000)	(2.000)
Borrowing requirement	(2.000)	(2.000)	(2.000)	(2.000)
Reserves and working capital	33.116	36.366	24.690	21.702
Borrowing/(investment) need	(31.116)	(34.366)	(23.690)	(19.702)

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. However, the table above shows that the level of loans was above the CFR at 31.3.20. This was the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment.
The table above indicates that rather than having a need for borrowing it is estimated that the authority has an underlying need to invest although the available balances are forecast to reduce.

Although the Authority does not have plans for new borrowing in the next three years it does currently holds £2.0m of loans as part of its strategy for funding previous years' capital programmes. The draft capital programme, reported elsewhere on the agenda, identifies a borrowing requirement in 2025/26.

Borrowing Strategy

The draft Capital Programme implies there may be a requirement to use borrowing to fund the capital programme in the later years. At this stage it is extremely unlikely that borrowing will be required in 2021/22. However, it is still best practice to approve a borrowing strategy and a policy on borrowing in advance of need. In considering a borrowing strategy the Authority needs to make provision to borrow short term to cover unexpected cash flow shortages or to cover any change in the financing of its Capital Programme.

In the past the Authority has raised all of its long-term borrowing from the Public Works Loan Board, but if long term borrowing was required other sources of finance, such as local authority loans, and bank loans, would be investigated that may be available at more favourable rates.

Short term borrowing if required would most likely be taken from other local authorities.

Therefore, the approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds

Policy on Borrowing in Advance of Need

In line with the existing policy the Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds and relationships.

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

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Debt Restructuring

The Authorities debt has arisen as a result of prior years' capital investment decisions. It has not taken any new borrowing out since 2007 as it has been utilising cash balances to pay off debt as it matures, or when deemed appropriate with the authority making early payment of debt. The anticipated holding of debt at 31 March 2021 is £2.0m. All the debt is from the Public Works Loans Board (PWLB) and is all at fixed rates of interest and is repayable on maturity. The table below shows the maturity profile and interest rate applicable on these: -

Loan Amount	Maturity Date	Interest rate
£650k	December 2035	4.49%
£650k	June 2036	4.49%
£700k	June 2037	4.48%

(Note, this debt was taken out in 2007 when the base rate was 5.75% and when the Authority was earning 5.84% return on its investments.)

Given the high interest rates payable on these loans, relative to current interest rates, we have again reviewed opportunities for debt repayment/restructuring.

The level of penalty applicable on early repayment of loans now stands at £1.180m. (As previously reported the level of penalty is dependent upon two factors, the difference between the interest chargeable on the loan and current interest rates, the greater this difference the greater the penalty, and the length to maturity, the greater the remaining time of the loan the greater the penalty. Hence as interest rates increase or as loans get closer to maturity the level of penalty will reduce.)

Outstanding interest payable between now and maturity is £1.407m.

Penalty incurred	1.180
Savings on interest payable	(1.407)
Gross Saving	(0.277)

However as highlighted previously, any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. The extent of which is dependent upon future interest rates. It is estimated that if interest rate on investments are at 0.7% over the remaining period of the loan then repaying the loans now will be broadly neutral.

It is also worth noting that the capital budget does allow for additional borrowing within the next 5 years. Current long-term borrowing rates are 1.67% for a 25-year loan and 1.49% for a 50-year loan, both of which exceed the breakeven position noted above. Hence given the penalties it is considered beneficial to retain these loans.

Investment Strategy

At 31st December 2020 the Authority held £39.110m invested funds, representing income received in advance of expenditure plus existing balances and reserves. During the year the Authority's investment balance has ranged between £28.6m and £52.0m. The variation arises principally due to the timing of the receipt of government grants. It is anticipated that similar levels will be maintained in the forthcoming year.

Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Therefore, in line with the guidance the Treasury Management Strategy is developed to ensure the Fire Authority will only use very high-quality counterparties for investments.

The Authority may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Counterparty		**Cash limit**	**Time limit †**
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£5m each	5 years
	AA+		3 years
	AA		2 years
	AA-		2 years
Call Accounts with banks and other organisations with minimum AA- credit rating		£10m	next day
Call Account with Lancashire County Council		unlimited	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years

UK Local Authorities (irrespective of credit rating)	£5m each	10 years
Secured Bond Funds AA rating and WAL not more than 3 yrs.	£5m each	n/a
Secured Bond Funds AAA rated and WAL not more than 5 yrs.	£5m each	n/a

Allowable bond funds are defined by credit rating and weighted average life (WAL). Investing in senior secured bonds backed by collateral provides a protection against bail-in. Although the average life of the securities within the fund will be either 3 or 5 years, funds can be redeemed within 2 days of request but in general these should be seen as longer-term investments.

Regarding the risk of investing with another local authority, only a very few authorities have their own credit rating, but those that do are the same or one notch below the UK Government reflecting the fact that they are quasi-Government institutions. On the whole credit ratings are seen as unnecessary by the sector because the statutory and prudential framework within which the authorities operate is amongst the strongest in the world. In addition, any lender to a local authority has protection, under statute, by way of a first charge on the revenues of that authority. No local authority has ever defaulted to date and this also may be an indication of security. However, following the downgrade of the UK credit rating by the rating agencies those local authorities with a rating saw a reduction in their ratings. Therefore, consideration has been given to reducing the risk associated with the investment with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting their approved strategy. For periods longer than two years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

	Maximum individual investment (£m)	Maximum total investment (£m)	Maximum period
Up to 2 years	5	30	2 years
Over 2 years	5	25	10 years

The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

Whilst the investment strategy has been amended to allow greater flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Director of Corporate Services and LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

The legislative context referred to earlier in the report effectively means that, because taxpayers will no longer bail-out failed banks, the required funds will be paid by equity investors and depositors. Local authorities' deposits will be at risk and consequently although currently available within the policy it is unlikely that long term unsecured term deposits will be used at the present time.

Currently all of the Authority's investments are with other local authorities.

The Authority currently has access to a call (instant access) account with a local authority, which pays bank base rate, this is currently 0.10%. Each working day the balance on the Authority's current account is invested to ensure that the interest received on surplus balances is maximised.

In addition, longer term loans have been placed with an UK local authority to enhance the interest earned. To this end at the following investments are already impacting 2021/22

Start Date	End Date	Principal	Rate	Interest 2021/22
10/12/19	10/06/21	£5,000,000	1.20	£11,506
20/04/20	20/04/22	£5,000,000	1.45	£72,500
24/04/20	25/04/22	£5,000,000	1.45	£72,500

Consideration is given to fixing further investments if the maturity fits with estimated cash flows and the rate is considered to be attractive. Suggested rates payable by other local authorities indicated:

3-month investment	0.05-0.11%
6-month investment	0. 05-0.15%
12-month investment	0.12-0.28%
3-year investment	0.53-0.68%
4-year investment	0.62-0.77%

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2020 is £0.197m on an average balance of £42.6m at an annualised rate of 0.61%. This compares favourably with the benchmark 7-day LIBID rate which averages 0.12% over the same period, and is 0.51% above the current bank rate.

Minimum Revenue Provision (MRP)

Under Local Authority Accounting arrangements, the Authority is required to set aside a sum of money each year to reduce the overall level of debt. This sum is known as the minimum revenue provision (MRP).

The Authority will assess their MRP for 2021/22 in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Authority made a voluntary MRP in 2019/20 and it is anticipated that the MRP on loans will be nil in 2021/22 this will be the case until capital expenditure is financed by borrowing.

Whilst the Authority has no unsupported borrowing, nor has any plans to take out any unsupported borrowing in 2021/22 it is prudent to approve a policy relating to the MRP that would apply if circumstances change. As such in accordance with the Local Government Act 2003, the MRP on any future unsupported borrowing will be calculated using the Asset Life Method. This will be based on a straightforward straight – line calculation to set an equal charge to revenue over the estimated life of the asset. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority. However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

Assets held under a PFI contracts and finance leases form part of the Balance Sheet. This has increased the overall capital financing requirement and on a 4% basis the potential charge to revenue. To prevent the increase the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

Revenue Budget

The capital financing budget currently shows that income received exceeds expenditure. This excludes the PFI and Finance lease payments, which are included in other budgets. Based on the Strategy outlined above then the proposed budget for capital financing are:

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Interest payable	0.090	0.090	0.090	0.090
MRP	0.010	0.010	0.010	0.010
Interest receivable	(0.322)	(0.175)	(0.075)	(0.060)
Net budget	(0.222)	(0.075)	0.025	0.040

Although the MRP requirement is currently nil the budget includes a provision for making a charge either due to incurring a small amount of borrowing or to make a voluntary MRP to offset against future requirements.

Prudential Indicators for 2020/21(revised) to 2023/24 in respect of the Combined Fire Authority's Treasury Management Activities.

In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, the Combined Fire Authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

The following table sets out the debt and investment-related indicators which provide the framework for the Authority's proposed borrowing and lending activities over the coming three years. These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators, but need to be reaffirmed and approved as part of this Treasury Management Strategy.

It should be noted that contained within the external debt limits, there are allowances for outstanding liabilities in respect of the PFI schemes and leases. However, accounting standards are likely to change in relation to recording leases. In effect more leases are likely to be included on the balance sheet and therefore will be included against the other long-term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long-term liabilities limits may be subject to change.

Treasury Management Prudential Indicators

Treasury Management Prudential Indicators	2020/21 (Revised) £m	2021/22 £m	2022/23 £m	2023/24 £m
1. Adoption of the Revised CIPFA Code of Practice on Treasury Management (2011)	Adopted for all years			
2. Authorised limit for external debt - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements.				
Borrowing	6.000	6.000	6.000	6.000
Other long-term liabilities	30.000	30.000	30.000	30.000
TOTAL	36.000	36.000	36.000	36.000
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans.				
Borrowing	3.000	3.000	3.000	3.000
Other long-term liabilities	18.000	17.000	16.000	15.000
TOTAL	21.000	20.000	19.000	18.000
4. Upper limit for fixed interest rate exposure				
Upper limit of borrowing at fixed rates	100%	100%	100%	100%
Upper limit of investments at fixed rates	100%	100%	100%	100%
5. Upper limit for variable rate exposure				
Upper limit of borrowing at variable rates	25%	50%	50%	50%
Upper limit of investments at variable rates	100%	100%	100%	100%
6. Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	25.000	25.000	25.000

7. Maturity structure of Debt	**Upper Limit %**	**Lower Limit %**
Under 12 months	100	-
12 months and within 24 months	50	-
24 months and within 5 years	50	-
5 years and within 10 years	50	-
10 years and above	100	-