Summary

Purpose

The purpose of the Medium Term Financial Strategy (MTFS) is to provide information to Members, officers, the public and other stakeholders on the Authority’s planned revenue and capital expenditure and its financing over the next four years.

Background

It supports affordable, sustainable service delivery through the planned use of revenue budgets, capital budgets, reserves and balances. It contains:

- Our Reserves Strategy;
- Our Council Tax Strategy;
- Our Treasury Management Strategy;
- Our Investment Strategy;
- Our Borrowing Strategy;
- Our Savings Strategy; and
- Our Capital Strategy.

The Strategy will be updated as further information becomes available and key assumptions change. The Authority’s planning process for the longer term is policy-driven and outcome focused.
It is imperative that the Medium Term Financial Strategy takes account of the UK and the global economic climate, particularly following years of extended austerity and the vote to leave the EU, and should consider how its effects might be managed and / or mitigated. The Authority recognises that the financial challenges will continue, alongside new challenges and demands from an ageing population, increasingly complex security threats, local devolution and climate change. Other issues include the Inspectorate, the Comprehensive Spending Review, funding post 2019/2020, resourcing to risk, the Hackitt Review, Kerslake and resilience, the pay dispute and broadening the firefighters role map.

The Chancellor of the Exchequer Philip Hammond delivered his 2018 Autumn Budget on 29 October, his final one before Britain leaves the European Union in March 2019. Despite a significant improvement in the outlook for public finances, the performance of the economy since March has been ‘less impressive’ than expected, said the Office for Budget Responsibility (OBR). It has however become slightly more optimistic in its forecasts for growth. The Chancellor stated that the era of austerity is ‘finally coming to an end’, although the Institute for Fiscal Studies (IFS) suggested that ‘even a minimal definition of ending austerity would require an additional £19bn in 2022/2023’.
The OBR’s revised forecasts mean that annual borrowing would now be expected to be £12bn lower this year than previously predicted (Budget 2018), enough to pay for the NHS’s birthday present.

The OBR also projects that the Government will need to increase annual spending on health, social care and pensions by 1.7% of national income (or £36bn in today’s terms) over the next 10 years to maintain the current scope and quality, and to meet rising costs of service delivery.

The long-term demographic, economic and fiscal prospects of the UK and the resulting challenges for public services is the most significant issue facing the UK and politicians. Public finances, prone to shocks and crisis management, remain volatile as the Government sets out how to deal with slower growth, a weaker pound, unaffordable pensions, rising health and social care costs, and eliminating the deficit. It is essential that we continue to focus on medium and longer term operational delivery and strategic financial planning, in providing a firm financial foundation for the future.

Fire and Rescue Services are amongst the most trusted and valued local public services. They are risk based organisations meaning that services are designed to provide resilience against major or multiple events, rather than to meet average demand. Accordingly we strive to target our resources to those most at risk. Some authorities are experiencing real challenges in continuing to manage funding reductions, with the underspend of Fire and Rescue Services nationally shrinking annually.

Fire and Rescue Services account for around 0.1% of central government spending on public services.

**Government Spending**
In a concerted approach to meeting substantial reductions in Government funding, Derbyshire Fire and Rescue Service has made significant strides in successfully securing savings in the region of £9.1m ongoing over the period 2011/2012 to 2017/2018. It is on track to deliver additional ongoing savings in the region of £0.15m in the current financial year. Savings are essential in safeguarding the Authority’s financial position, particularly in its endeavour to progress and enhance partnership and collaborative working opportunities through capital investment, Invest to Save opportunities and its aspiration to continue to best protect the community it serves.

The Authority’s External Auditors have consistently issued unqualified audit reports and positive Annual Audit Letters to Members. It is a statutory requirement under Section 33 of the Local Government Finance Act for the Authority to produce a balanced budget. In 2018/2019 DFRS required a contribution from the Strategic Risk Reserve of £0.8m to present Members with a balanced budget for approval. This is the first time that Reserves have been required to bridge the funding gap.
National and Local Issues affecting the Medium Term Financial Strategy
Aims of the Strategy –

‘To secure the financial health and viability of the Service in the future and develop sustainable financial plans to make Derbyshire Safer’

Achieved by:

Derbyshire Fire and Rescue Authority Key Principles and Outcomes, aligned with its ‘Integrated Risk Management Plan (DFRS IRMP 2017/2021);

Planned underspends to reduce the cost of borrowing, and to strengthen our level of reserves for the purpose of financial sustainability and the funding of capital investment;

Continuing to manage borrowing and apply revenue and reserve funding where possible to fund the capital programme;

Maintaining sufficient reserves and balances to cover financial risks whilst continuing to invest in the Service;

Actively exploring the opportunity for savings through collaborative, targeted and intelligence led service delivery;

Establish robust partnership relationships to deliver enhanced services to our communities through greater collaboration;

Actively seeking ‘Invest to Save’, Service Improvement and Collaborative opportunities;

Restricting council tax increases as far as practically possible;

Meeting our statutory responsibilities to provide ‘best value’ to our communities.

What's happening nationally and what is the local impact?

Reform of the Fire and Rescue Service (and transfer of the Fire Service to the Home Office)

Fire policy moved from the DCLG to the Home Office in January 2016. Despite acknowledgement of real achievements within the Sector, the Home Office believe there is a need for reform around governance, workforce challenges, transparency and accountability.

The reform agenda is made up of 3 distinct pillars:

1. Efficiency and Collaboration
2. Accountability and Transparency
3. Workforce Reform
DFRS will continue to work with the Home Office and to deliver its Efficiency Plan which better enables us to continue to contribute towards building safe and resilient communities as well as responding to national incidents. The Efficiency Plan covers the period 2016/2017 to 2019/2020.

**A fire and rescue service which is more:**
professional, accountable, self-transforming, transparent and robustly held to account

Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS)

An independent inspection regime (HMICFRS) was introduced in July 2017 to:

- Drive continuous improvement;
- Provide assurance to the Government and members of the public about the performance of each local fire and rescue service.

The first tranche of 14 inspections have now been completed, with reports expected in December. The second tranche of 16 is to start this month (December 2018). Derbyshire Fire and Rescue Service is in the third tranche (spring / summer 2019). Reports for all 45 FRAs inspected will be published by late 2019.

**Police and Fire Collaboration**

The Police and Crime Commissioner for Derbyshire has been very clear that he is not looking to assume responsibility for Derbyshire Fire and Rescue Service and both organisations are clear that they will retain their own governance and identity. The collaboration with the Police Service builds further on these principals of joint working, where there is a demonstrable benefit to the people of Derbyshire.
Value of All Fire and Rescue Service Savings through Collaboration in 2016/2017 and 2017/2018

Accountability, Transparency and Our Performance

Corporate Governance is about how the Authority ensures that the right things are being done in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. To support this, the Authority produces and publishes a wide range of documents including a Code of Corporate Governance, an Annual Governance Statement, Members Handbook and Members allowances. The Authority complies fully with the Data Transparency Code 2015 and encourages public scrutiny. Published information includes the Statement of Accounts, Income and Expenditure Breakdown, Expenditure over £250, Our Procurement Procedures, Annual Reports, Senior Salary Information, Audit Inspection reports, Contracts and Freedom of Information Requests can be found under ‘Data Transparency’ on the DFRS website. Our approach is endorsed through a robust process of monitoring, reporting and review, our beliefs and our behaviours.

https://www.derbys-fire.gov.uk/data-transparency/

Efficiency Plan – Four Year Settlements

For around a decade, public financial management has been prone to unprecedented spending cuts, changes in demand coupled with changing operational delivery methods. The recent history of political and economic shock is not conducive to medium term financial planning, and will be further impacted by the timing and terms of the UK’s Brexit discussions with the rest of Europe. In particular, volatility around the phasing and timing of cuts and changing pressures make it near on impossible to plan effectively, and to strengthen strategic financial management.
The Government’s response to concerns raised by the sector and local government was to offer a guaranteed minimum grant envelope for a four year period commencing April 2016.

To take advantage of this offer, which provides more certainty over funding, the Authority was required to submit an Efficiency Plan covering a four year period. The Home Office issued detailed guidance in this regard. It is considered that greater financial certainty will serve to enhance operational and financial sustainability, and is therefore in the interest of the communities of Derbyshire. 2019/2020 will be the final year of the Efficiency Plan, and in the absence of a further multi-year settlement, it is difficult to plan with any certainty beyond that period.

The Authority is committed to monitoring and publishing progress on the Efficiency Plan return, Medium Term Financial Strategy, and Medium Term Financial Plan, and will continue to encourage local communities to scrutinise our progress.

It should be noted that the full detail of the impact on Derbyshire Fire and Rescue Services budget from 2019/2020 will not be known until the detailed work around growth requirements and savings has been undertaken, and the draft local government finance settlement, which is subject to change, has been published (December 2018).

Business Rate Retention

The Business Rates Retention System was introduced on 1st April 2013 and is designed to encourage local authorities to influence and promote local growth. It provided that, under DCLG proposals, fifty percent of Business Rates would be localised, with fifty percent being distributed through the formula grant process. The 2013/2014 finance settlement was the first under the new arrangements. It provided each authority with its starting position under the business rates retention scheme.

In October 2015 the Government announced that, by the end of Parliament, local authorities would be able to retain 100% of the business rates they raise locally; a clear plan to phase out central funding of local government and replace it with locally generated income. As a consequence, Revenue Support Grant (RSG) will be phased out as local government take on new, as yet undetermined, responsibilities. The LGA has been working with the sector to ensure that local government is vocal in shaping the way this new system will work.

It is essential that there continues to be some sort of safety net mechanism to protect against financial volatility, for example, a significant loss of income due to the closure of a large business within the boundary.

Business Rates Pooling

Following several years of DFRS being part of a Business Rates Pool, the Ministry of Housing, Communities and Local Government approved a Pilot submission from DFRS and other Derbyshire authorities for the financial year 2018/2019 (based on 100% rates retention). An application for a 75% Business Rates Pilot for the 2019/2020 financial year was submitted in September 2018. The outcome of this is expected to be announced alongside the December Settlement.
Pensions

Treasury Announce Employer Contribution Increases

In September 2018 Her Majesty's Treasury published their draft Directions for the 2016 valuation for comment. Having reviewed the latest OBR publications and GDP forecasts, the Treasury is proposing that a further change to the SCAPE rate is appropriate. Changes to the discount rate will significantly increase the cost to the employer for firefighter pensions. Although exact estimates have not yet been produced, it has been confirmed that HMT will contribute towards this cost in 2019/2020. The additional cost to FRAs in England is likely to be in the order of tens of millions of pounds.

What this could mean for DFRS and our projected budget deficit

<table>
<thead>
<tr>
<th>Deficit</th>
<th>Flat overall position</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.£1.5m</td>
<td>12.6% increase in employer pension contributions from 19/20 with partial support from HMT = £0.2m extra</td>
</tr>
<tr>
<td>C.£1.7m</td>
<td>4% increase in employer pension contributions from 19/20 = £0.6m extra</td>
</tr>
<tr>
<td>C.£2.1m</td>
<td>4% increase in employer pension contributions from 19/20 and further 6% from 20/21 = £1.5m extra by 20/21</td>
</tr>
<tr>
<td>C. £3m</td>
<td>4% increase in employer pension contributions from 19/20 and further 6% from 20/21, 6% Grant cut 20/21 and 3% pay award = £2.5m extra</td>
</tr>
<tr>
<td>C. £4.0m</td>
<td>18% Grant cut 20/21-22/23, 10% increase in employer pension contributions from 19/20 and 3% pay award = £4.1m extra</td>
</tr>
<tr>
<td>C. £5.6m</td>
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It is clear that the cost implication of rising contributions for both uniformed and non-uniformed members will pose a significant budget pressure in the immediate future. Further information will be brought before Members as the impact on DFRS becomes clearer.
The Public Services Pensions Act 2013

The Public Services Pensions Act 2013 (the Act) received Royal Assent in April 2013. As well as enabling the replacement of final salary schemes by career average salary schemes, responsibility for managing and financing pension liabilities passed to fire authorities.

Section 5 of the Public Service Pensions Act 2013 required public service pension schemes to establish a pensions board from April 2015, and appoint trustees and actuaries. Derbyshire’s Pension Board has oversight of the Fire and Rescue Authority’s administration of the fire-fighter’s pension schemes 1992, 2006 and 2015.

The cost of ill-health retirements, early retirements and authority initiated early retirements now fall to the Authority to meet. A concern is that the requirement for firefighters to work for longer could result in more costly ill-health retirements, as firefighters fail to meet fitness standards. There are also potential additional costs associated with tax changes on ill health retirements and injury awards for on call firefighters.

Emergency Services Mobile Communication Programme (ESMCP)

Set up by the Home Office, ESMCP will replace the current communication service provided by Airwave. The new service will be called the Emergency Services Network (ESN). Utilising the latest mobile technology in 4G and LTE, ESN aims that the functionality, coverage, security and availability needs of the UK’s emergency services are fully met.

The ESN is a new closed communication system that will allow the UK’s emergency services to communicate with each other securely and reliably. It replaces the current system, Airwave, which is due to expire. The Home Office’s new network relies on technology not yet in use nationwide anywhere in the world. This raised concerns about implementation risk, as set out by the National Audit Office and as examined by Parliament.

Members approved that DFRS participate in the ESMCP in March 2016. A Regional Strategic Board has been established and a Regional Coordinator has been appointed to work with Service leads and to enable collaboration across the regions.

During the transition period DFRS will continue to pay the costs of Firelink, and to receive the associated New Burdens Grant. This currently results in an annual net cost to the Service of around £100,000.

The Service has received grant funding for the project (the balance of which is £1.3m) and has also established an earmarked reserve for £2m towards ongoing investment.
New Tax Risks – Use of Intermediaries

Proposals by the Government to make public sector bodies account for tax and National Insurance Contributions (NICs) on payments to personal service companies (PSCs) or other intermediaries from April 2017 imposed new obligations on DFRS and pose a serious tax risk if not dealt with correctly. Payments would need to be made through the payroll to account for tax and NICs, with the potential for DFRS to pay over employer NICs of 13.8% over and above the payment to the PSC. Cost implications were considered through the Medium Term Financial Plan 2018/2019 to 2021/2022.

Health and Wellbeing (HAW)

DFRS recognises the financial and other tangible benefits arising through collaboration and integration within the sector. By working with other agencies that serve the same communities we can address the needs of the most vulnerable through our diverse communities, in a more efficient and effective way.

In 2016/2017 the Service replaced the delivery of Home Safety Checks with more comprehensive Safe and Well Checks and set ambitious targets for Direct Engagement, which are robustly monitored and reported to Members and senior management. Additionally, the Service has recently invested in the number of Community Safety Officers (CSOs), and continues to support partners through the use of the Protecting the Most Vulnerable Reserve.

Apprenticeship Levy

The Government introduced Apprenticeship reform in April 2017. As a result, the levy is applicable to employers in any sector with a pay bill of more than £3m per year, and is charged at 0.5%. The levy is paid to HMRC through PAYE; this commenced in April 2017. A levy allowance of £15,000 is offset against the payment. Employers are able to use the levy to meet the cost of training for apprenticeships.

The annual cost of the levy to DFRS is around £110,000, which has been provided for in the current Medium Term Financial Forecast as presented to, and approved by, Members in February 2018. Ongoing costs will be provided for in the Medium Term Financial Plan 2019/2020 to 2022/2023.

The National Living Wage

The National Living Wage, for over 25s, was announced as part of the Chancellor’s Summer Budget 2015. The impact of leaving the EU has hit anticipated increases at that time. Wage growth is at its highest in nearly a decade. The National Living Wage will increase by 4.9%, from £7.83 to £8.21 an hour, from April 2019.

Derbyshire Fire and Rescue Service will closely monitor the impact that these changes have on its purchases (supplies and services costs), particularly in the later years of the Medium Term Financial Plan as the potential financial impact increases.
**What’s happening locally?**

*Derbyshire Police and Fire Partnership (DPFP)*

In December 2014, the Chair of Derbyshire Fire and Rescue Authority and the Police and Crime Commissioner Derbyshire (PCCD) signed a Limited Liability Partnership (LLP) agreement that would enable them to build a new joint headquarters for Derbyshire Fire and Rescue Service and Derbyshire Constabulary. DFRS successfully secured £1.5m of transformation funding towards the joint project, to be delivered through a new, purpose built facility. The project is in line with government policy for increasing efficiency and providing transformation through the collaboration of public services.

The first phase of the business plan has been further enhanced with the co-location at the headquarters site of a second partnership initiative comprising a training centre and Police firing range. There is also a wider Police and Fire estates strategy to develop joint Fire, Police and Ambulance facilities whilst reducing the burden of cost to our communities.

DFRS continues to take a measured and managed approach to removing barriers to greater collaboration in its shared approach to matters such as estates, procurement, training and mobilisation.

Members are referred to the Property Asset Management Plan 2018 to 2028 which was approved in September 2018.


These opportunities for joint working will maximise value for money and enhance community safety in general, and are in accordance with the collaboration agenda supported nationally. DFRS will continue to explore and exploit further opportunities to improve the safety of our communities and to secure efficiencies over the longer term to 2024/2025, the period of the Transformation Funding bid, and beyond.

**Local Collaboration**

The Strategic Police and Fire Collaboration Board meet regularly and there is a firm commitment to explore areas for collaboration, where there is a mutual benefit and a deliverable outcome for the communities of Derbyshire.
Both Police and Fire Executive Teams participated in ‘Shared Service Architecture’ development training and subsequently developed 10 initial areas of collaboration to be explored. This acted as a catalyst for wider engagement and workshops have been held with staff.

Current workstreams for possible development include the following:

1. Assets;
2. Crime Investigation;
3. Specialist Operations (e.g. water safety, method of entry, incident command);
4. Prevention;
5. Internal Communications;
6. Information Systems;
7. Reception (project completed);
8. Procurement / Stores;
9. Organsiational Development & Leadership;
10. Fleet (e.g. joint fleet management system, co location of fleet, shared contracts).

These workstreams are supported and endorsed through our IRMP 2017/2020.
Devlopment Theme – Collaboration and Shared Services

**Joint Fire Control for Derbyshire and Nottinghamshire Fire**

In September 2018 the Fire and Rescue Authorities for both Derbyshire and Nottinghamshire approved the development of a full business case to join the two control functions into one, located at Derbyshire’s Ascot Drive Fire Station. This will be a joint control function. The business case and proposed implementation plan will be presented for decision to both Fire and Rescue Authorities at their respective meetings in December 2018. At that time a decision will be made on whether to progress a joint control function in 2019.

Further, Members agreed to approve the development of a governance model based on Derbyshire being the lead Authority. It is anticipated that this collaborative project could secure savings in the region of £0.35m for each Service on an ongoing basis, whilst accepting that the project would incur some significant one-off set up costs.

**Other Regional Collaboration**

The Authority remains committed to supporting joint and collaborative working with fire sector colleagues across the region and has played a prominent part in the Tri Service Control programme, as well as other regional initiatives to include cross-border workings and the dog unit.

The Authority is also collaborating with partnering fire services on the early stages of the Emergency Services Mobile Communication Programme.
Implications for the Service

Derbyshire Fire and Rescue Service has been proactive in its approach to addressing cuts in funding over the period 2011/2012 to 2018/2019. Planned underspends in years 2011/2012 to 2017/2018 were achieved as a direct result of the drive to secure savings in light of severe funding reductions. More specifically, the Authority’s success in achieving savings ahead of the funding reductions has enabled us to reduce borrowing costs and to maintain an appropriate level of reserves, which will serve to support our longer term financial position and the development of the Service. Planned underspends in 2018/2019 will further safeguard the Authority’s longer term financial resilience.

The graphs below illustrates the Authority’s position as benchmarked against other Fire and Rescue Services.

![Average Band D Council Tax 2018-19](chart.png)

The Service’s financial strategy balances the application of our savings, reserves, treasury management, capital, borrowing, investment, and council tax strategies in order to provide value for money to the taxpayer and to safeguard frontline service provision to the community.
VFM = Outcomes/cost of inputs

- 417 accidental dwelling fires were attended in 2017/18, the second best annual turnout since IRS records began.
- 5th lowest within FG4 for all fires attended per 10,000 population.
- Top of FG4 with the lowest number of fires in non-domestic premises (per 1,000 premises).

High performing

12,000 SWCs were completed, of which 92% were delivered to persons classified as vulnerable.

Low unallocated Reserves

Low spend
Our Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing asset. These are assets that yield benefits to the authority for a period of more than one year, e.g. land, buildings, vehicles.

The Capital Programme is the Authority’s plan of capital works for future years and how they are to be financed.

The main objectives of the Capital Strategy are:-

- To ensure that capital investments and the management of resources contribute fully to the Authority’s Vision, Values and Priorities as outlined in the Integrated Risk Management Plan 2017/2021;
- To ensure efficient use of limited resources and assets with regard to affordability and risk;
- To provide a framework for the management and monitoring of the Capital Programme;
- Ensures the most cost effective use is made of existing assets and new capital investment.

Background


The capital budget is driven entirely by organisational priorities, supported by business plans. Capital spend will be financed by the most advantageous method prevailing at the time it is required, and will comply with the Prudential Code. A comprehensive options appraisal will be carried out before capital financing decisions are taken.

Uncertainties remain around capital funding and how capital funding requirements will be assessed in future years. The Capital Financing Deferral Earmarked Reserve has been used to safeguard the authority’s position in recent years, however the Authority will need to consider other funding options moving forwards as the reserve becomes depleted.
The existing capital programme covering the period 2018/19 to 2021/22 was agreed as part of the budget setting process by Fire Authority on 15th February 2018. The current programme is updated and reported to Fire Authority on a regular basis. The updated Capital Programme for 2018/19 is in the region of £5.6m.

Over the period 2018 to 2022 the Authority’s total forecast capital expenditure is £26.888m.

The chart below illustrates the percentage of total capital expenditure by type over this period:

### Principal Capital Programme Projects

**Co-Location Programme** – a programme of co-location projects with Derbyshire Constabulary will see adaptations to Fire Stations over a period of 15 years. Initial works have already taken place at Ashbourne during 2018/2019, along with planned works at Shirebrook Fire Station and Bakewell Fire Station in 2019/20. The estimated costs will largely be met by contributions by Derbyshire Constabulary.

**Swadlincote Fire Station** – a new fire station is currently being constructed on the existing site at a cost of £3.050m which is due for completion in February 2019. A capital receipt of £0.880m has been received for the sale of houses on the site.

**ICT Strategy** – the ICT Strategy is currently under review as projects are reprioritised in line with the authority’s vision. Changes will be reported to Fire Authority as the strategy is shaped.

**ESN and Tri Control** – there is uncertainty surrounding the progress of the Emergency Services Network and the development of Phase 2 of the Tri Control project. Members will be updated as more information becomes available.

**Transport** – the transport strategy makes provision for a vehicle replacement programme which is reviewed and updated annually.
**Financing the Capital Programme**

The Authority can invest in a capital programme as long as its capital spending plans are affordable, prudent and sustainable.

The main sources of finance for capital spending are as follows:
- Capital Receipts (from sale of the authority’s assets)
- Capital Grants
- External Contributions
- Earmarked Reserves
- Revenue Contributions
- Prudential Borrowing

The chart below shows the proposed financing of the capital programme over the period 2018 to 2022.

The Ministry of Housing, Communities and Local Government (MHCLG) have confirmed that its policy on the flexible use of capital receipts has been extended to 2021/22. This gives local authorities the freedom to use 100% of capital receipts to invest in projects which seek to transform service delivery. The Authority will use anticipated capital receipts from the sale of the old headquarters and houses at Matlock and Glossop to fund future year’s capital expenditure, however at this stage the profile of when the receipts will be received is unclear.

While the Authority has sufficient reserves in the short term it will need to borrow externally to fund the capital programme in the future. Early estimates of the 2019/2020 Capital Programme forecasts borrowing in the region of £0.8m increasing to £2.7m in 2020/21 and a further £4.0m in 2021/22.

The Prudential Code requires the authority to report on a number of indicators in relation to Treasury Management activities; these are reported fully to members in the Treasury Management Strategy in February and then throughout the year in capital and prudential indicator monitoring reports. With regard to borrowing the authority must report on the operational and authorised limit of debt. The operational boundary takes
account of the authority’s existing debt plus the most likely estimate of capital expenditure and financing for the year. The authorised limit sets the maximum external borrowing for the authority and cannot be exceeded during the year. Currently the operational limit and authorised limit stand at £14.23m and £14.83m respectively.

**Revenue Consequences of the Capital Programme**

A significant proportion of Capital programme in the future is likely to be financed by borrowing; this exposes the Authority to the risk of changing interest rates. The Authority can mitigate against this by borrowing ahead of need where it is advantageous to do so.

The Authority is required to set aside a Minimum Revenue Provision (MRP) in respect of capital expenditure previously financed by borrowing; this currently stands at an annual charges of £679k. As the Authority borrows to fund capital expenditure then so the amount required to be set aside increases.

**Governance Arrangements**

It is important that an appropriate governance framework is in place to support the capital strategy and as such the following procedures are in place:

- All schemes included in the Capital programme must be approved by Fire Authority
- The budget for each capital scheme assigned under the control of one project manager.
- Officers monitor the progress of the Capital Programme on a monthly basis.
- Progress of the Capital programme is reported to Fire Authority on a quarterly basis.
- The authority’s Financial Regulations and Standing Orders provide strict guidelines in relation to capital budgets and variations to spend.

**Knowledge and Skills**

In order to manage the Capital Programme the Authority employs qualified and experienced staff. Access to courses is provided to enable staff to keep skills up to date and complete their Continuing Professional Development (CPD) requirements.

The Authority also procures, where required, expert advice and assistance externally.

The authority ensures that Members are suitably qualified to undertake their governance role.
Our Treasury Management Strategy

The overall objectives of our Treasury Management Strategy are as follows:

- To ensure sufficient funding is available for day to day activities and capital projects through the effective management of cash flow;
- To seek to reduce the financial impact on the revenue account of net interest costs through optimal levels of borrowing and investment levels;
- To ensure the security of investments and liquidity of funds. To maximise income from the Authority’s investments after ensuring these two considerations are met.

**Background**

A detailed Treasury Management Strategy is approved by Fire Authority annually. The current strategy was approved on February 15 2018.

Derbyshire Fire and Rescue Authority have a statutory responsibility to safeguard prudence and sustainability of its capital investment. The Local Government Act 2003 (the Act) and supporting regulation requires the Authority to ‘have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code to set Prudential and Treasury Indicators for the next three years’.

It is a statutory duty under Section 3 of the Act and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow, referred to as the ‘Affordable Borrowing Limit’.

The Authority must have regard to the Prudential Code when setting the Authorised Limit, which requires that total capital investment remains within sustainable limits and has an acceptable impact upon future council tax levels.

**Approach**

Our Borrowing and Investment Strategies can be found in Annex 1 and 2.

In contemplation of its Treasury Management Strategy, the Authority gives due consideration to the following:

- Prudential and Treasury Indicators;
- Treasury limits in force and Treasury ‘risk’;
- Borrowing requirements;
- Interest rate prospects;
- The security of capital; and
- The liquidity of investments
Our Savings Strategy

Background

Savings are required to bridge the gap between spending pressures and reductions in government funding. The Authority is facing continued and increasing pressure to:

- Find even more savings to balance the budget over the medium term;
- Achieve and maintain financial stability over the medium and longer term;
- Deliver agreed priorities and objectives, including meeting changing statutory and legislative duties;
- Deliver value for money for local people and taxpayers, through working together with our partners.

The Effectiveness Programme – Achievements

The ‘Effectiveness Programme’ covered the period 2011/2012 to 2014/2015 and identified a number of initiatives designed to deliver sustainable on-going savings and to address significant funding reductions whilst maintaining effective frontline service provision to the community:

- changing the way we work;
- reviewing how we respond to emergencies; and
- making the best use of our resources.

The Service achieved significant savings, as outlined below:

- Target Ongoing Savings £5.4m
- Total Savings £12.2m (ongoing savings £5.6m, one off savings £6.6m)
- Total Ongoing Savings £5.6m
Our savings should be considered alongside savings monitored and delivered through Service Improvement and self-initiated savings, both cashable and non-cashable.

**Service Improvement**

Service Improvement is about much more than delivering savings although we actively measure, report and celebrate savings achieved through the Service Improvement Programme designed ‘to improve the efficiency and effectiveness of service delivery through developing our people, systems and processes’.

Service Improvement drives more efficient and effective working practices which are essential in sustaining the mindset of employees in focusing on how they can contribute towards the longer term financial resilience of the Service. Ongoing activities include the following:

- Explore and embrace opportunities for partnership working and collaboration;
- Departmental reviews to ensure they are ‘match fit’ and customer-focused with a particular focus on streamlining transactional services and processes to support the reduction of duplication of effort;
- Exploration of areas for income generation including sponsorship;
- New flexible ways of working (work styles) and associated behaviors;
- Making the best use of our technology e.g. ICT/equipment/fleet;
- To continue to explore opportunities for further efficiencies through effective procurement.

**Illustrative ‘Totaliser’ Savings**
**The Fit to Respond Programme**

Whilst we have planned to manage risk through our activities in Prevention, Protection and Response, we are always looking to other ways to improve how we work and to achieve savings. We call these our development themes, as endorsed by the IRMP 2017/2021.

<table>
<thead>
<tr>
<th>Service Development Theme</th>
<th>Definition of the Theme</th>
</tr>
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<tbody>
<tr>
<td><strong>Review Corporate Layers of Assurance</strong></td>
<td>Activities under this theme will systematically evaluate internal activities used by portfolios to authorise and assure compliance. They will make sure that they are proportionate to the risks they are trying to control and that duplication is minimised.</td>
</tr>
<tr>
<td><strong>Review Staffing Levels, Duty Systems and Ways of Work</strong></td>
<td>Projects under this theme will look at the number of staff we have working in the community, the number of fire engines we have in some parts of the county, and the shift systems that crew these fire engines. This will allow the Service to make sure the blend of prevention, protection and response activity is balanced and proportionate in each area of Derbyshire.</td>
</tr>
<tr>
<td><strong>Collaboration and Shared Services</strong></td>
<td>This is an area we have been focussing on over the last few years and which we know can improve community safety. With the new Police and Crime Bill also requiring emergency services to collaborate, we will undertake more joint working projects looking at services and assets over the next few years which will benefit Derbyshire communities and save money.</td>
</tr>
<tr>
<td><strong>Community Safety and Partnership Working</strong></td>
<td>Activities under this theme will develop our partnership working and relationships with other agencies to work more effectively in communities. This will aim to improve social wellbeing and public safety across Derbyshire and Derby City.</td>
</tr>
<tr>
<td><strong>Service Improvement</strong></td>
<td>Activities under this theme will improve the efficiency and effectiveness of service delivery by developing our people, improving processes and updating systems. This commitment to continuous improvement is vital to provide the best service possible to communities.</td>
</tr>
</tbody>
</table>

The Service Action Plan 2018/2019 (IRMP 2017/2018 Year 2 of 4) contains projects and programmes of works to support the delivery of the Year 2 IRMP 2017/2021, as illustrated over page.
The Authority’s financial and operational plans are clearly integrated and project forward in considerable and appropriate detail, and it is evident that significant additional savings will need to be delivered between now and 2022/2023 in order to balance the budget. This is subject to the outcome, and the funding, of current pay negotiations and increases to employer pension contributions. An updated position will be reported to Members in February 2019 as part of the Medium Term Financial Plan and 2019/2020 budget setting process. ‘Fit to Respond’ savings of £0.4m were delivered in 2017/2018. A further £0.15m target savings were identified as part of the 2018/2019 budget setting process.

Ongoing Programme Savings – 2011/2012 Onwards
Savings for the 2018/2019 financial year are outlined below.

‘Fit to Respond’ Programme 2015/2016 onwards and IRMP Programme - Planned Budget Savings 2018/2019 Onwards

Through the IRMP Programme, the Service is currently targeting savings in the region of £1.5m over the period 2018/2019 to 2021/2022. Target savings will increase to take account of pressures such as rising Employer Pension Contributions, the outcome of pay award negotiations, and funding pressures.

- **Employee Budget** savings of £35,000 are in relation to the support establishment and consist of the full year effect of the Deputy Chief Executive post (support staff savings of £200,000 were secured in 2017/2018 in the areas of Principal Officers, Catering and Property).

- **Premises Related** – savings of some £71,000 ongoing relate directly to the Littleover site, and have been generated through the collaborative workings on the Joint HQ. Savings are in the areas of Rates, Energy Costs, Water, and Cleaning and Domestic Services.

- **Leasing Budget, External Interest and Minimum Revenue Provision** budget savings of £30,000 in 2018/2019 rise to £192,000 over the period of the MTFP. This reduction in borrowing costs reflects decisions around the outright purchase of Service vehicles in the Capital Programme.

- **Premises Rental** – additional income in the region of £20,000 will be generated through partnership workings, predominantly with EMAS.

One-off Budget Reductions

- Other one-off savings were required to present Members with a balanced budget in 2018/2019. These were considered by Members alongside the removal of the Revenue Contribution to Capital of £0.5m. Further, a contribution of £0.8m from the Strategic Risk Reserve was required to balance the 2018/2019 budget.

- Assumptions around a **Wholetime Duty System - Vacancy Management** in 2018/2019 realise a one off budget saving of £240,000. This is a one-off savings item and is considered to be prudent in light of wholetime firefighter salary budget underspends at 2017/2018 outturn and in the current financial year. Assumptions take account of the retirement profile and future plans for wholetime firefighter recruitment. Members should note the approach to operational pay budgets in the Medium Term Financial Plan 2019/2020 to 2022/2023 (to be reported to Members for approval in February 2019), and in particular the potentially significant impact of rising Employer Pension Contributions and the 2018/2019 (and future years) pay award on the Authority’s medium term financial position.
Despite funding reductions of some £9.8m over the period 2011/2012 to 2018/2019, the Authority achieved ongoing savings of £5.6m (2011/2012 to 2014/2015, Effectiveness Programme), and a further £3.5m so far (2015/2016 through to 2017/2018, ‘Fit to Respond’ and Integrated Risk Management Plan 2017/2021). These savings mean that we are in a strong position to protect the Service, and ultimately our communities, over the medium term, and to continue to provide a firm foundation for our future.
“Savings are getting harder and taking longer to deliver! ”
Our Reserves Strategy

**Background**

The level of reserves held is very much a local decision and will be guided by DFRS’s perception of risks and threats, goals and aspirations. The requirement for financial reserves is acknowledged in statute.

A recent NFCC survey found that FRS reserves fell by £26m between 2016/2017 and 2017/2018, and total reserves are forecast to fall by £424m between 2017/2018 and 2021/2022. Increasingly Fire and Rescue Services are looking to use reserves to support the medium term budget.

With continued pressures, challenges and demands, reserves enable the Service to plan ahead for more than 12 months at a time, which is crucial for the purpose of financial sustainability, improving our service to the community, and ensuring that taxpayers get value for money.

Reserves are an important component of the Authority’s financial planning, but they are not a sustainable solution to funding shortfalls. Members approved the use of the Strategic Risk Reserve to bridge the funding gap in its budget in 2018/2019 £0.8m.

The Service holds general reserves to provide for unexpected events and ongoing budget pressures, the funding reductions being the most notable example, with many public sector organisations already using reserves to balance budgets.

The General Reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and extraordinary in nature. General reserves are maintained at 5% of net expenditure which is consistent with published best practice and aligns with the advice of the Director of Finance / Treasurer.
Earmarked reserves are held for specific future spending (i.e. planned service changes and developments, capital spending, legislative and statutory reasons), for specific risks (i.e. uncertainty surrounding future capital funding, potential or threatened litigation) or possible future events. It is prudent that the Authority identifies such areas of expenditure and sets aside amounts that limit future risk exposure. An insufficient level of reserves would render the Authority vulnerable to unexpected events and economic shock. Future challenges and uncertainties which could impact on the use of our reserves include the following:

- Prospects for economic growth and interest rates going forward;
- Changes to principal funding schemes and in particular 100% Business Rates Retention Pilot and the Government’s target for 75% retention in 2020/2021;
- Financial uncertainty associated with the absence of multi-year settlements going forward and further funding cuts;
- Review of the Fair Funding formula (delayed);
- Outcome of Brexit negotiation arrangements;
- Implications of the Hackitt Review (and other reviews);
- Increasing Employer Pension Contributions;
- The significant increased cost of pensions, higher pension ages and the reform of ill health benefits;
- Future pay awards and broadening the role map;
- Implications and investment in the roll out of the Emergency Services Network.

Our 2018/2019 Opening Reserves

Reserves are assessed annually by the Director of Finance / Treasurer for their appropriateness in accordance with the Local Government Act 2003. At this time a comprehensive review of their purpose, volatility and impact on the financial position of the Service is undertaken. The 2018/2019 Opening Usable Reserves balance of £12.1m reflects the favourable 2017/2018 and prior years’ outturn position. Members are notified of early estimates of the 2018/2019 closing balance at each Fire Authority meeting. This will depend to some degree on the level of capital expenditure incurred in year. See summarised Opening Reserves below:

<table>
<thead>
<tr>
<th>Earmarked Reserves</th>
<th>£5.201m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tri Control and ESN Grant</td>
<td>£2.040m</td>
</tr>
<tr>
<td>Invest to Save Reserve</td>
<td>£0.452m</td>
</tr>
<tr>
<td>Capital Grant Unapplied</td>
<td>£1.316m</td>
</tr>
</tbody>
</table>

**Total Earmarked Reserves £9.009m**

<table>
<thead>
<tr>
<th>General Reserve *</th>
<th>£1.900m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Risk Reserve</td>
<td>£1.215m</td>
</tr>
</tbody>
</table>

**TOTAL RESERVES £12.124m**

*Recommended level of General Fund Reserve by Director of Finance / Treasurer (Section 151 Officer).*
The 2018/2019 opening position as approved by Members is illustrated below.

Earmarked Reserves include the following:

- **Capital Development Reserve** £2.5m - to support the Capital Programme, the Authority’s commitment to longer term planning, and the future development of the Service.

- Other Earmarked Reserves which are anticipated to be drawn upon during the 2018/2019 financial year include **HQ Telecoms – Legal Costs** £0.04m, and **Estimated Mileage Costs – Joint Headquarters** £0.02m. **Fire Station Furniture Replacement** £0.03m and the **Personal Protective Equipment Reserve** £0.13m will also be required to support revenue expenditure in the current financial year.

- Other Earmarked Reserves include a **Vehicle Replacement Fund (Fleet Programme Reserve)** of £1.7m (subsequently transferred to the Capital Development Reserve in year following Member approval), a **BA Training House Repairs and Maintenance Fund** £0.16m, and a **Protecting the Most Vulnerable Reserve** which totals £0.19m.

An appropriate level of reserves is essential in safeguarding the sustainability and future financial resilience of the Service, particularly in a time of continued economic uncertainty and instability. A Statement of Estimated Reserves will be reported to Members at the February 2019 Fire Authority meeting for the period to 2023.
### General Reserve

**Purpose:** To provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and extraordinary in nature.

**Activity:** Volatile – likelihood is unpredictable. Significant impact, provides the Authority with capacity to maintain operations in the event of significant one off large scale incidents and pressures.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

### Strategic Risk Earmarked Reserve

**Purpose:** To meet significant unforeseen pressures, changes in funding, major incidents including environmental and large scale incidents, strike action, business continuity and security implications. To provide temporary funding from reserves to cover delays or shortfalls in delivering IRMP programme savings and to provide an unallocated reserve to cushion the impact of funding cuts.

**Activity:** Volatile – such events are unpredictable but need to be provided for. Significant impact, provides the Authority with capacity to maintain operations in the event of significant one off large scale incidents and pressures.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

### Invest to Save Earmarked Reserve

**Purpose:** To provide funding to deliver structural change and pump prime projects which require investment to deliver savings in the longer term. The reserve further provides for service and delivery improvements, funding for which is not inherent in the base budget.

**Activity:** Uncertain – uncertainty in government funding and on-going effect of local government reform, years 2017/2018 and beyond. Significant impact, limited notice of changes in government policy and material sums of money are involved.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.
Tri Control and ESMCP Earmarked Reserve

*Purpose:* To provide for the uncertainty around the Tri-Control and ESMCP projects and emerging requirements. To build capacity to support alternative mobilising systems if required, the replacement for Airwave, the new Emergency Services Network and meet other national resilience proposals.  
*Activity:* Volatile – uncertainty in government funding and diminishing opportunities to claim for New Burdens funding. Significant impact due to limited notice of changes in government policy and material sums of money are involved.  
*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Director of Finance / Treasurer.  
*Timescale for review:* Annual.

Capital Development Earmarked Reserve

*Purpose:* To offset future borrowing costs and to fund future capital programme schemes. This reserve provides for expenditure specific to the Headquarters Relocation, the Training Centre Project, Swadlincote Fire Station, the ICT and Transport Capital Programme, and is particularly valid in light of future capital funding uncertainties.  
*Activity:* Uncertain – uncertainty over capital grant and Transformation Funding beyond 2016/2017. Significant impact due to limited notice of changes in government policy and material sums of money are involved.  
*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.  
*Timescale for review:* Annual.

Workforce Contingency Earmarked Reserve

*Purpose:* To provide for employee related costs associated with internal restructuring or the disestablishment of posts due to partnering opportunities, to include voluntary and compulsory redundancy payments.  
*Activity:* Uncertain – subject to organisational need and external funding pressures. Impact is not anticipated to be significant.  
*Procedure for management and control:* the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.  
*Timescale for review:* Annual.
### Ill Health Pension – Refund of Taxation Earmarked Reserve

**Purpose:** To provide for the potential refund of taxation on On Call Injury Awards for the period prior to 2013.

**Activity:** Uncertain – subject to legal clarification.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

### BA Training House R&M Fund Earmarked Reserve

**Purpose:** To provide for essential repairs and maintenance works to the fire house units at Kingsway Fire Station and JTC, due to the expensive nature of repair.

**Activity:** Uncertain – timing of requirement unknown. Potential for significant impact given associated high cost.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

### System Development Earmarked Reserve

**Purpose:** Established to enable the development of key systems, such as Agresso. Funding for development purposes is not inherent within the base revenue budget.

**Activity:** Subject to timescale for upgrade, and ICT resource availability. Impact has potential to be significant, due to the Service’s reliance on key financial systems.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

### Vehicle Replacement Fund Earmarked Reserve

**Purpose:** Established to meet the replacement cost of vehicles purchased outright, in place of borrowing, for which no revenue contribution is in place.

**Activity:** An annual contribution is made to the reserve, which will be drawn upon in future as replacement needs arise. Significant impact due to high value asset replacement costs.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.
HQ Telecoms – Legal Costs Earmarked Reserve

**Purpose:** Established to provide for possible legal costs in relation to the decommissioning of a telecommunication mast at the Littleover HQ site.

**Activity:** It is anticipated that DFRS will be successful in its action, in which case a large proportion of costs incurred would be recoverable. Impact is considered to be minimal.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

Protecting the Most Vulnerable Earmarked Reserve

**Purpose:** Established to safeguard prevention activities currently undertaken with partner agencies in the main, and to support schemes and partners in providing health and wellbeing support to the most vulnerable members of our community.

**Activity:** Uncertain – depends largely on partnership activities. Small financial impact to DFRS, but potential for significant impact in the community, for example, a house fire to horder’s premises.

**Procedure for management and control:** the level and utilisation of the reserve is determined by Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for Review:** Annual.

Estimated Mileage Costs – Joint Headquarters Earmarked Reserve

**Purpose:** To provide for one off costs associated with the move to the new joint HQ.


**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.

Carry Forwards Earmarked Reserve

**Purpose:** To provide for prior year underspends which have been approved by Members for carry forwards purposes.

**Activity:** Expenditure to be incurred in full in the financial year following approval. Minimal impact.

**Procedure for management and control:** the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Director of Finance / Treasurer.

**Timescale for review:** Annual.
Our Council Tax Strategy

Background

Council Tax is subject to significant central control, much of which is enshrined in primary legislation.

Following the introduction of Council Tax Freeze Compensation Grant and years of stringent controls over excessive council tax increases, the then Chancellor, George Osborne granted councils the freedom to set a social care precept of up to 3.99% in 2016/2017. This signalled the highest council tax rises since 2008/2009. The Government then published referendum thresholds for 2017/2018. They have remained at 3% for Fire and Rescue Services since that time.

The Authority has looked to limit council tax increases as far as possible but has also to consider its financial resilience in light of projected budget deficits, pay and price inflation, rising employer pension contributions, and other budget pressures. Band D Council Tax for 2018/2019 is set at £74.74. Following years of public sector austerity, the Authority considers precepting options as a measure to minimise future budget deficits, and to assure itself that the future resilience of Derbyshire communities is not compromised. An increase of 3% in 2019/2020 would result in a Band D Council Tax charge of £76.98, an annual increase of £2.24 per household. Precepting options will continue to be considered alongside the level of available reserves.

The table below shows the council tax bandings and council tax levels.

<table>
<thead>
<tr>
<th>Council Tax Band</th>
<th>Valuation</th>
<th>Council Tax 2018/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>£0 - £40,000</td>
<td>£49.83</td>
</tr>
<tr>
<td>B</td>
<td>£40,000 - £52,000</td>
<td>£58.13</td>
</tr>
<tr>
<td>C</td>
<td>£52,001 - £68,000</td>
<td>£68.44</td>
</tr>
<tr>
<td>D</td>
<td>£68,001 - £88,000</td>
<td>£74.74</td>
</tr>
<tr>
<td>E</td>
<td>£88,001 - £120,000</td>
<td>£91.35</td>
</tr>
<tr>
<td>F</td>
<td>£120,001 - £160,000</td>
<td>£107.96</td>
</tr>
<tr>
<td>G</td>
<td>£160,001 - £320,000</td>
<td>£124.57</td>
</tr>
<tr>
<td>H</td>
<td>£320,001 or above</td>
<td>£149.48</td>
</tr>
</tbody>
</table>

We deliver VFM to the taxpayer...

Below average incidents + Below average reserves
+ Average Band D Council tax (£74.74) + Lowest quartile spend
= **VFM** ..but still have to resource to risk!
Other Supporting Strategies

The Medium Term Financial Strategy supports other key Corporate Strategies such as:

- Integrated Risk Management Plan 2017/21 (IRMP)
- Derbyshire Fire and Rescue Service Plan 2014/2017 ‘Fit to Respond’
- Anti-Fraud and Corruption Strategy
- People Strategy
- Asset Management Plan
- Procurement, HR and ICT Strategies

These documents are key in embedding the Authority’s Vision, Priorities and Values and serve to ensure that the Service has the financial resource, people, ICT and property resources necessary to deliver its priorities.
Glossary of Technical Terms

Baseline Funding Level
The amount of an individual authority’s Start Up Funding Assessment for the year provided through the local share of the Estimated Business Rates Aggregate (uprated each year in line with Retail Price Index).

Budget
A statement of the authority’s policy expressed in financial terms.

Business Rates Baseline
Determined for individual authorities at the outset of the business rates retention scheme by dividing the local share of the Estimated Business Rates Aggregate between billing authorities on the basis of their proportionate share.

Capital Programme
The authority’s plan of capital works for future years. Expenditure on the acquisition of fixed assets or expenditure that adds to the life or value of an existing fixed asset.

Derbyshire Police and Fire Partnership (DPFP)
Derbyshire Police and Fire Partnership (Limited Liability Partnership), a legal entity established to manage the build of the new joint headquarters and training centre.

Estimated Business Rates Aggregate
The total business rates forecast at the outset of the business rate retention scheme to be collected by all billing authorities in England in 2013/2014, uprated year on year.

Limited Liability Partnership
A legal business entity whereby the partners have limited liabilities.

Local Government Departmental Expenditure Limit (LG DEL)
The government budget that is allocated to and spent by government departments. This amount, and how it is split between government departments, is set at Spending Reviews.

Provision
A liability or loss which is likely or certain to be incurred but where the date and cost are uncertain.

Revenue Support Grant
Revenue Support Grant is Central Government funding, distributed by a complex formula, which aims to achieve a fair distribution of resource between authorities. An authority’s Revenue Support Grant amount plus the local share of Estimated Business Rates Aggregate will together comprise its Settlement Funding Assessment.

Reserves
An amount set aside for specific or general purposes.

Revenue Expenditure
The day to day running costs incurred by the Authority in providing services.
Revenue Financing
Resources provided from the Authority’s revenue budget to finance the cost of capital projects.

Safety Net
A mechanism to protect any authority which sees its business rate income drop by more than 7.5% below their baseline funding level.

Settlement Funding Assessment
On an individual local authority level it comprises each authority’s Revenue Support Grant for the year in question and it’s baseline funding level (uprated year on year in line with RPI).
Annex 1

**Borrowing Strategy**

The Authority anticipates holding £9.3m of loans as at 31 March 2019 and £42k finance leases, a decrease of £160k on the previous year. For the first time in eight years the Authority expects to borrow during 2019/2020.

**Objectives:** The Authority’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority’s long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing / using reserves to fund the capital programme will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose, the Authority’s Treasury Management advisors, will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/2020 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. Whist this course of action remains in the strategy to provide flexibility it is not anticipated that it will be utilised in the coming financial year.

**Policy on borrowing in advance of need:** The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

The Authority may arrange forward starting loans during 2019/2020, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.
**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Derbyshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

**LGA Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Fire Authority.

**Short-term and Variable Rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to 40% of total loans.

**Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. However, due to the current economic climate, it is not anticipated that discount rates offered will be favourable in the coming financial year.
Should circumstances change, any debt rescheduling will be approved by the Director of Finance / Treasurer and reported to Fire Authority at the earliest meeting following its action.

**Authorised Limit and Operational Boundary:** The Authorised Limit represents a maximum level of borrowing above which external debt is prohibited. The authorised limit for external debt is anticipated to be £14.83m as at 1 April 2019.

The operational boundary is the limit beyond which external debt is not normally expected to exceed; it represents a working boundary. The operational boundary is £14.23m as at 1 April 2019. Both these boundaries will be reviewed as part of the budget process and amendments will be brought to Fire Authority as part of the Treasury Management Strategy in February 2019.
Annex 2

Investment Strategy

Introduction

The Authority invests its money because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments).

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Full details of the Authority’s policies and its plan for 2019/20 for treasury management investments are covered in a separate document, The Treasury Management Strategy which will be reported to Fire Authority in February 2019.

As at 30 September 2018 the Authority has £14.1m of investment as detailed in the table below.

Table 1 - Investment Position

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Amount £’000</th>
<th>Interest Rate</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Local Authorities</td>
<td>2,500</td>
<td>0.75%</td>
<td>1 Year</td>
</tr>
<tr>
<td>Other Local Authorities</td>
<td>2,000</td>
<td>0.60%</td>
<td>6 Months</td>
</tr>
<tr>
<td>Other Local Authorities</td>
<td>2,000</td>
<td>0.75%</td>
<td>7 Day Notice</td>
</tr>
<tr>
<td>Barclays</td>
<td>7,625</td>
<td>0.55%</td>
<td>Call</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,125</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The usable reserves and working capital are the underlying resources available for investment. These levels of reserves are expected to drop significantly as they are utilised to fund the capital programme.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The Authority’s investment balance is expected to drop to £2m by the end of 2021/2022. This reflects the use of reserves to fund the capital programme.
Objectives: Both the CIPFA Code and the CLG 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.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding assets.

Investment Limits: The Authority’s revenue reserves available to cover investment losses are forecast to be £7.3m on 31st March 2019. In order to ensure that any losses can be funded from reserves, the maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership will have a maximum limit of £10m. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

<table>
<thead>
<tr>
<th>Cash limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any single organisation, except the UK Central Government</td>
</tr>
<tr>
<td>The authority’s bankers (Barclays) – overnight accessibility</td>
</tr>
<tr>
<td>UK Central Government (Including Local Authorities)</td>
</tr>
<tr>
<td>Any group of organisations under the same ownership</td>
</tr>
<tr>
<td>Any group of pooled funds under the same management</td>
</tr>
<tr>
<td>Negotiable instruments held in a broker’s nominee account</td>
</tr>
<tr>
<td>Foreign countries</td>
</tr>
<tr>
<td>Registered Providers</td>
</tr>
<tr>
<td>Unsecured investments with Building Societies</td>
</tr>
<tr>
<td>Loans to individual unrated corporates</td>
</tr>
<tr>
<td>Money Market Funds</td>
</tr>
</tbody>
</table>

Creditworthiness Policy: A limit of £6m will be invested with a single counterparty. There will be no limit to amounts held with Barclays, as our current bankers, the
Government run Debt Management Office and the Government (including other Local Authorities).

The Authority may invest its surplus funds up to the above cash limits with any of the counterparty types in Table 2 below, subject to the time limits set out in Table 2.

Table 2: Approved Investment Counterparties and Limits

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Banks Unsecured</th>
<th>Banks Secured</th>
<th>Government</th>
<th>Corporates</th>
<th>Registered Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Govt</td>
<td>n/a</td>
<td>n/a</td>
<td>£ Unlimited 50 years</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>AAA</td>
<td>5 years</td>
<td>20 years</td>
<td>50 years</td>
<td>20 years</td>
<td>20 years</td>
</tr>
<tr>
<td>AA+</td>
<td>5 years</td>
<td>10 years</td>
<td>25 years</td>
<td>10 years</td>
<td>10 years</td>
</tr>
<tr>
<td>AA</td>
<td>4 years</td>
<td>5 years</td>
<td>15 years</td>
<td>5 years</td>
<td>10 years</td>
</tr>
<tr>
<td>AA-</td>
<td>3 years</td>
<td>4 years</td>
<td>10 years</td>
<td>4 years</td>
<td>10 years</td>
</tr>
<tr>
<td>A+</td>
<td>2 years</td>
<td>3 years</td>
<td>5 years</td>
<td>3 years</td>
<td>5 years</td>
</tr>
<tr>
<td>A</td>
<td>13 months</td>
<td>2 years</td>
<td>5 years</td>
<td>2 years</td>
<td>5 years</td>
</tr>
<tr>
<td>A-</td>
<td>6 months</td>
<td>13 months</td>
<td>5 years</td>
<td>13 months</td>
<td>5 years</td>
</tr>
<tr>
<td>Pooled funds</td>
<td></td>
<td></td>
<td>£2m per fund</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This table must be read in conjunction with the notes below

**Liquidity Management**: The Authority forecasts its cashflow to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s Medium Term Financial Plan and cash flow forecast.

**Credit Rating**: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody’s or Standard & Poor’s. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**Banks Unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority’s current account bank, should they fall from their current level of A.
Secured Investments: Secured investments are investments with covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments (£6m).

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely (see pooled funds below).

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority’s investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
• no new investments will be made,
• any existing investments that can be recalled or sold at no cost will be, and
• full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

• denominated in pound sterling,
• due to be repaid within 12 months of arrangement,
• not defined as capital expenditure by legislation, and
• invested with one of:
  o the UK Government,
  o a UK local authority, parish council or community council, or
  o a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a
sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

**Table 3: Non-Specified Investment Limits**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cash limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total long-term investments</td>
<td>£4m</td>
</tr>
<tr>
<td>Total investments without credit ratings or rated below A-</td>
<td>£0m</td>
</tr>
<tr>
<td>Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+</td>
<td>£0m</td>
</tr>
<tr>
<td>Total non-specified investments</td>
<td>£4m</td>
</tr>
</tbody>
</table>