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NOTICE OF MEETING

Meeting	**Hampshire & Isle of Wight Fire & Rescue Authority (Shadow Authority)**	*Clerk to the Hampshire & Isle of Wight Fire and Rescue Authority (Shadow Authority)* **John Coughlan CBE**
Date and Time	**Wednesday, 9th December, 2020** **2.00 pm**	*The Castle,* *Winchester* *Hampshire* *SO23 8UJ*
Place	**Virtual Teams Meeting - Microsoft Teams**	
Enquiries to	**members.services@hants.gov.uk**	

FILMING NOTIFICATION

This meeting will be recorded and broadcast on the HFRS YouTube channel.

Agenda

1 **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

2 **DECLARATIONS OF INTEREST**

To enable Members to disclose to the meeting any disclosable pecuniary interest they may have in any matter on the agenda for the meeting, where that interest is not already entered in the Authority's register of interests, and any other pecuniary or non-pecuniary interests in any such matter that Members may wish to disclose.

3 **MINUTES OF PREVIOUS MEETING** (Pages 3 - 6)

To confirm the minutes of the previous meeting

4 **DEPUTATIONS**

Pursuant to Standing Order 19, to receive any deputations to this meeting

5 **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

6 **MEMBER DEVELOPMENTS**

To receive any updates from Members of the Authority

7 **BUDGET UPDATE** (Pages 7 - 30)

To consider a report of the Treasurer, which provides an update to Members of the current financial position for the 2020/21 Hampshire FRA Revenue Budget and an update on the 2021/22 Hampshire and Isle of Wight FRA budget setting process.

8 **EXCLUSION OF PRESS AND PUBLIC**

To resolve that the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

9 **EXEMPT MINUTES FROM PREVIOUS MEETING - 22 SEPTEMBER 2020** (Pages 31 - 32)

To approve the exempt minute from the 22 September H&IWFRA Shadow Authority meeting.

ABOUT THIS AGENDA:

This agenda is available through the Hampshire Fire and Rescue Service website (**www.hantsfire.gov.uk**) and can be provided, on request, in alternative versions (such as large print, Braille or audio) and in alternative languages.

AT A MEETING of the Hampshire & Isle of Wight Fire & Rescue Authority (Shadow Authority) held virtually on Microsoft Teams on Tuesday, 22nd September, 2020

Chairman: * Councillor Chris Carter

* Councillor Roz Chadd
Councillor Liz Fairhurst
Councillor Jason Fazackarley
* Councillor Jonathan Glen
Councillor Geoff Hockley
* Councillor Sharon Mintoff
* Councillor Roger Price
* Councillor David Simpson
* Councillor Dave Stewart
* Councillor Rhydian Vaughan MBE

Also present with the agreement of the Chairman: Emeka Ibeh, Home Office

16. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Liz Fairhurst and Councillor Jason Fazackarley.

17. **DECLARATIONS OF INTEREST**

Members were mindful of their duty to disclose at the meeting any disclosable pecuniary interest they had in any matter on the agenda for the meeting, where that interest was not already entered in the Authority's register of interests, and their ability to disclose any other personal interests in any such matter that they might have wished to disclose.

18. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

19. **DEPUTATIONS**

There were no deputations.

20. **CHAIRMAN'S ANNOUNCEMENTS**

There were no Chairman’s announcements for this meeting.

21. **MEMBER DEVELOPMENTS**

There were no updates from Members for this meeting.

22. **BUDGET SETTING 2021/22 AND MEDIUM TERM FINANCIAL PLANNING**

The Shadow Authority considered a report from the Treasurer (item 7 in the minute book), which requested provisional guidance for future funding assumptions. It also provided some initial information in respect of the impact of Covid-19 on budget setting for next year.

The officer summarised the report and highlighted how it was anticipated that there would be a requirement for savings over the coming years. These would be drawn up to ensure that budget reductions could be made as required, together with the previously agreed principle that the Combined Fire Authority (CFA) would use reserves or reduce contributions to reserves to balance the budget in the first year.

Appendix A to the report provided an early indication of the funding expected to be available and the expenditure required, based on the currently available information. At the moment, this represented a ‘normal’ roll forward of the combined budgets for HFRA and the Isle of Wight Fire and Rescue Service (IWFRS), although it did include proposed base budget changes or new spending some of which have been previously agreed by HFRA, which were contained in Appendix B to the report.

During questions, Members noted that paragraph 40 of the report stated that a proportion of the Isle of Wight’s actual reserves would be transferred, but could be impacted by the need to deal with Covid-19 financial pressures. The officer confirmed that the CFA expected 100% of the earmarked reserves and 4-5% of general balances held by the Isle of Wight.

It was assumed that the net cost of pensions would continue along with the grant available to assist with them, otherwise many Fire Service’s would be put in financial turmoil.

It was noted that Appendix C included the £3.5 million allocated for the Warsash training facility, however that was subject to the final arrangements for the facility.

RESOLVED

The Shadow Authority:

a) Approved that for financial planning purposes only, the assumption that council tax will be increased by the maximum allowed within the referendum limit set by Government, currently expected to be 1.99% for the 2021/22 budget.

b) Noted the ‘base’ position for the combined roll forward budget as set out in Appendix A.

c) Approved the base changes and adjustments in Appendix B.

d) Noted the updated Capital Programme and funding as set out in Appendix C

23. **BRANDING - NEW SERVICE IDENTITY**

The Shadow Authority considered a report from the Chief Fire Officer (item 8 in the minute book) regarding a combined brand identity that had been put out to staff for consultation and had since been amended following feedback from the workforce.

To reduce costs, it was proposed to introduce the new brand gradually to fit in with the timescales of planned upgrades and replacements across the Service. Station branding and digital imagery was a priority and vehicles would be wrapped with the new branding over the first year in line with testing and servicing carried out.

During questions, officers reassured that testing had been carried out with regards to accessibility and visual impairment and the contrasts in colour and design within the logo met the requirements.

RESOLVED

Hampshire and Isle of Wight Shadow Authority approve the new joint branding approach as in Appendix A of the report.

24. **PEOPLE AND ORGANISATIONAL DEVELOPMENT (POD) POLICY**

The Shadow Authority considered a report from the Chief Fire Officer (item 9 in the minute book), which set out the commitment and vision for HIWFRA to staff.

It contained guiding principles that would govern all working practices by HIWFRA and the suite of HR procedures would sit beneath the overarching People and Organisational Development (POD) Policy.

The Policy would be used with staff discussions going forward as part of the CFA and managing staff and contractual arrangements along with development, opportunities, wellbeing and cultural aspects.

Members were happy with the report and there were no questions.

RESOLVED

Hampshire and Isle of Wight Fire and Rescue Shadow Authority approved Option 1 – the new People and Organisational Development (POD) Policy Principles for HIWFRA, for consultation with Representative Bodies, Trade Unions and staff.

25. **EXCLUSION OF PRESS AND PUBLIC**

Members queried why the following item was exempt and it was confirmed that whilst the exemption partly applied to information since removed from the report, there was still sensitive financial and other information included and potential for discussions and questions to include information that could hinder future business transactions.

The decision went to a vote, with the majority voting to go into exempt session.

It was then resolved that the public be excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

26. **CFA/IWFRS ESTATES IMPROVEMENT**

The Shadow Authority considered a report from the Chief Fire Officer (item 11 in the minute book), [SEE EXEMPT MINUTE]

Chairman,

Hampshire & Isle of Wight
FIRE & RESCUE AUTHORITY

Shadow Authority

Purpose: Approval

Date: **9th December 2020**

Title: **BUDGET UPDATE**

Report of Treasurer

SUMMARY

1. This report is to provide an update to members of the current financial position for the 2020/21 Hampshire FRA Revenue Budget and an update on the 2021/22 Hampshire and Isle of Wight FRA budget setting process.

2. An underspend of £1.002m is currently forecast against the 2020/21 budget as detailed in paragraphs 8-10 below.

3. The report submitted to the HIW Shadow Authority in September this year provided information on the expected timescales for the budget setting process and the potential impacts of the Covid-19 pandemic on future funding. This report will provide an update to reflect the changes since that time.

4. As part of setting the budget for 2021/22, Budget Holders were asked whether they required any additional funding for changes to legislation or service pressures. A number of requests were submitted and have been reviewed and prioritised by the Executive Group. Approval will be requested in this report for the high priority budget increases to be built into the 2021/22 Base Budget.

BACKGROUND

5. The budget setting process for 2021/22 is particularly challenging as we face a range of issues that significantly increase the uncertainty of our financial position going forward, namely :

- This is the first budget for the new Combined Fire Authority (CFA).
- We have no information from the Government about the settlement for next year and it has been announced that there will only be a single year Spending Review.
- We do not know what the impact of Covid-19 will be on the budget going forward particularly relating to council tax income.

6. The Spending Review was announced on 25 November, but there was no detailed information on the likely grant settlement for Fire Authorities. The key issues as they relate to Fire Authorities were :

   - 2% council tax referendum limit as in previous years.
   - Inflation increases on Revenue Support Grant (although this could be an average position and may vary between sectors).

7. In terms of Covid funding for next year the following was also announced :

   - £1.55 billion grant to help meet additional expenditure pressures, although we suspect most of this will go to local authorities
   - £670 million additional grant to help local authorities support the more than 4 million households that are least able to afford council tax payments. Whilst this doesn't impact us directly it will help with collection levels next year.
   - Estimated £762 million to compensate authorities for 75% of irrecoverable losses of council tax and business rates revenues in 2020/21 which is clearly a key issue for us.
   - Extending the existing Covid sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021 which is relatively minor for us but may help to secure some additional funding.

8. Current intelligence suggests that the provisional local government finance settlement will not be available until just before or after Christmas, which will make timescales very difficult for budget setting.

9. At this stage therefore, there is little additional information with which to update the Shadow Authority compared to what was reported in September this year.

<u>2020/21 QUARTER 2 HFRA BUDGET MONITORING</u>

10. The table below shows the budget monitoring for 2020/21 as at 30th September 2020.

	2019/20 Current Budget Quarter 2	2019/20 Forecast as at end Quarter 2	Variance Underspend / (Overspend)
Employee costs	53,810	53,711	99
Premises	6,272	6,265	7
Transport	1,544	1,617	-73
Supplies & services	9,525	9,886	-361
Third Party Payments	4,229	4,259	-30
	75,380	**75,738**	**-358**
Grants and Contributions	-2,221	-2,059	-162
Interest payable / (receivable)	-210	-210	0
Other Income	-1598	-1498	-100
	-4,029	**-3,767**	**-262**
Funding	-71,351	-72,973	1,622
Net Cost of Service	**0**	**-1,002**	**1,002**

11. This position has improved significantly since quarter 1 as a result of pro-active management across directorates. The main points to note are:

    (a) There is now a forecast underspend on employees of £99,000. This is made up of overspends on RDS, as previously reported, and other operational posts, however this is more than offset by vacancies on some stations and in other areas of the Service.

    (b) The overspend on Transport costs which had been forecast at Q1 has now reduced due to the continuing reduced cost of fuel.

    (c) The Supplies & Services costs are expected to overspend by £361,000, due to the requirement for PPE, however this is lower than the Q1 forecast as the on-going purchase levels have reduced more than anticipated.

    (d) The forecast for income has reduced and is not now expected to achieve budgeted levels due to the effects of the Covid-19 restrictions.

12. Overall, this is a much more positive forecast than predicted at the end of Q1 and provides a reassurance that costs can be controlled over the coming years where budget reductions are expected to be required. However, it should be noted that around £700,000 of the underspend relates to Covid-

19 grant that has yet to be spent, although clearly the latest lockdown and increasing prevalence of the virus will impact on this going forward.

2021/22 HIWFRA BUDGET SETTING

13. The 2021/22 HIWFRA budget is being set on a 'bottom up' basis, as it has been for HFRA for a number of years. This process is underway and this year is incorporating both the Hampshire and Isle of Wight budget requirements to form the new Combined Fire Authority budget.

14. In the report to the Shadow Authority in September this year it was reported that a 3 year settlement was expected and therefore an MTFP would be produced alongside the Budget and Precept Report in February. The government has now confirmed that this will no longer be the case due to the uncertainties over the longer term national costs of the Covid-19 pandemic. A one year Spending Review was announced on 25 November as outlined above, with the CSR and 3 year settlement being delayed by a further year.

15. Alongside this, there are further uncertainties on the level of Council Tax Base in the current and future years. In normal years, the base is always expected to increase, providing additional funding on top of the Council Tax increase. Due to the high number of redundancies and reduced hours for many individuals in Hampshire and the Isle of Wight, it is anticipated that the council tax base will reduce in year, which will have a double effect.

16. Firstly, this will mean that a lower level of council tax is raised in 2020/21 than had been budgeted for, which will lead to a deficit on the Collection Fund that will need to be repaid in future years. In the past, any surplus or deficit would have been included in the following year in its entirety, however due to the expected high level of deficit expected this year, the Government have stated that this can be spread over three years, rather than one. The Spending Review also announced that support to meet 75% of council tax and business rate losses from the current year will be put in place, which is very positive news.

17. Secondly, the reduction on the Council Tax Base will have a longer term effect on the funding available for 2021/22 and the coming years. It will reduce the available budget and lead to further savings being required.

18. At this stage, no information is available as to the magnitude of the reduction, as the furlough scheme has recently changed and we have just experienced a further lockdown and therefore the long term implications of

the restrictions may not be fully felt and acted upon by businesses in the area.

19. Whilst there is support for collection fund losses in the current year, it is less likely that reductions in the council tax base in 2021/22 will be similarly reimbursed which will add to the predicted deficit next year.

20. As a result, of all the uncertainties and lack of information regarding future years, it will not be possible to produce an MTFP alongside the Budget Report in February. This will need to be delayed until more clarity is available on future grant and precept funding.

21. Due to the tight timescales and lack of clarity around the level of funding available for 2021/22, it will not be possible to achieve sufficient savings in time to set a balanced budget. It may therefore be necessary to use reserves to temporarily balance the budget, until efficiencies can be found for the longer term as has been the policy in previous years.

22. The Grant Equalisation Reserve was set up in 2020/21 following reductions in the employers rate for the Local Government Pension Scheme and currently has a balance of £625,000 which could partly be used for this purpose.

GROWTH PRESSURES

23. As explained in the September report to this committee, all budget holders were given the opportunity to request additional funding for areas such as legislative changes or service pressures. These have been reviewed by the Executive Group and prioritised.

24. A number of lower priority requests have been rejected or have been postponed and will be looked at in future years when the financial position is more certain. The list shown at Appendix A are those which are deemed as essential, with a number related directly to the combination. The total value is £953,800 and if approved will obviously add to the predicted deficit for next year.

BUDGET POSITION

25. The September report highlighted that the ‘roll forward’ budget for 2021/22 showed a predicted deficit of £1.001m including base changes and provision for inflation. This also assumed no change to our revenue support grant level and the continuation of the pension grant.

26. If the growth bids outlined in Appendix A are approved then this increases the deficit to £1.955m before any account is taken of the potential impact of Covid-19 on council tax income.

27. Whilst the new Authority can balance the budget through the use of reserves or reducing contributions to reserves, it is clear that savings will be required in the budget over time and it is therefore suggested that options for savings are developed for next year once the final budget has been set in February 2021. This will enable work to commence quickly in the new financial year in order to maximise potential savings that could be achieved to have an impact during the 2021/22 financial year, with a full year impact from 2022/23.

TREASURY MANAGEMENT

28. The mid-year Treasury Management Report is attached at Appendix B. It provides an update of the Authorities return on investment as at 30th September 2020.

29. It draws attention to the fact that we are in the fairly unique position of having negative interest rates for short dated investments in the market. Whilst our investment strategy has been adjusted to limit the impact of this as far as possible, there may be instances where it is considered that the potential risk to capital is greater than the risk of achieving a very small negative return and it may therefore be necessary to invest on this basis.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

30. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. Good budget management in the past has allowed underspends to be achieved, which will help to fund the Service priorities and enable key changes required to make the budget reductions at the same time as service improvements.

31. At the current time, with the expected funding reductions, prioritisation of the available funding is vital to ensure that resources are directed to the highest priority areas, in line with the Service Plan.

CONSULTATION

32. Consultation on the budget proposals is expected to take place with businesses and Unions as part of the budget setting process for 2021/22.

RESOURCE IMPLICATIONS

33. Decisions made in this report will be reflected in the final 2021/22 Budget and Precept Report, to be presented to the Shadow Authority in February 2021.

IMPACT ASSESSMENTS

34. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation, Data Protection and Health & Safety legislation.

LEGAL IMPLICATIONS

35. The new CFA is required to set a balanced budget and council tax level by 1 March next year and this report provides background information to the Shadow Authority on the budget prospects for 2021/22.

OPTIONS

36. Budget setting and forecasting by its very nature means that assumptions are made around several variables that can be changed over time.

37. The list of growth pressures is included at Appendix A. Members are asked to agree the inclusion of these within the 2021/22 budget, albeit there may be other options that could be considered for some of the bids.

RISK ANALYSIS

38. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant over previous years.

39. The lack of information for 2021/22 and for future years on top of the complications of a new CFA are a concern. The Service continues to consider options as to how a shortfall could be overcome, including examining other potential income sources. However, as a backstop position, the Authority has sufficient reserves and makes substantial contributions to reserves each year, thereby mitigating this risk. The Grant Equalisation Reserve created in 2020/21 could be utilised to partly mitigate the potential risks faced in the short term.

EVALUATION

40. The current lack of clarity around funding for 2021/22 makes longer term decision making very difficult at the current time. Budget reductions are expected to be required for 2021/22 onwards, however, the scale of this is not yet known and therefore rather than make quick reductions that could affect service levels, use of reserves would allow a more considered approach and give time to ensure that efficiencies or reductions are planned and implemented properly to limit the impact on service provision and staff as far as possible.

CONCLUSION

41. It is recommended that the Authority approve the assumptions made within this report, which will be used as the basis for 2021/22 budget setting.

RECOMMENDATION

42. That the Growth Pressures as set out in Appendix A be approved by the Shadow Authority for inclusion in the 2021/22 budget.

43. That, if necessary, the use of reserves to balance the 2021/22 budget be approved by the Shadow Authority.

44. That the Shadow Authority notes that options for efficiencies and savings will be developed once the budget has been set in February 2021.

45. That the mid-year review of treasury management activities be approved by the Shadow Authority.

APPENDICES ATTACHED

46. Appendix A – Growth Pressures.

Appendix B – Treasury Management Mid-Year Report.

Contact:

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Growth Bids

Category	Narrative	Value £
CFA - IT Costs	An assessment has been made of all IT requirements resulting from the move to a new CFA. Some costs relate to central provision of IT on the IOW that will need to be replicated for the new CFA. The main cost relate to licensing for Office 365 which will be reviewed in the first year of the CFA	153,000
CFA - Premises Costs	The original business case for the new CFA highlighted the deficiency in the budgets available for premises costs relating mainly to term servicing and provision for repairs and maintenance which were managed centrally across all of the IWC estate	450,500
CFA - Fleet and Equipment	This increase will ensure that the same standards of fleet and equipment are applied across all of the new CFA and puts in place robust and sustainable 24 hour call out arrangements for fleet maintenance	123,000
Non CFA - Business Continuity	Arrangements for business cointinuity will be reviewed in the longer term but this funding will provide ongoing part time resource to maintain a firm focus on business continuity arrangements across the service	22,000
Non CFA - IT	Current running costs of the existing Wide Area Network exceed the budget by £20,000 and this bid will bring them into alignment from next year	20,000
Non CFA - Resourcing for SIP	New resources for project management of the Station Investment Programme as set out in the Redbridge report presented earlier in the year	104,000
Non CFA - Shared Services	Following a review of shared service allocations there is net increase for next year as a result of increased usage mainly in the areas of HR and Occupational Health	62,000
Non CFA - Other	Includes provision for new risk management system and increases resulting from job evaluations across the service	19,300
		953,800

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Treasury Management Mid-Year Monitoring Report 2020/21

1. Purpose

1.1. Hampshire Fire and Rescue Authority has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the Fire and Rescue Authority to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

2. Summary

2.1. This report fulfils the Fire and Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.

2.2. The Fire and Rescue Authority's treasury management strategy was most recently updated and approved at a meeting of the Fire and Rescue Authority in February 2020. The Fire and Rescue Authority has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Fire and Rescue Authority's treasury management strategy.

2.3. Treasury management in the context of this report is defined as:

"The management of the organisation'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."

2.4. Overall responsibility for treasury management remains with the Fire and Rescue Authority. No treasury management activity is without risk and the effective identification and management of risk are integral to the Fire and Rescue Authority's treasury management objectives.

2.5. All treasury activity has complied with the Fire and Rescue Authority's Treasury Management Strategy and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Fire and Rescue Authority's treasury advisers, Arlingclose.

2.6. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, which is a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. Hampshire Fire and Rescue Authority's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by the Fire and Rescue Authority on 19 February 2020.

3. Recommendation

3.1. That the mid-year review of treasury management activities be noted.

4. External Context

4.1. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2020/21.

Economic Commentary

4.2. Coronavirus dominated the news during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus whilst also supporting their economies. A national lockdown in the UK was followed by the gradual easing of restrictions and the introduction of various support packages, including the job retention scheme and the Eat Out to Help Out (EOHO) offer.

4.3. The Bank of England's (BoE) Monetary Policy Committee maintained Bank Rate at 0.1% throughout the period and increased its Quantitative Easing programme to £745 billion. It has also not ruled out the use of negative interest rates in future, which has had an impact on interest rates available in the money markets.

4.4. Gross Domestic Product (GDP) contracted by 19.8% in Quarter 2 according to the Office for National Statistics (ONS), pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering although output is still significantly below pre-coronavirus levels. A potential second wave of the virus and the impending end of the transition period for the UK's exit from the EU may have a further impact on GDP and the economy over the remainder of the year.

4.5. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, significantly below the BoE's 2% target. Inflation was slightly higher at 0.5% year on year using the CPIH measure, which is preferred by the ONS and includes owner-occupied housing.

4.6. In the three months to July, the unemployment rate increased from 3.9% to 4.1% while wages fell in both real and nominal terms. The unemployment rate may pick up sharply in the coming months as the furlough scheme ends and the BoE has forecast unemployment could hit a peak of between 8% and 9%.

Financial Markets

4.7. After selling off sharply in March 2020, world equity markets started recovering in April and have continued to regain value during Quarters 2 and 3. Not all sectors and geographies have rebounded to the same extent and the recovery has largely been driven by a small number of US technology stocks, while in the UK the FTSE 100 and 250 have only made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility and uncertainty remain.

4.8. Ultra-low interest rates and the flight to quality continued during the period, with the yield on some shorted-dated UK government bonds turning negative and yields on longer-dated bonds remaining low.

Credit Review

4.9. After rising sharply in late March, credit default swap (CDS) spreads slowly eased over Quarters 2 and 3 to slightly above their pre-crisis levels suggesting a relatively high level of confidence in UK banks. That being said, Fitch downgraded the UK sovereign credit rating to AA- in March, which was followed by revising the outlook for all UK banks approved for use by the Fire and Rescue Authority by Arlingclose either to negative or rating watch negative, although the long term rating for HSBC was increased. Fitch and S&P also downgraded the long-term rating for Transport for London.

4.10. The extent of the losses that banks and building societies will suffer as a result of the coronavirus pandemic remains uncertain but is expected to be substantial. Arlingclose have therefore conducted a stress testing exercise and consequently a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits in June 2020. Arlingclose also continue to recommend a maximum duration of 35 days for investments with the remaining counterparties. Although far better capitalised than during the Great Financial Crisis there remains significant uncertainty about the impact of the pandemic and with the added unknown of what the final Brexit trade deal may look like. Arlingclose are therefore recommending a prudent approach and the institutions on Arlingclose's counterparty list remain under constant review.

5. Local Context

5.1. On 31 March 2020, the Fire and Rescue Authority had net investments of £14.4m. 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. These factors are summarised in Table 1.

Table 1: Balance Sheet Summary

	31/03/2020 Balance £m
CFR	10.8
Less: External borrowing	
- Public Works Loan Board	(8.3)
Internal borrowing	**2.5**
Less: Working capital liability	4.4
Less: Usable reserves	(31.3)
Net investments	**(24.4)**

5.2. The Fire and Rescue Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30 September 2020 and the movement since 31 March 2020 are shown in Table 2.

Table 2: Treasury Management Summary

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %
Long-term borrowing	(7.1)	-	(7.1)	4.7
Short-term borrowing	(1.2)	-	(1.2)	4.9
Total borrowing	(8.3)	-	(8.3)	4.7
Long-term investments	9.0	(1.0)	8.0	3.8
Short-term investments	4.0	8.0	12.0	0.3
Cash and cash equivalents	12.5	3.0	15.5	0.1
Total investments	25.5	10.0	35.5	1.0
Net investments	17.2	10.0	27.2	

Note: the figures in Table 2 at 31 March 2020 are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments such as fair value gains/losses on pooled funds.

5.3. The increase in net investments of £10.0m shown in Table 2 reflects the combination of no change in borrowing, as well as an increase in investment balances of £10.0m. The increase in total investments since 31 March 2020 reflects the fact that the balance at 31 March is typically the lowest of the year, due to many government grants being front-loaded. The largest grant is the annual pensions grant, which is received every July and is used to pay pensions throughout the year.

5.4. Reference is made above to the fact that the financial markets are seeing negative interest rates on short dated UK government bonds. Whilst our investment strategy has been adjusted to ensure that we invest in longer term products in order to secure a positive return, the security of capital remains the number one priority.

5.5. In certain circumstances therefore it may be necessary to invest surplus cash in a negative interest rate produce if the risk to capital is considered to be of greater concern within what is available in the market. Given the short term nature of the investments and the very small negative return this is not expected to impact on overall investment returns for the year.

6. Borrowing Activity

6.1. As shown in Table 2, at 30 September 2020 the Fire and Rescue Authority held £8.3m of loans, as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2020 are shown in Table 3.

Table 3: Borrowing Position

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Public Works Loan Board	(8.3)	-	(8.3)	4.7	9.3
Total borrowing	(8.3)	-	(8.3)	4.7	9.3

* Weighted average maturity

Note: the figures in the Table 3 at 31 March 2020 are from the balance sheet in the Fire and Rescue Authority's statement of accounts but adjusted to exclude borrowing taken out on behalf of others and accrued interest.

6.2. The Fire and Rescue Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Fire and Rescue Authority's long-term plans change being a secondary objective.

6.3. Short-term interest rates have remained much lower than long-term rates and the Fire and Rescue Authority has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

6.4. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs may be higher.

6.5. In keeping with these objectives, no new borrowing was undertaken in the period. This strategy enabled the Fire and Rescue Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

7. Investment Activity

7.1. The Fire and Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves. The Fire and Rescue Authority's investment holding was £35.5m at 30 September 2020, which was £1.5m (4%) higher than the same time last year.

7.2. During the six month period from 1 April to 30 September 2020, the Fire and Rescue Authority's investment balance ranged between £19.5m and £38.5m due to timing differences between income and expenditure.

7.3. Table 4 shows investment activity for the Fire and Rescue Authority as at 30 September 2020 in comparison to the reported activity as at 31 March 2020.

7.4. The increase in total investments since 31 March 2020 reflects the fact that the balance at 31 March is typically the lowest of the year, due to many government grants being front-loaded. The largest grant is the annual pensions grant, which is received every July and used to pay pensions throughout the year.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Short term investments					
- Banks and Building Societies					
- Unsecured	3.0	0.2	3.2	0.1	0.0
- Secured	1.0	(1.0)	-	N/A	N/A
- Money Market Funds	9.5	5.3	14.8	0.1	0.0
- Local Authorities	3.0	6.5	9.5	0.4	0.6
	16.5	11.0	27.5	0.2	0.2
Long term investments					
- Banks and Building Societies					
- Secured	1.0	-	1.0	0.7	2.5
- Local Authorities	1.0	(1.0)	-	N/A	N/A
	2.0	(1.0)	1.0	0.7	2.5
Long term investments – higher yielding strategy					
- Pooled Property Funds**	3.3	-	3.3	4.0	N/A
- Pooled Equity Funds**	2.0	-	2.0	4.6	N/A
- Pooled Multi-Asset Funds**	1.7	-	1.7	4.1	N/A
	7.0	-	7.0	4.2	N/A
TOTAL INVESTMENTS	25.5	10.0	35.5	1.00	0.3

*The weighted average maturity (WAM) figures exclude pooled funds which have no fixed end date.

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2020.

Note: the figures in Table 4 at 31 March 2020 are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments such as fair value gains/losses for pooled funds.

7.5. The CIPFA Code and government guidance both require the Fire and Rescue Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Fire and Rescue Authority's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

7.6. Security of capital has remained the Fire and Rescue Authority's main investment objective and has been maintained by following the Fire and Rescue's counterparty policy as set out in its Treasury Management Strategy Statement.

7.7. Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in of financial institutions, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

7.8. The Fire and Rescue Authority also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment, and invests in secured bank bonds and with other local authorities and the UK government to minimise bail-in risk.

7.9. Over the six month period, the Fire and Rescue Authorities investments have continued to feel the effects of the Coronavirus pandemic. This has resulted in falling money market rates, fewer suitable counterparties, and a reduction in advised investment durations.

7.10. To reduce credit and liquidity risk, liquid cash has been invested across multiple counterparties, including bank call accounts, Money Market Funds (MMFs) and the UK government's Debt Management Office Deposit Facility (DMADF).

7.11. The DMADF provides a high degree of security as the Fire and Rescue Authority is lending to the UK government. However, on 25 September the overnight, 1- and 2-week deposit rates on DMADF deposits dropped below zero percent to -0.03%. The Fire and Rescue Authority has not to date used the DMADF at negative rates and has therefore maintained a positive net return.

7.12. The return on MMFs net of fees also fell over the six month period and for many funds net returns now range between 0% and 0.1%, with fund management companies in several instances temporarily lowering or waiving fees to maintain a positive net return.

7.13. Against this backdrop, the Fire and Rescue Authority has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.18% on internally managed funds as at 30 September 2020 whilst also maintaining sufficient liquidity through the use of call accounts, the DMADF and money market funds.

7.14. The progression of credit risk and return metrics for the Fire and Rescue Authority's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5. This compares the data for the quarter ended 30 September 2020 with data for the quarter ended 31 March 2020.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return**
31/03/2020	AA-	68%	99	0.61%
30/09/2020	AA-	63%	102	0.18%
Police & Fire Authorities	AA-	57%	44	0.11%
All LAs	AA-	64%	18	0.27%

* Weighted average maturity

** based on investments held at end of quarter

7.15. During the six-month period from 31 March to 30 September 2020, the impact of the two Bank Rate cuts in March was felt across the money markets. This resulted in the investment return on internally managed investments in the portfolio reducing, although these returns were greater than the average of Arlingclose’s other Police and Fire Authority clients.

7.16. The proportion of investments subject to bail-in risk was lower at 30 September than at the end of the last financial year, which was largely due to investing part of the annual pension grant that was received in July in a number of short term investments with local authorities. Where the Fire and Rescue Authority is exposed to bail-in risk, it is largely through investments in MMFs, which invest in instruments that are highly diversified therefore reducing bail-in risk.

7.17. In order to minimise the risk of receiving unsuitably low investment income, the Fire and Rescue Authority has continued to invest a proportion of its steady core balances in externally managed pooled funds as part of its higher yield strategy.

7.18. Pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term. By holding these investments for the longer term, the Fire and Rescue Authority is able to ride out periods of volatility that result in falls in value and manage the security of its original investment. Investing only steady core balances also means the Fire and Rescue Authority should not ever need to be a forced seller for liquidity reasons.

7.19. The Fire and Rescue Authority’s investments in pooled property, equity and multi-asset funds allow diversification into asset classes other than cash without the need to own and manage the underlying investments, with £7m now invested.

7.20. These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Fire and Rescue Authority’s investment objectives is monitored regularly and discussed with Arlingclose.

7.21. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Fire and Rescue Authority's investments in these pooled funds suffered a £1.1m fall in capital value (15.2%) over the year to 31 March 2020, however such losses are only realised if the assets are sold before they have the chance to regain value, which the Fire and Rescue Authority does not plan to do.

7.22. Since March there has been improvement in market sentiment in equity and bond markets, which is reflected in increases in capital values of the multi-asset income fund and one (of two) equity income funds in the Fire and Rescue Authority's portfolio. Property prices have continued to fall, which has cancelled out the increase in the value of the other pooled funds, which is summarised in Table 6.

Table 6: Pooled Fund Capital Values

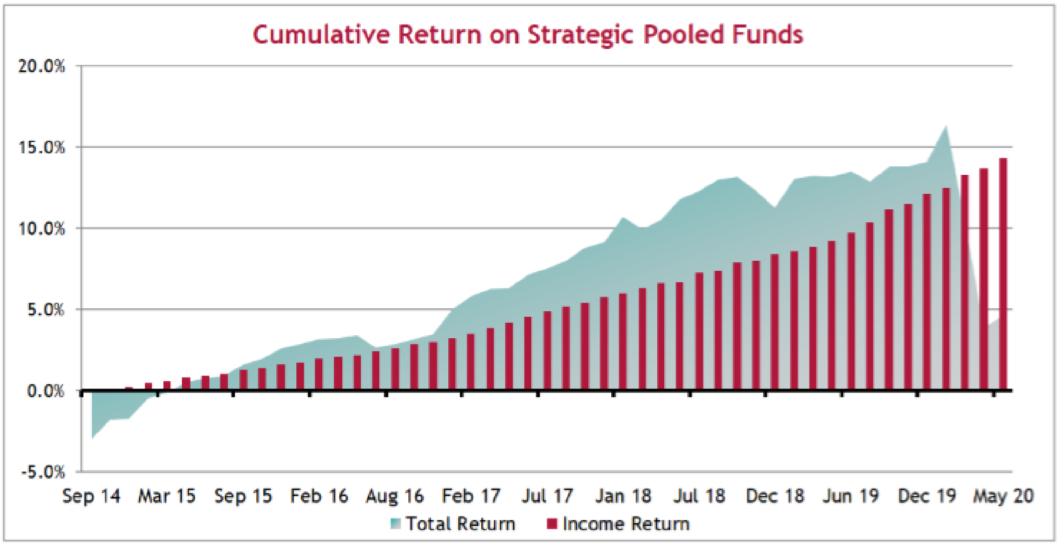
	Principal Invested £m	31/03/2020 Capital Value £m	Movement £m	30/09/2020 Capital Value £m
Pooled Property	3.3	3.21	(0.13)	3.08
Pooled Equity	2.0	1.67	0.00	1.67
Pooled Multi-Asset	1.7	1.45	0.13	1.58
Total	7.0	6.33	0.00	6.33

7.23. Dealing in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers, and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty was re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for this property fund; from September 2020 investors are now required to give at least 90 calendar days' notice for redemptions.

7.24. In 2020/21, the Fire and Rescue Authority expects to receive significantly lower income from both its internally managed cash and its higher yielding portfolio than it did in previous years and it should be noted that the average return in Table 4 is likely to fall further over the course of the financial year. Dividends and income paid will depend on many factors including the ongoing impact of the pandemic and the individual strategies of each pooled fund, such as their sectoral allocations and investment decisions. Equity income funds will also be affected by enforced or voluntary dividend cuts and deferrals.

7.25. Given the impact on capital values and income described above the investments in pooled funds have been reviewed with Arlingclose, whose advice remains that these investments continue to be appropriate for the Fire and Rescue Authority. Capital values should recover over time and in the meantime these investments will continue to generate income returns significantly in excess of what could be achieved on traditional cash investments, to benefit the revenue budget

7.26. The chart below shows the positive impact of regular income returns from these pooled funds over time and the ongoing suitability of the Fire and Rescue Authority's approach to pooled fund investments will continue to be reviewed regularly with Arlingclose.



8. Non-Treasury Investments

8.1. Although not classed as treasury management activities the Fire and Rescue Authority may also make loans and investments for service purposes, for example the direct purchase of land or property. Such loans and investments will be subject to the Fire and Rescue Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. The Fire and Rescue Authority does not have any existing non-treasury investments.

9. Compliance Report

9.1. The Fire and Rescue Authority confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Fire and Rescue Authority's approved Treasury Management Strategy. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Tables 7.

Table 7: Debt Limits

	2020/21 Maximum £m	30/09/20 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Borrowing	(8.3)	(8.3)	(13.2)	(15.9)	✓
Other long term liabilities	-	-	(5.0)	(5.0)	✓
Total debt	(8.3)	(8.3)	(18.2)	(20.9)	✓

10. Treasury Management Indicators

10.1. The Fire and Rescue Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

10.2. The following indicator shows the sensitivity of the Fire and Rescue Authority's current investments and borrowing to a change in interest rates:

Table 8: Interest Rate Exposures

	30/09/20 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investment	£26.8m	+/- £0.3m
Borrowing	£0.0m	n/a

10.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

10.4. This indicator is set to control the Fire and Rescue Authority's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity structure of fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 9 – Refinancing Rate Risk Indicator

	30/09/20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	14%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	18%	50%	0%	✓
5 years and within 10 years	1%	75%	0%	✓
10 years and within 20 years	62%	75%	0%	✓
20 years and above	0%	100%	0%	✓

Principal Sums Invested for Periods Longer than a year

10.5. The purpose of this indicator is to control the Fire and Rescue Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 10 – Price Risk Indicator

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£8m	£8m	£7m
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied	✓	✓	✓

10.6. The table includes investments in strategic pooled funds of £7m as although these can usually be redeemed at short notice, the Fire and Rescue Authority intends to hold these investments for at least the medium-term.

11. Other

11.1. IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

12. Arlingclose's outlook for the remainder of 2020/21

12.1. The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, the coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

12.2. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Quarter 3.

12.3. However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

12.4. This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have already priced in a chance of a negative Bank Rate.

12.5. Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

12.6. Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

12.7. Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

12.8. Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

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