LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 27 November 2019, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

MINUTES

PRESENT:

Councillors

F De Molfetta (Chairman)
F Jackson
T Martin (Vice-Chair)
D O'Toole
M Parkinson OBE (for H Khan)
D Stansfield
G Wilkins
T Williams

Officers

D Russel, Deputy Chief Fire Officer (LFRS)
K Mattinson, Director of Corporate Services (LFRS)
B Warren, Director of People and Development (LFRS)
J Bowden, Head of Finance (LFRS)
M Nolan, Clerk and Monitoring Officer to the Authority

In attendance

C Chesters, Head of Procurement (LFRS)
D Howell, Solicitor (LFRS)

63/19 APOLOGIES FOR ABSENCE

Apologies were received from County Councillors Hasina Khan and Lorraine Beavers and Councillor Simon Blackburn.

64/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

65/19 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 25 September 2019 be confirmed as a correct record and signed by the Chairman.

66/19 TREASURY MANAGEMENT - MID-YEAR REPORT 2019/20

In accordance with the CIPFA Treasury Management Code of Practice and to strengthen Members' oversight of the Authority's treasury management activities, the Resources Committee received a treasury management mid-year report and a final outturn report. Reports on treasury activity were discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Authority's Director of Corporate Services and were used as a basis for this report to the Committee.

Economic Overview

The economic situation continued to be dominated by the uncertainty arising from the unknown impact of the UK's withdrawal from the European Union and the trade dispute between the worlds' two largest economies namely the USA and China. Despite this, the first quarter of 2019 showed relatively strong growth of 0.5% (1.8% year on year). However, it was considered that this was partly due to stockpiling ahead of the expected date for leaving the European Union and was followed by a contraction of 0.2% in the second quarter.

Outlook for Interest Rates

Arlinglose, Lancashire County Council's treasury advisers, were forecasting no change in the Bank Rate for the foreseeable future. However, there were risks to this forecast which could see rates moving in either direction.

Treasury Management Position and Policy

The underlying need to borrow for capital purposes was measured by the Capital Financing Requirement (CFR); while usable reserves and working capital were the underlying resources available for investment. The treasury management activity was influenced both by the position at the beginning of the year and the plans in year. The position at the start of the financial year was summarised in the report as now considered, this showed that the Authority had a net borrowing requirement of £197k, which was below its actual borrowing of £2.0m, and reflected the additional voluntary MRP contributions that the Authority had made in order to generate cash to repay loans either on maturity or as an early repayment. Members considered the proposed further voluntary MRP contribution of £187k, in addition to the planned £10k which would reduce the borrowing requirement to zero, fully providing for existing loan repayment or to offset future loan drawdowns. (It was noted that the Authority was not anticipating in year capital expenditure being funded from borrowing, but this depended on the agreed 5 year programme currently being developed and some borrowing may be required in future years). In terms of investments it was anticipated that there may be some reduction in the level of reserves held, dependent upon the level of in-year capital expenditure which, given slippage in the programme this looked less likely at the present time.

Borrowing

There had been no new borrowing in the first six months of the financial year. This was consistent with the position that the current borrowing was already above the CFR and that the capital programme did not include any expenditure to be financed from borrowing.

The long term debt outstanding of £2m was from the Public Works Loan Board. Consideration was given to the early repayment of the loans. However, these would be subject to an early repayment (premium) charge. The authority did repay debt in 2017/18 but at the time it was considered that the premium on these loans was such that it was not financially beneficial to repay the loans. This is still considered to be the case with the estimated premium charge to repay the three loans being £1.074m.

Investments

Both the CIPFA Code and the MHCLG Guidance required 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 was to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment returns and having the value of reserves eroded by inflation.

The Authority principally invested in a call account provided by Lancashire County Council which paid the base rate. Each working day the balance on the Authority's Current Account was invested in this to ensure that interest was received on surplus balances within an acceptable risk framework. During the period all new investments were placed with the County Council via this arrangement. At 30th September there was a balance of £33.670m invested in LCC while the average for the period was £21.663m.

In addition, in order to increase the rate earned on current balances, the Authority had placed fixed investments with other local authorities. To attract a higher rate of interest than was available on the call account these investments needed to be fixed for a longer period of time. The report identified the investments that had been in place during the year. At 30 September there was £10m fixed term investment in place therefore the total investment held at 30 September was £43.670m. The overall the rate of interest earned during the period was 0.96% which compared favourably with the benchmark 7 day index which averaged 0.69% over the same period. All investments were made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Prudential Indicators

In order to control and monitor the Authority's treasury management functions a number of prudential indicators were determined against which performance may be measured. At its meeting on 18 February 2019 the Authority approved the indicators for 2019/20 which were detailed in the report alongside the current actual.

Revenue Budget Implications

The 2019/20 revenue budget for treasury management activity showed that anticipated income exceeded expenditure by £0.252m. Taking into account the activity for the first six months of the year and estimated cash-flow for the remainder of the year the latest forecast was considered:

	Budget	Forecast	Variation
	£m	£m	£m
Interest Payable	0.090	0.090	0.000
Minimum Revenue Provision	0.010	0.197	0.187
Interest receivable	(0.352)	(0.331)	0.021
Net budget	(0.252)	(0.044)	0.208

The variation on the MRP reflected the additional contribution proposed whilst interest receivable was slightly below budget as the anticipated increase in the interest rates in the last quarter of the financial year looked unlikely.

Regulatory Updates
A key source for long term borrowing was the PWLB. The PWLB lending was offered at a fixed rate above the gilt yields. For most authorities that qualified for the certainty rate, including the Lancashire Combined Fire Authority, this rate was 0.8%. In recent months gilt yields and therefore loan rates had fallen to record low levels and as a result local authority borrowing from the PWLB had risen. In response to this HM Treasury announced on the 9th October that it was increasing the margin above gilts by 1%. Therefore for an authority which qualified for the certainty rate then the interest rate on any new PWLB loan was 1.8% above the gilt yield rather than 0.8%.

This change did not have an immediate impact for the Authority as it was not seeking new loans. However, should the capital financing position change then consideration would have to be given as to whether there were suitable alternatives to PWLB financing.

RESOLVED: That the report be noted and endorsed and that an additional MRP contribution of £187k was agreed.

67/19 FINANCIAL MONITORING 2019/20

Revenue Budget
The overall position as at the end of September showed an underspend of £0.4m. Trends were being monitored to ensure that they were reflected in future year's budgets, as well as being reported to Resources Committee.

We previously reported that there was a potential shortfall of £273k in Section 31 grant in relation to Business Rates Relief for 2019/20. Although we had still not had confirmation, we believed that we met the criteria as set out by MHCLG in order for them to pay a one off grant of £273k. As such, we did not reduce the budgeted grant income for 2019/20.

In addition, since the last meeting we have received the balance of the Section 31 grant funding in relation to the Winter Hill incident of 2018. We had anticipated claiming this under the Bellwin scheme, which had an element of self-funding (circa £109k), however as it was paid under Section 31 grant we have been reimbursed for the full costs, leaving a surplus of £109k in year.

In terms of the year end forecast we had anticipated an underspend of approx. £0.3m due in the main to the additional grant for Winter Hill, for USAR and the adjustment to the council tax collection figure (as previously reported). As outlined in the Treasury Management Mid-Year Update report we were proposing making an additional voluntary Minimum Revenue Provision (MRP) payment of £187k, in order to reduce the borrowing requirement to zero, fully providing for existing loan repayment or to offset future loan drawdowns. After allowing for this the current year end forecast showed a £0.1m underspend.

It was noted that in line with recent court/ombudsman rulings in respect of the pensionability of allowances a review of all our allowances was being undertaken to determine which were pensionable and which were not. Whilst the review was on-going it was clear that if any allowances were made pensionable then this would impact on the revenue budget, however at this early stage we had not reflected this in the forecast as presented. We would update the forecasts as the position became clearer, and provide an updated report to members at the appropriate time.

The year to date positions within individual departments were set out in the report with major variances relating to non-pay spends and variances on the pay budget being shown separately in the table below: -

Area	Overspend / (Under spend) to 30 Sept	Forecast Outturn at 31 March	Reason
	£'000	£'000	
Service Delivery	(63)	(73)	The variance to date and forecast outturn both reflect:- • An additional £58k of grant being allocated to the USAR Team by Government, this announcement only being made after the budget was set • The additional income generated at Preston due to the extension of the lease arrangement with NWAS until September 2020, generating an additional £25k in 2019/20.
Winter Hill	(109)	(109)	As previously reported, we anticipated claiming under Bellwin for the Winter Hill incident, however we had now received the funding via Section 31 grant and had been reimbursed £109k, the full cost of the incident.
Property	99	(8)	The overspend position related to premises repairs and maintenance, with lighting and drill yard works being carried out at several fire stations. This was a timing issue and reflected orders raised to date for work which had not yet been undertaken. Hence we were forecasting a broadly balanced year end position
Other Non-DFM	(101)	593	The majority of the underspend to date reflected the additional council tax collection fund surplus of £59k due from one of the billing authorities as previously reported. The majority of the forecast overspend reflected the funding gap identified at the time of setting the budget in February and the

			additional MRP contribution outlined earlier.
Whole-time Pay (less Associate Trainers)	(71)	(227)	There were a number of factors contributing to the underspend on whole-time pay at the end of September. The most significant of which were: • The Service currently held six more vacancies than allowed for in the budget due to personnel retiring earlier than forecast and a slight shortfall in the number of recruits who commenced on station in April. This gave rise to an underspend of £64k to date. • In addition, the grade mix of personnel and the high number paid at development rates of pay result in a further underspend of approx. £110k. • Overtime payments over the summer annual leave period had been higher than budgeted, reflecting the overall vacancies as highlighted above and the support provided to on-call stations, generated an overspend of £68k to date. Given the current recruits course was due to complete in January we anticipate the level of overtime reducing in the second half of the year. • In addition a number of personnel had opted out of the pension scheme. The budget was based on the actual number of ‘opt outs’ at the time of setting the budget. However this had now increased to 35 with the 4 additional ‘opt outs’ generating a saving of approx. £20k. • Offsetting this, Associate Trainer costs were £55k higher than budgeted, reflecting additional usage of

			associates to cover vacancies at TOR and to meet temporary demand for trainers in excess of current staffing levels. As a result of these the overall whole-time budget was underspent by approx. £71k after 6 months of the year. However to put this into context that represented a variance of less than 0.5% of the budget at the end of September. Some of these variances were a timing issue, as new recruits started, personnel were promoted and as personnel achieved competency and were paid accordingly. This was reflected in the forecast outturn position shown, an anticipated underspend of £227k. However this was dependent upon how many further personnel left before reaching their projected retirement date.
RDS Pay	(1)	(18)	The budget was broadly in line at the end of September. This was reflected in the forecast outturn position, which was based on average activity levels during the second half of the year, and vacancies remaining at a consistent level.
Support staff (less agency staff)	(81)	(155)	The underspend to date and forecast related to vacant posts across various departments, which were in excess of the vacancy factor built into the budget. The majority of these vacancies were currently undergoing recruitment, with an assumed 3 month gap in costs (although recruitment of technical specialists in ICT and Knowledge Management continued to take longer). Note agency staff costs to date of £57k were replacing vacant support staff roles, this accounted for less than 2% of total support staff costs.

Capital Budget
Following on from September Resources Committee we the amended programme stood at £3.6m.

In terms of the programme, the current position, shown in appendix 2 and summarised below, showed committed expenditure to the end of September of £3.0m: -

Area	Committed Expenditure to Sept 2019	Details
	£000	
Pumping Appliances	1,056	The budget allowed for the remaining stage payments for 7 pumping appliances for the 2018/19 programme, for which the order had been placed in January 2018. Phased delivery of these vehicles was anticipated in the last quarter of the financial year.
Other vehicles	776	This budget allowed for the replacement of various operational support vehicles, the most significant of which was the Water Tower, which was delivered during quarter one. In addition to these, the budget allowed for various support vehicles which were reviewed prior to replacement. We currently anticipated completing the purchase of the majority of these within the financial year.
Operational Equipment	4	This budget allowed for completion of the kitting out of three reserve pumping appliances, which were part of the 2018/19 programme, in addition to providing a £50k budget for innovations in fire-fighting to be explored.
Building Modifications	287	This budget allows for: • Refurbishment of the Fire House, where work was completed in July, and where we had incurred costs of £287k to date. • Based on the latest stock condition survey, several stations had identified upgrades to dormitory and shower facilities. Plans had been finalised and were currently being costed prior to moving to procurement. Anticipated in-year spend would depend upon the final procurement route for the above projects and on Property department capacity to deliver the works.

IT systems	860	The replacement station end project had now commenced with equipment ordered and due for delivery in the current calendar year, with installation following thereafter. The budget also allowed for the replacement of the Services wide area network (WAN) providing an enhanced network and improving speed of use across the Service. The order had been placed and work was underway to install this. We anticipated this project being completed in the current calendar year The budget also allowed for replacement Storage Area Network, the hardware for which had been delivered in quarter one, and would be configured for use in due course. The balance of the budget related to the replacement of various systems, in line with the ICT asset management plan. Reviews carried out had identified two systems which did not need replacing at this time, hence the underspend shown. We were still reviewing the need to replace others, hence further updates on progress would confirm which replacements were being actioned in the current year and anticipated spend profiles.

The committed costs to date would be met by revenue contributions and usage of capital reserves.

Delivery against savings targets

The current position on savings targets identified during the budget setting process was reported. It was anticipated that we would meet our efficiency target for the financial year.

The Director of Corporate Services provided an overview for Members of the distinction between funding received via Section 31 grant and funding received via Bellwin.

RESOLVED: - That the Committee noted and endorsed the financial position.

68/19 THE 2020/21 LOCAL GOVERNMENT FINANCE SETTLEMENT - TECHNICAL CONSULTATION PAPER

The report set out details of the Government's latest consultation document relating to 2020/21 Local Government Finance Settlement. The Local Government Finance Settlement was the basis by which the Government allocated out funding to individual authorities, as part of the Local Government Finance Settlement.

The Ministry of Housing, Communities and Local Government issued a consultation document titled "Local Government Finance Settlement 2020/21 – Technical Consultation" on 3 October, with a deadline for a response of 31 October. The proposed 2020/21 settlement was framed in the context of the overall Spending Review package, and set out more detail on the Government's plans for allocating these resources to local authorities.

As part of the work on the Spending Review the Government had heard the concerns of local authorities about the need for certainty and stability to enable budget planning for the next financial year. Reflecting this, the one-year Spending Round and the plans for a more substantial Spending Review exercise in time for 2021-22, they proposed to implement a 'roll-forward' settlement for 2020-21, which would provide stability for the majority of funding sources for local government.

The Government remains committed to reforming local government finance. In 2020 the Government plans to carry out a multi-year Spending Review, which would lay the groundwork for reforms. They would continue to work towards their aim to implement these reforms in 2021-22, including a full reset of business rates retention baselines.

Whilst the document talked about the increased specific funding allocated to authorities, such as the Better Care Fund and New Homes Bonus, this did not affect Fire and Rescue Authorities. As such the only significant area which we felt warranted comment related to council tax referendum principles.

The document outlined the following council tax referendum principles for 2020/21:-

- a core principle of up to 2% (this was 3% for 2018/19 and 2019/20)
- an adult social care precept for local authorities with responsibility for adult social care of 2% on top of the core principle;
- no referendum principles for Mayoral Combined Authorities or town and parish councils.

This meant that Fire would be limited by the general principle i.e. a council tax increase of up to 2%.

Question 3: Do you think that there should be a separate council tax referendum principle of 2% or £5, whichever is greater, for shire district councils in 2020-21?

Question 4: Do you have views on the proposed package of council tax referendum principles for 2020-21?

<u>Response Submitted</u>
"Whilst the Spending Review provided a boost across the public sector in general, there was no detail about the impact on Fire Authorities. Without this it is hard to know how much funding will need to be raised via council tax and therefore hard to provide an informed response.

However regardless of the eventual funding we do not believe the 2% threshold will be sufficient and can see no logical reason for reducing this from its current 3%. We have argued for many years that greater flexibility should be provided to all authorities and have suggested that Fire Authorities should be allowed the same flexibilities as District Councils have previously been allowed, i.e. the £5 limit. Depending on the level of funding in 2020 we may still make an argument about providing flexibility in line with this.

Lancashire FRA has shown significant restraint regarding council tax increases, having the second lowest increase of any FRA between 2010/11 and 2019/20, an increase of just £5.83 (9.2%), and if you look at increases over the period of the four year settlement the same restraint has been shown, with Lancashire increasing council tax by just 7.1% compared with the maximum permissible under the referendum principles of 10.0%. In order to put this into context, for Lancashire each 1% of foregone council tax equates to £0.3m. As a result we feel that reducing the referendum limit to 2% is inequitable, penalising those Authorities who have previously shown restraint. It is also worth noting that the Fire Authority precept makes up a very small percentage of the overall council tax bill, approx. 4% in Lancashire, therefore any increase in our element of council tax has a relatively low impact on the overall council tax bill. Despite making up such a low amount of the overall council tax bill the cost of holding a referendum is far more significant than for any of the local councils, including the Unitaries and Lancashire, as our referendum would need to cover the whole of the County, at a cost which is estimated in the region of £1.5m. In order to recoup this cost we would need to increase council tax by 7% (5% more than the proposed referendum). Increasing council tax by a more marginal figure, 3% in line with previous thresholds, would only generated £0.3m more than the proposed 2% threshold, and as such it is impossible to justify the cost of holding a referendum to the local public against this size of increase.

We note that Mayoral Combined Authorities are not subject to a referendum threshold, and we can see no argument for this waiver applying just to those authorities, who incorporate the local Fire Service. This very much feels like a two tier system forcing all Authorities into a mayor model."

As the deadline for response did not provide sufficient time to take to the Committee a response was agreed by the Chair and Vice-Chair of the Committee and duly submitted in October.

<u>RESOLVED</u>: - That the Committee noted and endorsed the response submitted.

69/19 <u>LOCAL GOVERNMENT PENSION SCHEME VALUATION</u>

The published 2019 valuation showed a marked improvement to the scheme as a whole, assets had grown significantly more than liabilities, hence the scheme as a whole had moved from a 90% funded scheme to 100% funded. This meant that for the scheme as a whole any deficit recovery costs would be significantly reduced, although it was recognised that the position would vary for each Authority.

The valuation had also identified that future service rates needed to increase by an average of 2.5%, recognising changes to scheme benefits and also changes in future assumptions such as mortality and investment returns. The overall valuation was extremely volatile, linked to investment returns and changing assumptions.

It was noted that the Government had consulted on moving from the current three year valuation cycle to a four year cycle from 2024. If this was agreed the next valuation, effective from 2023, would only set rates for two years to 2025, with the four year cycle commencing thereafter. As part of the process consideration was being given to the ability to undertake interim valuations or for administering authorities to amend employer contributions rates in between valuations, both of which would incur significant additional administrative costs.

Lancashire Fire Authority Fund
At the time of the last tri-annual valuation of the Local Government Pension Scheme the Fire Authority had a funding surplus of £4.3m, which was being drawn down over the agreed 16 year recovery period, £336k per annum.

The latest valuation showed a marked increase in the surplus, now standing at £9.7m, a funding level of 120%. The recovery period over which this was drawn down had also shortened to 13 years (in theory it reduced by 3 years each valuation). As a result the in-year draw down would increase to £745k in 2020/21 rising to £804k in 2022/23.

Offsetting this was the increase in future service rate, which had increased from 14.7% to 17.1%, an increase of 2.4% which, based on the current projected payroll equated to £135k additional cost. The profile of anticipated employer contributions for future service costs and draw down of the surplus was detailed in the report. No allowance has been made for the potential impact of the McCloud pension ruling, which has previously been reported to Members.

The Service had an option to pre-pay these amounts, either at the start of each year or as a one-off covering all three years, and receive a discount for doing so. Pre-paying this at the start of each year resulted in an overall saving of £11k, whilst pre-paying all three years in April 2020 resulted in a saving of £36k, this equated to a return of approx. 3.8% per annum, and as such it was recommended that the Authority took advantage of the one-off prepayment covering all three years. Any variation between actual costs due and the amount pre-paid would be actioned at the end of the valuation period.

RESOLVED: that the position be noted and the pre-payment of contributions, net of the surplus drawdown covering the 3-year period be approved.

70/19 SINGLE-USE PLASTIC PROMOTION

At a recent Combined Fire Authority meeting the question was posed by a Member as to what the Service had done in respect of eliminating single use plastics. This issue remained under review, and options to reduce use remained under consideration. The steps undertaken so far were noted as:-

Hydration
The most significant action undertaken so far; in addition to educating staff in respect of environmental concerns, was the issue of a reusable water bottle to each employee in March 2019 (both operational and support staff), to encourage individuals to remain hydrated and it was intended that this would significantly reduce the need for single use bottles (either purchased by the individual or utilised at incidents during the working day). The issue of the water bottle has been well received and favourably commented on, but as an emergency service involved in strenuous activity in hot conditions, (sometimes for extended periods) situations would continue to exist that required the provision of small water bottles.

Purchasing
In provision of consumables the issue of single use plastic was considered, alongside other relevant decision making factors – inevitably it was a compromise between cost, availability and practicality of provision, whether the item purchased

was for use on the fire ground or other areas such as in the Service Training Centre canteen facilities. This area was being kept under review. Alterations to our arrangements would normally have a negative financial impact during any tendering process and this aspect was considered in setting any qualification requirements.

Promotion

The Service had undertaken promotional work in respect of single use plastic as detailed in the report which also included some examples of the posters used. The SHE department and local Environmental champions were seen as the mechanism to advance the Service's position together with open consideration of alternative approaches where single use plastic was involved.

RESOLVED: - That the current position be noted.

71/19 DATE AND TIME OF NEXT MEETING

The next meeting of the Committee would be held on 25 March 2020 at 1000 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 20 May 2020 and 23 September 2020 and agreed for 25 November 2020.

72/19 EXCLUSION OF PRESS AND PUBLIC

RESOLVED: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972, indicated under the heading to the item.

73/19 HIGH VALUE PROCUREMENT PROJECTS

(Paragraph 3)

Members considered a report that provided an update on all contracts for one-off purchases valued in excess of £100,000 and high value procurement projects in excess of £100,000 including: new contract awards, progress of ongoing projects and details of new projects.

RESOLVED: That the Committee noted and endorsed the report.

74/19 RECONVENED IDRP - STAGE 2

(Paragraph 1)

Members further considered the Internal Disputes Resolution Procedure – Stage 2 application discussed at the last meeting including the independent advice which had been requested.

RESOLVED: - The Committee declined the request.

75/19 URGENT BUSINESS - EXTENSION OF SICK PAY PROVISIONS (PART 2)

(Paragraph 1)

RESOLVED: - That the Committee approved the request on the specific facts.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood