CLEVELAND FIRE AUTHORITY
AUDIT & GOVERNANCE COMMITTEE

21 FEBRUARY 2020 – 11.00AM

TRAINING & ADMINISTRATION HUB, ENDEAVOUR HOUSE, QUEENS MEADOW BUSINESS PARK, HARTLEPOOL, TS25 5TH

MEMBERS OF THE AUDIT & GOVERNANCE COMMITTEE -	
HARTLEPOOL	Councillors Marjorie James, Stephen Thomas
MIDDLESBROUGH	Councillors Naweed Hussain, Ashley Waters
REDCAR & CLEVELAND	Councillors Billy Ayre, Adam Brook, Norah Cooney
STOCKTON ON TEES	Councillors Andrew Stephenson, William Woodhead
INDEPENDENT PERSONS	Messrs Steve Harwood, Paul McGrath

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF MEMBERS INTEREST

3. TO CONFIRM THE MINUTES OF THE MEETING HELD ON 15 NOVEMBER 2019

4. TO RECEIVE THE REPORTS OF MAZARS
   - 4.1 Audit Progress Report – February 2020
   - 4.2 Audit Strategy Memorandum – year ending 31 March 2020

5. TO RECEIVE THE REPORTS OF THE CHIEF FIRE OFFICER
   - 5.1 Organisational Performance & Efficiency Report April – December 2019
   - 5.2 Internal Audit Progress Report

6. TO RECEIVE THE REPORTS OF THE TREASURER
   - 6.1 Treasury Management Strategy 2020/21
   - 6.2 Internal Audit Plan Report 2020/21

7. ANY OTHER BUSINESS WHICH, IN THE OPINION OF THE CHAIR, SHOULD BE CONSIDERED AS A MATTER OF URGENCY

C L E V E L A N D   F I R E   A U T H O R I T Y

MINUTES OF AUDIT & GOVERNANCE COMMITTEE MEETING

15 NOVEMBER 2019

PRESENT: **CHAIR:-**
Councillor Norah Cooney – Redcar & Cleveland Borough Council
HARTLEPOOL BOROUGH COUNCIL
Councillor Marjorie James,
MIDDLESBROUGH COUNCIL
Councillors Teresa Higgins (sub), Ashley Waters
REDCAR & CLEVELAND BOROUGH COUNCIL
Councillor Billy Ayre
INDEPENDENT PERSONS
Mr Steve Harwood
AUTHORISED OFFICERS
Chief Fire Officer, Director of Corporate Services, Treasurer, Legal Adviser & Monitoring Officer
MAZARS
Mr Gavin Barker - Audit Director
IN ATTENDANCE
Head of Risk and Performance, Head of Finance

APOLOGIES FOR ABSENCE:
Councillor Naweed Hussain - Middlesbrough Council
Councillor Adam Brook – Redcar & Cleveland Borough Council
Councillor William Woodhead - Stockton Borough Council
Mr Paul McGrath – Independent Person
Mr Ross Woodley – Audit Manager, Mazars

In accordance with Standing Order No. 35, Councillor Higgins substituted for Councillor Bill Woodhead.

62. DECLARATION OF MEMBERS INTERESTS
It was noted no Declarations of Interest were submitted to the meeting.

63. MINUTES
RESOLVED – that the Minutes of the Audit & Governance Committee held on 23 August 2019 be confirmed.

63.1 Matters Arising
Mr Steve Harwood confirmed that he had received the Regulatory Reform (Fire Safety) Order 2005 response as requested at the meeting on 23 August 2019. The CFO noted that since the last meeting Phase 1 of the Grenfell Inquiry had been published and would have significant implications for this Authority.

63.1 Matters Arising cont.

He added that an internal group had been set up to consider the operational issues and on a national level these would be considered by the National Fire Chiefs Council (NFCC). He noted that a summary report would go to the Authority and an action plan would come to the Audit & Governance Committee for scrutiny.

Mr Harwood suggested that often developers prioritise economy over safety and acknowledged the Authority's stance on sprinklers in residential properties to save lives, which he did not feel was echoed in other fire authorities.

Councillor James felt that the process of the inquiry was wrong and the element involving building regulations should have been addressed first. She called for changes in planning legislation.

64. REPORT OF MAZARS

64.1 Audit Progress Report – November 2019

The Audit Director (AD) presented the Audit Progress Report which covered:

- 2019/20 Audit Progress
- National Publications
- Contact details
- 2018/19 Additional Fee letter

The AD referred Members to the additional fee letter at Appendix 1 and stated that an additional fee of £950 (+vat) was being sought to cover additional work undertaken beyond that normally expected, namely in relation to accounting for IAS 19 pensions in light of the national issues that arose in relation to the McCloud judgement.

The CFO asked if the General Election in December would impact on budget setting for the Authority. The AD acknowledged that it was impossible to take a medium term view and while it did not expect the Authority to know its position until the New Year, he would be responding to how it manages its challenges.

RESOLVED - that the report be noted.

65. REPORTS OF THE CHIEF FIRE OFFICER

65.1 Organisational Performance & Efficiency Report April 2019 – September 2019

The Head of Risk and Performance (HoRP) outlined the performance of the Brigade for the period 1 April 2019 to 31 October 2019 which had been aligned to the Brigade's three Strategic Priorities. The report summaries are detailed below:

- Total incidents stand at 5601 an increase of 201 (+ 3.7%) compared to the same period last year.
- The largest increase is in secondary fires which have seen an increase of 218 compared to 2018/19 followed by Special Services (+25) and Primary Fires (+42).
- There have been 8093 HFSV completed which is a reduction of 828 (9%) compared to 2018/19. Included within these HFSV were 774 Safe and Well Visits.

65.1 Organisational Performance & Efficiency Report April – September 2019 cont.

- Accidental Dwelling Fires – 28% increase (+18) from 2018/19. Increases in Middlesbrough (+19) and Redcar and Cleveland (+9) and decreases in Hartlepool (-3) and Stockton (-7). The main causes being cooking related (22%), careless handling (18%) and electrical (17%).
- Deliberate Fires have increased by 326 (15%) compared to the same period in 2018/19. Included within these, 245 were deliberate primary fires (+ 5%) and 2326 deliberate secondary fires (+16%).
- Primary Fires – increase by 5% from the previous year. Main causes are vehicles (51%) and dwellings (22%).
- Response Standards:
  - Call answering: Target set at 7 seconds, Actual 6.6 seconds
  - Call Handing: Target 100 seconds - Actual 87 Seconds
  - Building Fires 1st Appliance Target 7 Minutes, Actual 4.58 Minutes
  - Building Fires 2nd Appliance Target 10 Minutes, Actual 7.06 Minutes
  - RTC Target 8 Minutes, Actual 5.14 Minutes
- Sickness Absence - 2019/20 has seen an increase of 51% (1.81 shifts) from this same quarter in 2018/19. 2951 duty shifts lost to sickness. In all staff groups we have seen an increase – Wholetime +28%, Retained +113%, Control +60% and Green Book +89%. Main causes of sickness absence are anxiety / depression 25% (745 shifts), lower limb 19% (552 shifts) and upper limb 10% (300 shifts). Sickness absence so far this year has cost the Brigade £674,071.
- Violence to Staff Incidents – 24 incidents (increase from 17 in 2018/19). 6 RIDDOR and 9 accidents resulting in injury due to the incident with Bravo 4 appliance.

Mr Harwood referred to first appliance availability for retained crews and asked if this was impacted by the availability of retained firefighters. The CFO noted that while the availability, recruitment and retention of on-call personnel was a significant national issue, it did not affect response standards to the community.

Councillor James queried how the Brigade determines whether retained absences are attributable to their main occupation or to their retained role with the Brigade. The CFO confirmed that the Brigade was keen to determine at the earliest opportunity if sickness is work related to put the relevant support in place.

Councillor Ayre queried how near misses were reported. The CFO confirmed the Brigade uses a form to initially report the incident which is then investigated by the Health & Safety Team to ensure appropriate action is taken. He added that near miss reporting by staff was actively encouraged to maintain the Brigade’s value of keeping its staff safe at work.

Councillor James asked what happens with the information reported in near misses. The CFO confirmed that it is considered by a joint working group which has representatives from the trade unions and health and safety team and their role is to ensure that accidents do not occur following a near miss.

65.1 Organisational Performance & Efficiency Report April 2019-September 2019 cont.
Councillor James suggested it may be good practice for a Member of the Audit & Governance Committee to sit on the joint working group. The CFO reminded Members that the Audit & Governance Committee had the delegated power to request information be provided on any area for further scrutiny. Councillors Higgins and Waters confirmed they were satisfied that the process of investigating near misses was being carried out appropriately and that the level of information reported to Members was sufficient.

Councillor James asked if the Authority had been prosecuted for any RIDDOR incidents. The CFO confirmed that the Brigade was currently under a level of investigation in relation to the overturning of the appliance in Billingham in April 2019.

Councillor Ayre asked how the Brigade determined whether mental health issues were work or home related. The CFO acknowledged this was very difficult to determine often due to many contributing factors affecting the individual. However, if the Brigade's GP identifies work as the main contributing factor occupational health support is offered. He confirmed there had been a link between violence to staff and mental health issues and that all incidents are debriefed with TRIMS offered, as well as having watch-based support mechanisms in place. He added that the Authority had a Health & Wellbeing Programme led by the Director of Corporate Services which aims to support the health and wellbeing of all staff.

RESOLVED – That the report be noted

65.2 Annual Statement of Assurance 2018/19
Members scrutinised the Annual Statement of Assurance 2018/19 outlined at Appendix 1 of the report which contained details relating to financial, governance and operational matters. The CFO reported that this document was a statutory requirement produced in line with the requirements of the Fire and Rescue National Framework for England 2012.

Mr Harwood commended the report and praised the Authority for having strong business continuity arrangements in place which he considered indicative of the good management within the Brigade.

RECOMMENDED – That the Executive Committee consider and approve the Annual Statement of Assurance 2018/19 (Appendix 1) at its meeting on 22 November 2019.

65.3 Internal Audit Progress Report
The CFO presented the audits undertaken to date and highlighted the outcomes relating to limited / satisfactory assurance. He also gave a position statement regarding the actions set out in the audit action plans.

The CFO highlighted the outstanding action relating to 'Procurement – Purchase Fuel Cards' and confirmed this had now been reviewed and a new procedure was currently being produced therefore this action would be completed by the next meeting.

65.3 Internal Audit Progress Report Cont.

RESOLVED:-

(i) that the audit position of the 2018/19 Audits be noted.

(ii) that the progress made to date in the Internal Audit Plan 2019/20 be noted.

65.4 Progress Against Revenue and Capital Budgets 2019/20

The CFO introduced Mr Graham Fowler who had recently been appointed as the Head of Finance (HoF), following the retirement of Mr Cliff Cordiner.

The HoF presented the current revenue position as at 30 September 2019, as detailed at Appendix 1, and informed Members of the forecasted outturn position which shows a net underspend of £0.66m. This reflects workforce planning arrangements to manage vacancy levels in order to support the CIRMP plans for 2019/20, together with procurement savings for utilities, cleaning and security which have been built into the 2020/21 budget. In addition this is based on the planning assumption that any pay settlement for firefighters above 2% is fully funded by the Government, as stated by the national employers organisations in their negotiations with the Fire Brigades Union.

The Capital position as at 30 September 2019 was a forecast underspend of £0.05m with all schemes in the Capital Programme for 2019/20 on target, as detailed at Appendix 2.

RESOLVED - that the position at 30 September 2019 be noted.

COUNCILLOR NORAH COONEY
CHAIR

Audit Progress Report

Cleveland Fire Authority

February 2020

MAZARS

CONTENTS

1. AUDIT PROGRESS

Audit progress

This report sets out progress on the external audit.

2019/20 Audit

Our planning work in relation to the 2019/20 audit for Cleveland Fire Authority is now complete. We have reported our Audit Strategy Memorandum for the 2019/20 audit to the February 2020 meeting of the Audit and Governance Committee as a separate agenda item. The Audit Strategy Memorandum describes the four stages of the audit, the planning stage being the first. We are now midway through the second stage (interim audit), which we are on schedule to complete by the end of March 2020.

Financial Reporting Workshops

On 4 February 2020 we held our Local Government Financial Reporting workshops for officers involved in the production of the financial statements and officers from Hartlepool Borough Council responsible for preparing Cleveland Fire Authority's financial statements attended. These workshops provided an update on the latest developments as well as a forum for our clients to discuss emerging issues. It included a revisit of 2018/19 final accounts issues, early close implications, changes in the 2019/20 Code and a forward look to future regulatory and policy changes.

2. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	**Proposed fire and rescue services inspection programme and framework 2020/21: for consultation, HMICFRS, October 2019**
2	**Government response to the Housing, Communities and Local Government Select Committee report *'Local Government Finance and the 2019 Spending Review',* HCLG, October 2019**
3	**Financial Management Code, CIPFA, October 2019**
4	**A Councillor's guide to procurement, 2019 edition, LGA, October 2019**
5	**Fire and rescue workforce and pensions statistics, England, April 2018 to March 2019 second edition, Home Office, November 2019**
6	**Annual Transparency Report, Mazars, December 2019**
7	**Mazars' response to the Brydon Review, Mazars, December 2019**
8	**Response times to fires attended by fire and rescue services: England, April 2018 to March 2019, Home Office, January 2020**
9	**Grenfell Tower Inquiry Phase 1 report: government response, Home Office, January 2020**
10	**State of Fire and Rescue: The annual assessment of fire and rescue services in England, HMICRS, January 2020**

1. Proposed fire and rescue services inspection programme and framework 2020/21: for consultation, HMICFRS, October 2019

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) recently consulted on its proposed fire and rescue services inspection programme and framework for 2020-21. The consultation which closed on 29 November 2019 sought views on:

• the proposed approach to inspections for the next cycle and how this could be improved;

• whether the draft inspection methodology includes the right questions to gather evidence for a rounded assessment of services;

• how best HMICFRS could report on the progress the service has made since the previous inspection;

• any new or emerging problems to be taken into consideration in the inspections;

• ways to adapt the collection of information in order to take into account the circumstances of fire and rescue services and risks to public safety; and

• other possible considerations to encourage and promote fairness in fire and rescue service assessments.

https://www.justiceinspectorates.gov.uk/hmicfrs/publications/proposed-fire-and-rescue-services-inspection-programme-2020-21-for-consultation/

2. Government response to the Housing, Communities and Local Government Select Committee report 'Local Government Finance and the 2019 Spending Review', HCLG, October 2019

In our November 2019 progress report we noted that the Government had decided to undertake a review of local government audit (the Redmond Review) following a report by the HCLG Select Committee. Whilst the Redmond Review is ongoing the Government has now published its response to the Select Committee's recommendations, including:

• developing a more consistent approach to the collection and monitoring of comparative data about councils' performance, efficiency and financial sustainability;

• the need for MHCLG, working with HM Treasury and other departments, to clearly set out what tasks are expected of local government and how much funding it requires;

• the need for increased adult social care funding;

• the need for MHCLG and HM Treasury to provide a multi-year settlement for local government which runs for one year beyond the Spending Review period – similar to the approach that is currently used for Departmental capital budgets; and

• the need for reforms and substantial changes to the business rate retention system.

https://www.gov.uk/government/publications/local-government-finance-and-the-2019-spending-review-response-to-the-select-committee-report

2. NATIONAL PUBLICATIONS CONTINUED

3. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively. It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management.

The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.
The Code applies to all local authorities, including fire and rescue authorities.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.
https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code

4. *A Councillor's guide to procurement, 2019 edition, LGA,* October 2019

The LGA worked closely with councils to develop the National Procurement Strategy 2018 and a toolkit that enables local authorities to set their own objectives and measure their own progress.

The National Procurement Strategy puts the councillor role front and centre and this guide has been produced specifically with councillors in mind. It looks at the roles councillor's play – both executive members and those engaged in overview and scrutiny work – and provides hints and tips on how to get the best out of procurement and contract management. Just as in the national strategy, the focus is on delivering council objectives. Councillors do not need to be procurement professionals but they do need to be able to ask the right questions, including:

- What is the procurement process and why do major procurements in local government fail?
- What are the role and responsibilities of a councillor?
- How is social value delivered under the Public Services (Social Value) Act 2012 and more generally?

https://www.local.gov.uk/councillors-guide-procurement-2019-edition

5. Fire and rescue workforce and pensions statistics, England, April 2018 to March 2019 second edition, Home Office, November 2019

There was little change in the number of firefighters or total employees during 2018/19 as about 10 per cent of staff retired or resigned but there was a similar number of new recruits. This was the third successive year of virtual standstill in employee numbers following seven years of significant reductions from the 2010 peak.

The resumption of recruitment in most authorities has facilitated increased diversity in the fire and rescue service. The percentage of female firefighters increased to 6.4%, compared with 4.5% five years ago. There was also a small increase in the proportion of firefighters from an ethnic minority.
https://www.gov.uk/government/statistics/fire-and-rescue-workforce-and-pensions-statistics-england-april-2018-to-march-2019

6. Annual Transparency Report, Mazars, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.
https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019

7. Mazars' response to the Brydon Review, Mazars, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit). The call for evidence for this review closed in December 2019 and we are expecting the report later this year.

The Brydon Review contains several recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate '*corporate auditing profession*', greater focus on fraud detection during audits, and the replacement of the *'true and fair'* concept, with a greater focus on going concern. The report is published here: https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.
https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report

8. Response times to fires attended by fire and rescue services: England, April 2018 to March 2019, Home Office, January 2020
In 2018/19, the average response time to primary fires in England was 8 minutes 49 seconds, up 11 seconds since 2017/18 and 33 seconds since 2013/14. Although the long term trend has been upwards for the past 20 years, as greater congestion has increased drive times, the 2018/19 increase was unusually high and the report does not identify a clear reason for this.

The national average response time to secondary fires increased by 32 seconds to 9 minutes 42 seconds. This increase was driven by the exceptionally high number of fires in July 2018 coinciding with a peak in monthly average response times for the year.
https://www.gov.uk/government/statistics/response-times-to-fires-attended-by-fire-and-rescue-services-england-april-2018-to-march-2019

9. Grenfell Tower Inquiry Phase 1 report: government response, Home Office, January 2020

On 30 October 2019, the Grenfell Tower Inquiry published its Phase 1 report which looked at the events on the night of the fire on 14 June 2017 in which 72 people died in the greatest loss of life following a residential fire since the Second World War. The Government has accepted all of the recommendations. The Fire Safety Bill will create a firm foundation to enable the Government to lay regulations needed to deliver the legislative recommendations in the report. These recommendations include building owners or managers sharing information with fire and rescue services on external wall systems, and undertaking regular inspections of flat entrance doors. The Home Office plan to consult on these proposals in Spring 2020.

2. NATIONAL PUBLICATIONS CONTINUED

The National Fire Chiefs Council (NFCC) are currently analysing the report's recommendations in detail and are working with all Fire and Rescue Services to develop clear and comprehensive implementation plans, building on their existing work programme. The NFCC will feed the lessons learned from the Inquiry's recommendations into its ongoing review of National Operational Guidance. The NFCC has formed a steering group with the Home Office to specifically review the '*stay put'* policy and ensure that the new guidance is evidence-based.
https://www.gov.uk/government/publications/grenfell-tower-inquiry-phase-1-report-government-response

10. State of Fire and Rescue: The annual assessment of fire and rescue services in England, HMICRS, January 2020

The 15 reports for the final tranche of inspections, including Cleveland, were published in December 2019 and HMICFRS rated Cleveland '*good'* in all three inspection pillars of effectiveness, efficiency and people. The report contained 16 recommendations, which the Authority should address by the next inspection, likely to be in 2021. Cleveland's inspection report is available here:
https://www.justiceinspectorates.gov.uk/hmicfrs/publications/frs-assessment-2018-19-cleveland/

In January 2020, HMICFRS published a national report summarising the results of all 3 tranches. Overall, they found that most services they inspected were keeping people safe and secure from fires and other emergencies, and were using their resources efficiently. However, some services need to improve how well they look after their people. HMICFRS found pockets of outstanding practice in some services and areas where improvement is urgently needed in others. They concluded that as services hadn't been independently inspected for over a decade, so it was not surprising that some areas need improving. The report contains four national recommendations.

The report does not include a league table but it shows that:
- 64 per cent of authorities were rated 'good' for effectiveness;
- 58 per cent of authorities were rated 'good' for efficiency;
- 40 per cent of authorities were rated 'good' for people; and
- 34 per cent of authorities were rated 'good' for all three inspection pillars, as were Cleveland.

https://www.justiceinspectorates.gov.uk/hmicfrs/publications/state-of-fire-and-rescue-annual-assessment-2019/

3. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
www.mazars.co.uk

Gavin Barker
Director
0191 383 6300
gavin.barker@mazars.co.uk

Ross Woodley
Manager
0191 383 6303
ross.woodley@mazars.co.uk

Address:
Salvus House,
Aykley Heads,
Durham,
DH1 5TS
0191 383 6300

Audit Strategy Memorandum

Cleveland Fire Authority

Year ending 31 March 2020

CONTENTS

This document is to be regarded as confidential to Cleveland Fire Authority. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP

Salvus House

Aykley Heads

Durham DH1 5TS

Audit and Governance Committee

Cleveland Fire Authority

Endeavour House

Queens Meadow Business Park

Hartlepool TS25 5TH

5 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Cleveland Fire Authority for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Cleveland Fire Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Gavin Barker

Gavin Barker

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Cleveland Fire Authority (the Authority) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion	We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority and the group for the year.
Value for Money	We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.
Reporting to the NAO	We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission. We do this by issuing an assurance certificate which confirms that the Authority is below the threshold set by the NAO.
Electors' rights	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified Cleveland Fire Authority as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

- Gavin Barker, CIPFA
- Director and Engagement Lead
- Gavin.Barker@mazars.co.uk
- 0191 383 6300

- Ross Woodley, CIPFA
- Manager
- Ross.Woodley@mazars.co.uk
- 0191 383 6303

- Angela Davis, ACA
- Team Leader
- Angela.Davis@mazars.co.uk
- 0191 383 6300

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

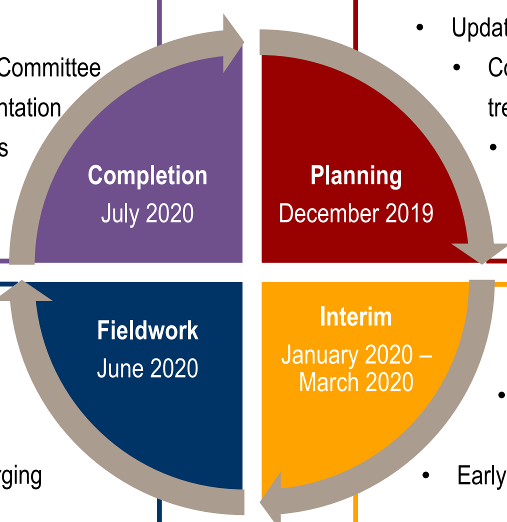
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final engagement lead review
- Reporting to Audit and Governance Committee
- Agreeing content of letter of representation
- Reviewing post balance sheet events
- Signing our opinion

- Initial opinion and value for money risk assessments
- Updating our understanding of the Authority
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will liaise with internal audit to consider the progress and findings of their work prior to the commencement of any controls testing.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO's Consulting Actuary (PWC)
Property, plant and equipment valuation	Valuer from Hartlepool Borough Council	
Financial instrument disclosures	Link Asset Services	

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Preparing the financial statements and maintaining all the material systems underpinning these statements: • general ledger; • payroll; • accounts payable; • accounts receivable; • fixed assets; and • treasury management.	Hartlepool Borough Council	We are also the auditor of the Council and have direct access to accounting records and staff. Accordingly, we can substantively test the financial statements in the same way as if they were prepared by the Authority. We will review and document the controls in place for production of the financial statements and also within the material financial information systems.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

Local government and fire bodies are required to consider interests in other entities and whether those interests might necessitate the production of group financial statements. The Authority has determined that group financial statements are required in respect of its wholly owned subsidiary Cleveland Fire Risk Management Services.

We have determined that the subsidiary is not a significant component. The forecast 2019/20 expenditure for the subsidiary is less than 15% of the forecast expenditure for the group and the subsidiary's forecast profit is below the materiality level we have set for the Authority. Accordingly, we will not be issuing group instructions and placing direct reliance on the subsidiary auditors.

Instead we have planned our 2019/20 audit to include:

- communicating with the auditor of the subsidiary company (Waltons Clark Whitehall) to obtain the necessary information, including taking into account any risks they have identified, the timing of their work and the materiality level they have set;
- using this information and discussions with the service organisation to assess group and consolidation controls;
- obtaining the subsidiaries audited accounts and using them to conduct analytical procedures at group level; and
- auditing the group accounts, ensuing appropriate consolidation adjustments and disclosures.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

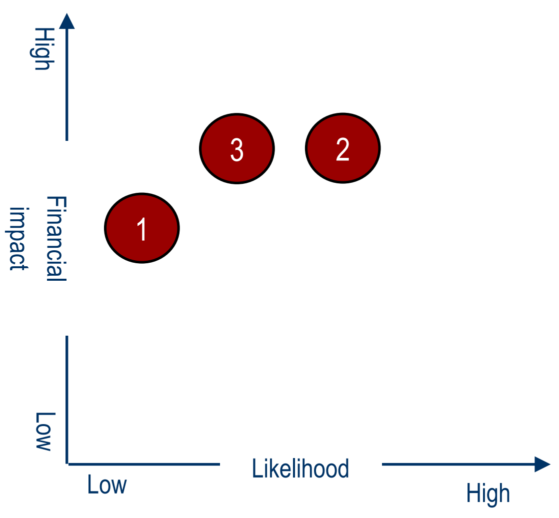
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will use a computer audit analytical technique (CAAT) to efficiently identify journals with risk characteristics and test 100% of such adjustments to the financial ledger.
2	**Property, plant and equipment valuation** The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.	We plan to address this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and will engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Hartlepool Borough Council valuer. We will also assess the competence, skills and experience of the valuer. We plan to discuss methods used with the valuer and examine test valuations. We will use indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We will test a sample of revaluations in year to valuation reports and supporting calculation sheets and ensure the calculations are correct and source data agrees with floor plans.
3	**Defined benefit liability valuation** The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension assets and liabilities are subject to triennial revaluation. This results in an increased risk of material misstatement.	We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally. We will review the appropriateness of the key assumptions included within the valuations, compare them to expected ranges and review the methodology applied in the valuation. We will consider the adequacy of disclosures in the financial statements. We will also seek assurance from the audit of Teesside Pension Fund.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.	Although auditing standards presume a significant risk of fraud in respect of revenue recognition we do not consider this to be a significant risk for Cleveland Fire Authority. Excluding funding from central government, the Authority's share of local taxes collected by local councils and the revenue of the separately audited subsidiary, revenue is only just material rendering fraud in respect of revenue difficult to conceal. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

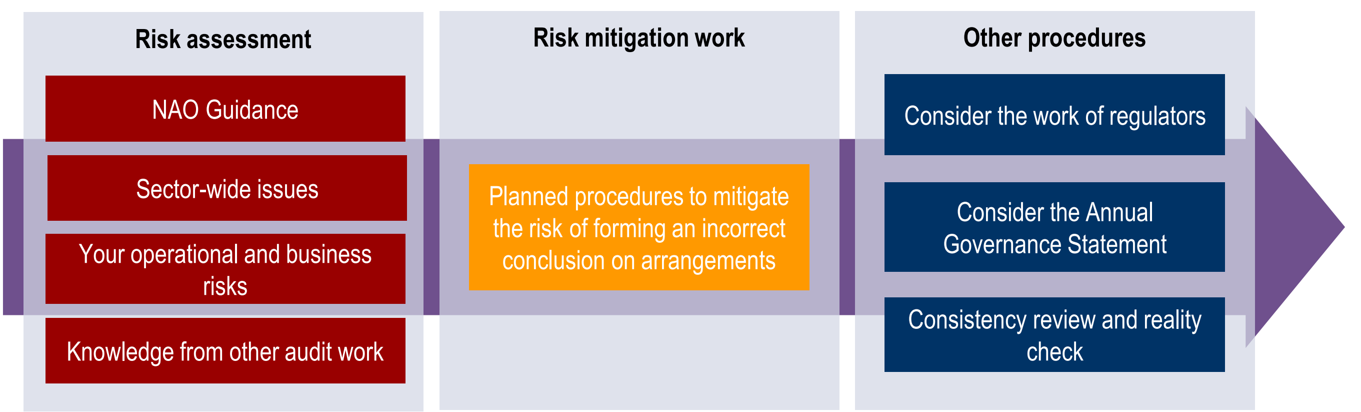
5. VALUE FOR MONEY

Our approach to Value for Money
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:
- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks
The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) significant risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

5. VALUE FOR MONEY (CONTINUED)

For the 201920 financial year, we have identified the following significant risk to our VFM conclusion:

Description of significant risk	Planned response
Sustainable Resource Deployment The Government is reviewing the approach it will take to funding fire and rescue from 2021/22, but has indicated that it will not release the results of the review until late 2020. There is also considerable uncertainty about pay and pension pressures. The Authority has prudently built up a budget support fund to bridge the time between the extent of the funding gap being known and the implementation date for additional savings schemes required. This is forecast to reach £4.6M by 31 March 2020. The Medium Term Financial Strategy shows the savings required from 2020/21 to 2022/23 after utilising these reserves for a range of possible income and cost scenarios. The £0.2M savings required for 2020/21 have already been secured through recent procurement exercises but the worst case planning scenario requires the Authority to find a further £2.7M savings to continue to balance the budget once the budget support fund is exhausted. Accordingly, there is a risk that the Authority will be unable to sustain delivery of strategic priorities in the Community Integrated Risk Management Plan (CIRMP), and maintain statutory functions beyond 31 March 2021 unless the arrangements to identify and implement additional savings are strong.	We will review the Authority’s arrangements to ensure that it delivers its new CIRMP, focusing especially on progress identifying additional savings from 2021/22 onwards. We will also review the 2019/20 financial and performance outturn and the updated VFM Profile produced by the National Audit Office to identify any emerging risks to the VFM Conclusion. This review will consider the latest forecasts for the level of reserves available at 31 March 2021.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 17 April 2019 and other matters listed below

Service	2018/19 fee	2019/20 fee
Code audit work	23,193*	22,243
Group Accounts	2,926	2,926
Total audit fees	**26,119**	**25,169**
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.		To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.		To be agreed

- includes an additional amount of £950 in relation to the work associated with the GMP/McCloud pension liability issue.

All stated fees are subject to VAT

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment.

We will discuss the driving factors with the Authority's officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.

Fees for other work

We have not been engaged by the Authority to carry out any additional work.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Authority to confirm to you at least annually, in writing, that we comply with the Financial Reporting Authority's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s) CFA	Initial threshold (£'000s) Group
Overall materiality	962	1,053
Performance materiality	770	843
Trivial threshold for errors to be reported to the Audit and Governance Committee	29	32

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements, which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Our provisional materiality is set based on a benchmark of 2% of gross revenue expenditure at the surplus / deficit level after excluding exceptional items and revaluation and impairment gains and losses. We identify an overall figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold 2% of gross revenue expenditure.

Based on last year's audited accounts we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £1m (£0.876m in the prior year at the planning stage).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Senior Officer Remuneration	£43k
Members Expenses	£3k
Exit Packages	£1k

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £29k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

Reporting to the Audit and Governance Committee
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit and Governance Committee.

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.

ORGANISATIONAL PERFORMANCE & EFFICIENCY REPORT APRIL – DECEMBER 2019

REPORT OF THE CHIEF FIRE OFFICER

CLEVELAND FIRE AUTHORITY

For Information

1. PURPOSE OF REPORT

1.1 To appraise Members on the performance of the Brigade against our Corporate Performance Indicators for the period 1st April to 31st December 2019.

1.2 To provide Members with information on the Brigade's performance trends.

2. RECOMMENDATIONS

2.1 That Members note the progress made to date as outlined in the report at Appendix 1.

2.2 That Members consider whether it is necessary to report to the Fire Authority on any issues raised.

3. BACKGROUND

3.1 A fundamental part of Performance Management is to demonstrate how well public bodies are performing and whether they are providing value for money.

3.2 The publication of the Community Integrated Risk Management Plan 2018-22 saw the introduction of new Strategic Goals, Aims and Outcomes that the Brigade works towards in the achievement of its vision. A review of the Performance Management Framework has subsequently been undertaken to ensure there are robust processes in place to monitor progress against each of the strategic goals and outcomes. A review of the Corporate Suite of indicators is in progress to ensure that the suite of indicators is comprehensive and provide robust measures of all of the strategic outcomes.

4. PERFORMANCE

4.1 The attached report at Appendix 1 provides Members with an overview of the Brigade's performance for the period 1st April to 31st December 2019.

4.2 Page four provides Members with a summary of the level of demand for Emergency Response incidents; the number of Home Fire Safety Visits and Safe and Well Visits conducted; inspections of Industrial and Commercial premises as well as the number of emergency calls received and dealt with by Fire Control which all form part of our balanced strategy of Prevention, Protection and Emergency response.

4.3 Members will see that there has been an increase of 0.7% (49 incidents) that the Brigade responded to, with increases in Primary Fires (+74), Special services (+47) and Secondary Fires (+71). Members will also see that there has been a reduction of 125 in the number of false alarms attended by the Brigade which is primarily due to the ongoing implementation of the Unwanted Fire Signal Strategy which saw a reduction in Non Domestic Automated False Alarms of 11%.

4.4 In addition, during this period, the Brigade completed 12,716 Home Fire Safety Visits which included 1,700 Safe and Well Visits and 1,267 fire safety audit inspections of industrial and commercial buildings.

4.5 **Safer Stronger Communities**
Pages eight to sixteen provide details of performance for the period for the strategic goal of Safer Stronger Communities.

4.6 Pages nine and ten provides a dashboard summary of performance for each strategic outcome within this goal and details those areas assessed as performing strongly and those areas requiring improvement.

4.7 Pages eleven to sixteen provide Members with details of the indicators used to assess the strategic outcome in terms of performance with 2018/19 comparator performance.

4.8 **Proud, Passionate, Professional and Inclusive Workforce**
Pages seventeen to twenty three provide details of performance for the period for the strategic goal of Proud, Passionate, Professional and Inclusive Workforce.

4.9 Pages eighteen to nineteen provides a dashboard summary of performance for each strategic outcome within this goal and details those areas assessed as performing strongly and those areas requiring improvement.

4.10 Pages twenty to twenty three provide Members with details of the indicators used to assess the strategic outcome in terms of performance with 2018/19 comparator performance.

4.11 **Efficient Use of Resources**
Pages twenty four to twenty eight provide details of performance for the period for the strategic goal of Efficient Use of Resources.

4.12 Pages twenty five to twenty six provides a dashboard summary of performance for each strategic outcome within this goal and details those areas assessed as performing strongly and those areas requiring improvement.

4.13 Pages twenty seven to twenty eight provide Members with details of the indicators used to assess the strategic outcome in terms of performance with 2018/19 comparator performance.

4.14 **Emergency Response Standards**
Members will be aware that as part of the balanced strategy the Brigade operates to, a suite of stringent emergency response standards has been established. Performance of the standards are reported against the respective strategic outcomes throughout the report.

4.15 To ensure transparency of performance against the standards, the performance against each response standard has been consolidated into a chronological summary from time of receipt of emergency 999 call to time of attendance at the incident. Pages thirty to thirty two of the appended report provide Members with this information.

IAN HAYTON
CHIEF FIRE OFFICER

KAREN WINTER
DIRECTOR OF CORPORATE SERVICES

Organisational Performance and Efficiency Report

Quarter 3
01 April – 31 December 2019

January 2020

Prepared by:
Risk and Performance
Cleveland Fire Brigade

DATA QUALITY STATEMENT

We are satisfied that any information and assessments included in this report are in all respects accurate and complete. No significant data quality issues have been identified during the preparation of this report by the Risk and Performance Team nor have any been brought to the team's attention.

Whilst we have not validated every item of information within the report we are confident, from our knowledge of our staff, relevant systems and processes, that the information produced is done so in accordance with CFB approved guidance. No issues on data quality have been identified in any internal or external assessment conducted on the Brigade. In addition the internal audit annual assurance statement on the Brigade's system of management controls has not identified any weaknesses with systems and processes.

Our commitment to high quality data is driven by our Data Quality Policy supported by a robust procedure and delivery plan to ensure continued improvements in the data quality arrangements. This quality assurance framework underpins the Brigade's Integrated Strategic, Business and Financial Planning Cycle.

Our embedded approach to the principles of efficient and accurate data collection, collation, recording, analysis and reporting of information across the organisation, to partners and the public, enable increased levels of confidence in the quality of information produced.

In all cases, whatever the source of the information, the most up to date information that is available is used within our reports. Information and data sharing agreements and protocols have been formally established where data is shared between partners.

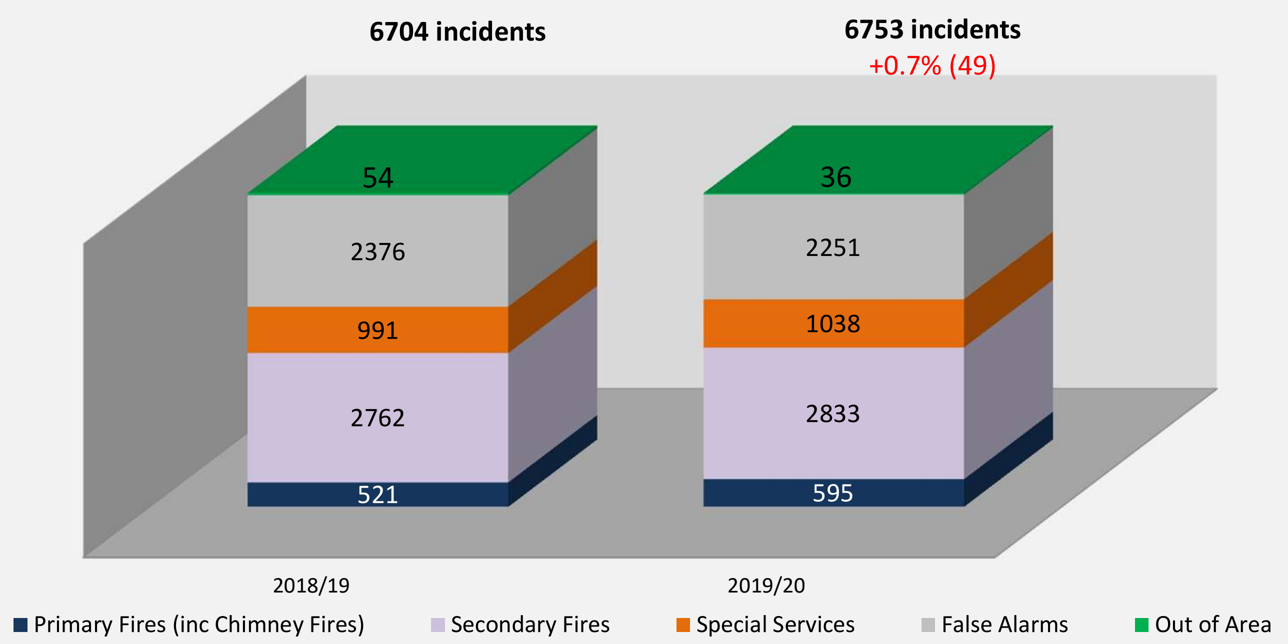
We continually work to further improve the quality of our data through internal reviews of management information systems, processes and procedures. Staff understanding and adherence to appropriate data quality standards will be continually monitored to ensure current high standards are maintained and are not the sole responsibility of the Risk and Performance Team.

At the time of producing this report all incidents have been completed by our Operational Managers and quality assured through the approved data quality framework.

Any amendments to the data supporting this report after 30th January 2020, such as reclassification of incidents following fire investigations, will not be represented in the information reported.

CONTENTS

Incident Profile 01/04/2019 to 31/12/2019



Response

During quarter 3 of 2019/20 there have been 6,753 incidents, an increase of 49 (0.7%) compared to the third quarter in 2018/19.

Secondary Fires (2,833) account for 42% of all incidents attended, followed by False Alarms (2,251) accounting for 33% of all incidents. Special Services (1,038) and Primary Fires (595) account for 15% and 9% of incidents respectively.

Primary Fires have increased by 14% (74) compared to 2018/19, Special Services have increased by 5% (47) to 1,038 incidents and Secondary Fires have increased by 3% (71) to 2,833 incidents.

False Alarms have reduced by 5% (125) to 2251 which includes a reduction of Non Domestic Automatic False Alarm incidents by 11% (-48) to 389 incidents.

Prevention

The Brigade (including the Volunteer Network) has conducted 12,716 Home Fire Safety Visits (HFSV) during the period. This is a reduction of 911 (7%) compared to the equivalent period in 2018, when the Brigade completed 13,627 HFSV.

This is made up of:
- Exeter HFSV: 277 (2,180 Q3 2018/19)
- Safe and Well: 1,700 (2,203 Q3 2018/19)
- Other HFSV: 10,739 (9,244 Q3 2018/19)

Arising from the SAW visits there were referrals to other agencies for support and/or items of equipment provided to 119 individuals. This is a 277 (70%) reduction compared to Quarter 3 2018/19 when referrals or equipment was provided to 396 individuals as a result of their Safe and Well Visit.

Protection

1,267 Inspections of industrial and commercial premises have been completed during the period compared to 1,163 in the equivalent period during 2018/19, an increase of 104 (9%).

This is made up of 783 planned audits and 484 reactive audits.

Of these audits, 265 (21%) have been completed by Station based advisers and the remaining 1002 (79%) by Fire Engineering staff.

Fire Control

During the period Fire Control dealt with 9,893 emergency calls, an increase of 3% (243) calls from the equivalent period in 2018/19.

MEASURING PERFORMANCE

The Community Integrated Risk Management Plan (2018 to 2022) identifies three strategic goals supported by six strategic objectives and twenty strategic outcomes. The strategic goals are:

- Safer, Stronger Communities;
- A Proud, Passionate, Professional and Inclusive Workforce;
- Efficient Use of Resources.

In order to assist our measuring of progress against these strategic goals, objectives and outcomes a suite of corporate performance indicators have been developed.

By measuring progress against these indicators and subsequently our strategic aims, as detailed within this section, it can tell us whether or not we are achieving our strategic goals.

We will assess this performance against the following criteria;

(i) Performance compared to previous year
(ii) Performance compared to 5 years ago
(iii) Performance against target

Our assessment methodology for the corporate suite of indicators follows a two stage process.

Stage 1 Assessment of Each Indicator:
Every indicator identified in each Strategic Outcome will be allocated a performance RAG rating using the following criteria:

Stage 1

Value 4	Performing Strongly (More than 10% better than previous year)
Value 3	Performing Well (Between 0% and 9.9% better than previous year)
Value 2	Adequate Performance (Between 0% and 9.9% worse than previous year)
Value 1	Requires Improvement (More than 10% worse than previous year)
NA	Not Recorded /Reported
Value 0	No Activity to Assess / No Comparator Info

Direction of Travel:

A direction of travel assessment is provided through the use of arrow graphics which shows movement in absolute performance.

Stage 2: Assessment of each Strategic Outcome:

Using the RAG ratings for the individual indicators (detailed above) a performance score is assigned to each indicator with Performing Strongly awarded 4, Performing Well awarded 3, Performing Adequately awarded 2 and Requires Improvement allocated 1. Where no performance can be reported or the indicator is not measured these are allocated 0 and excluded from the overall assessment.

An average score for the key indicators in each Strategic Outcome is then calculated and an overall assessment is evaluated using the following scoring;

Stage 2

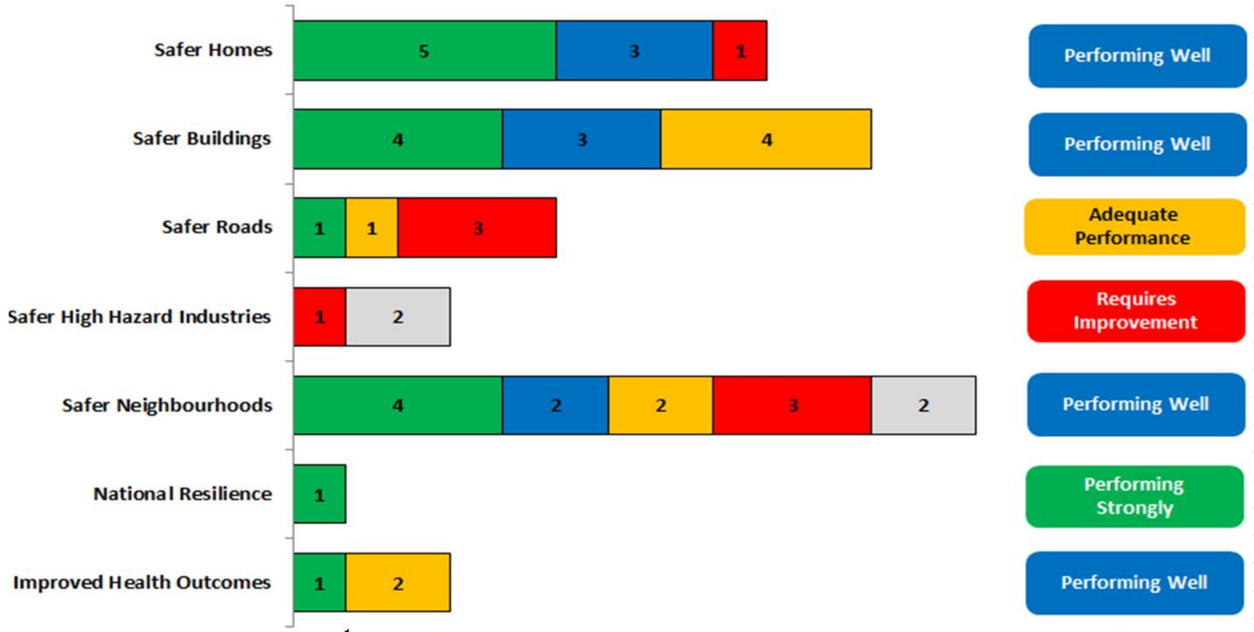
>3.5	Performing Strongly (More than 3.5)
2.5-3.5	Performing Well (Score 2.5 to 3.5)
1.5-2.49	Adequate Performance (Score 1.5 to 2.49)
<1.5	Requires Improvement (Less than 1.5)
--	Not Recorded /Reported
--	No Activity to Assess / No Comparator Info

New Performance Dashboard

The introduction of the new strategic goals and associated strategic outcomes has resulted in a review of the performance dashboard to summarise the performance assessment against each strategic goal.

Using the performance assessment detailed in the previous section, a new style chart for each outcome has been developed that summarises the performance measures against each strategic outcome and provides the overall assessment for the strategic goal.

The following section details how the dashboard works.



A graphical representation of the individual indicator assessment – based on **Stage 1** of the Performance Assessment process detailed above.

Full details of the performance for each indicator is shown in the tables detailed against each strategic outcome.

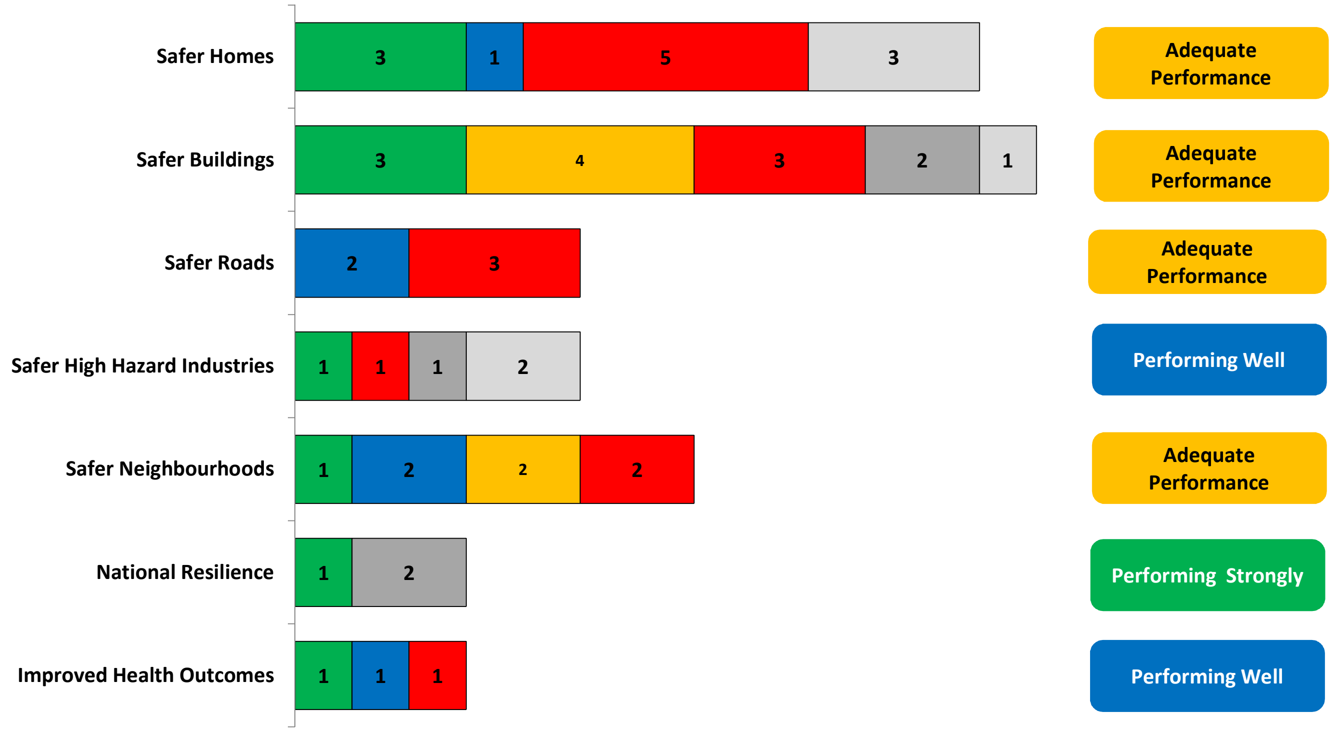
The overall judgement for the strategic outcome based on the measurable indicators.

Calculation of this assessment as detailed in **Stage 2** of the Performance Assessment framework detailed above.

SAFER STRONGER COMMUNITIES

Our communities are safer and stronger through the delivery of our responsive, accessible, prevention, protection and emergency response services.

SAFER STRONGER COMMUNITIES
STRATEGIC OUTCOMES SUMMARY



KEY

	Stage 1
Value 4	Performing Strongly (More than 10% better than previous year)
Value 3	Performing Well (Between 0% and 9.9% better than previous year)
Value 2	Adequate Performance (Between 0% and 9.9% worse than previous year)
Value 1	Requires Improvement (More than 10% worse than previous year)
NA	Not Recorded /Reported
Value 0	No Activity to Assess / No Comparator Info

	Stage 2
>3.5	Performing Strongly (More than 3.5)
2.5-3.5	Performing Well (Score 2.5 to 3.5)
1.5-2.49	Adequate Performance (Score 1.5 to 2.49)
<1.5	Requires Improvement (Less than 1.5)
--	Not Recorded /Reported
--	No Activity to Assess / No Comparator Info

Exceptionally Good Performance

- 11% (54) reduction in the number of False Alarms in dwellings from 504 to 450;
- 11% (48) reduction in the number of attendances at Non Domestic Unwanted Automated Alarm Calls compared to Quarter 3 2017/18 and a 35% (213) reduction from 2014/15;
- All Emergency Response Attendance standards (1st and 2nd Appliances) achieved;
- The average time of the first appliance attendance to a **building fire** is 4 minutes and 58 seconds which is 2 minutes and 2 seconds faster than the approved response standards to building fires;
- The average time of the first appliance attendance to a **dwelling fire** is 4 minutes and 58 seconds which is 2 minutes and 2 seconds faster than the approved response standards to building fires;
- The average time of the first appliance to a **high hazard site** is 4 minutes and 45 seconds, which is 2 minutes and 15 seconds faster than the approved response time;
- The average time of the first appliance attendance to an **RTC** is 5 minutes and 33 seconds which is 2 minutes and 27 seconds faster than the approved response standards to an RTC incident.

Areas For Improvement

- 4 Primary Fire Fatalities: 1 fatality in an ADF, 1 fatality in a Deliberate Fire and 2 Fatalities in an Industrial and Commercial Incident;
- Road Traffic Collisions: 12 fatalities (+7) and an increase of 38% (+35) to 128 Individuals seriously injured in RTCs;
- On 6 occasions the initial fire appliance assigned to an incident has failed to respond resulting in an alternative appliance responding;
- 14% (70) increase in primary fires;
- 31% (26) increase in Accidental Dwelling Fires & 13% (8) increase in Deliberate Dwelling Fires;
- 33% (13) increase in the number of Industrial and Commercial Fires;
- Increases of 14% (39) in deliberate primary fires and 6% (161) in deliberate secondary fires;
- 22% (32) increase in deliberate primary vehicle fires (54% of deliberate primary fires).

1.1.1 Safer Homes	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Accidental Dwelling Fires	84	110	26	31%	
Number of Deliberate Dwelling Fires	61	69	8	13%	
Number of Accidental Dwelling Fire Fatalities	0	1	1	100%	
Number of Deliberate Dwelling Fire Fatalities	0	0	0	100%	
Number of Accidental Dwelling Fire Injuries	7	8	1	14%	
Number of Deliberate Dwelling Fire Injuries	0	1	1	100%	
Number of False Alarm Good Intents in Dwellings	504	450	-54	-11%	
Percentage of ADFs Which Have Received a HFSV Within 5 years Prior to the ADF	70%	52%	-18%	-	
Percentage of Dwellings Which Have Received a HFSV	59%	60%	1%	-	
Average time of a first appliance attendance to a Dwelling Fire - 7 Minutes	-	00:04:58 (1078 mobilisations)	No comparator information		-
First Appliance Attendance to a Dwelling Fire within 10 Minutes on 90% of Occasions	-	97%	No comparator information		-
Average time of a second appliance to a Dwelling Fire - 10 Minutes	-	00:07:03 (869 mobilisations)	No comparator information		-

1.1.2 Safer Buildings	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Percentage of the annual risk based inspection program completed in approved frequency	36% (720/2000)	33% (783/2373)	-3%	-	↓
Percentage of Building (72d) Risk Information Scheduled to be Reviewed During the Year That Has Been Reviewed	-	99% (72/73)	No comparator information		-
Percentage of enforcement notices that are completed within prescribed timescales	100% (3/3)	20% (1/5)	-80%	-	↓
Number of Fatalities in Industrial and Commercial Fires	0	2	2	100%	↑
Number of Injuries in Industrial and Commercial Fires	0	0	0	-	↔
Number of Industrial and Commercial Fires*	39	52	13	33%	↑
Number of Non Domestic Unwanted Automated Fire Alarm calls received	485	436	-49	-10%	↓
Number of attendances at Non Domestic Unwanted Automated fire calls	437	389	-48	-11%	↓
Average time of first appliance attendance to a building fire (7 Minutes)	00:04:48	00:04:58 (1795 mobilisations)	00:00:10	3%	↑
First appliance attendance to a building fire within 10 minutes on 90% of occasions	98%	96%	-2%	-	↓
Average time for second appliance to attend a building fire (10 minutes)	00:06:41	00:07:03 (1374 mobilisations)	00:00:22	5%	↑
Percentage of Consultations completed within prescribed timescales	This will be reported commencing Financial Year 20/21				
Percentage of Licensing Consultations completed within prescribed timescales					

1.1.3 Safer Roads	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Road Traffic Collisions attended by the Brigade	229	252	23	10%	
Number of Fatalities in Road Traffic Collisions	5	12	7	140%	
Number of people seriously injured in Road Traffic Collisions	93	128	35	38%	
Number of people suffering slight injuries in Road Traffic Collisions	532	516	-16	-3%	
Average time of first appliance attendance to an immediate life threatening / rescue Road Traffic Collisions (8 minutes)	00:05:37	00:05:33	00:00:04	-1%	

1.1.4 Safer High Hazard Industries	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Incidents within identified High Hazard sites	7	15	8	114%	
Average time of first appliance attendance to an incident at a High Hazard site (7 minutes)	00:05:13	00:04:45	00:00:29	9%	
Average time full mobilisation requirement to a Worse Case Planning Scenario incident at a High Hazard site (20 minutes)	-	-	No Worse Case Planning Scenario Incidents		-
Average time of initial PDA attendance to Life Risk Incident on High Hazard Site	-	00:13:57	No comparator information		-
Percentage of High Hazard sites risk information that have been reviewed during the year	-	73% (30/41)	No comparator information		-

1.1.5 Safer Neighbourhoods and Environment	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Deliberate Fire Fatalities	1	1	0	0%	↔
Number of Deliberate Fire Injuries	1	1	0	0%	↔
Number of Deliberate Fires	2771	2971	200	7%	↑
Number of Deliberate Primary Fires	288	327	39	14%	↑
Number of Deliberate Primary Fire Vehicles	144	176	32	22%	↑
Number of Deliberate Secondary Fires	2483	2644	161	6%	↑
Number of Water rescue incidents	9	6	-3	-33%	↓

Supplementary Indicators	2018/19	2019/20	Variance		RAG & DOT
			No	%	
Total Number of 999 calls to Fire control	9650	9893	243	3%	
Number of times a Fire Appliance assigned to an incident failed to respond	-	6	-	-	-
Number of Primary Fire Fatalities	1	4	3	300%	
Number of Primary Fire Injuries	8	10	2	25%	
Percentage of all fires that are classed as Accidental Fires	16%	13%	For information purposes		For information purposes
Percentage of all fires that are classed as Deliberate Fires	84%	87%	For information purposes		For information purposes
Number of Primary Fires	512	582	70	14%	
Number of Secondary Fires	2762	2833	71	3%	
Average time taken to answer an emergency 999 call (7 seconds)	7.73	6.36	-1.37	-18%	
Average time for Fire Control to mobilise a fire appliance to an incident (100 seconds)	82	84	1	2%	
Percentage of Occasions Fire Control mobilise a Fire Appliance within 2 Minutes of the call	93%	89%	-4%	-	
Percentage of Wholetime appliances meeting Book mobile threshold of 2 minutes	98%	98%	0%	-	
Percentage of Retained appliances meeting Book mobile threshold of 5 minutes	69%	71%	2%	-	

1.1.6 Supported National Resilience	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Percentage of times the DIM national resilience resource is mobilised within 60 minutes of request to mobilise	100% (5/5)	100% (9/9)	0%	-	
Percentage of times the MDU (G9) New Dimensions asset is mobilised within 60 minutes of request to mobilise	-	-	-	-	-
Percentage of time the National Resilience Assets (DIM G8 and MDU G9) are available for Emergency Response	This will be reported commencing financial Year 20/21				

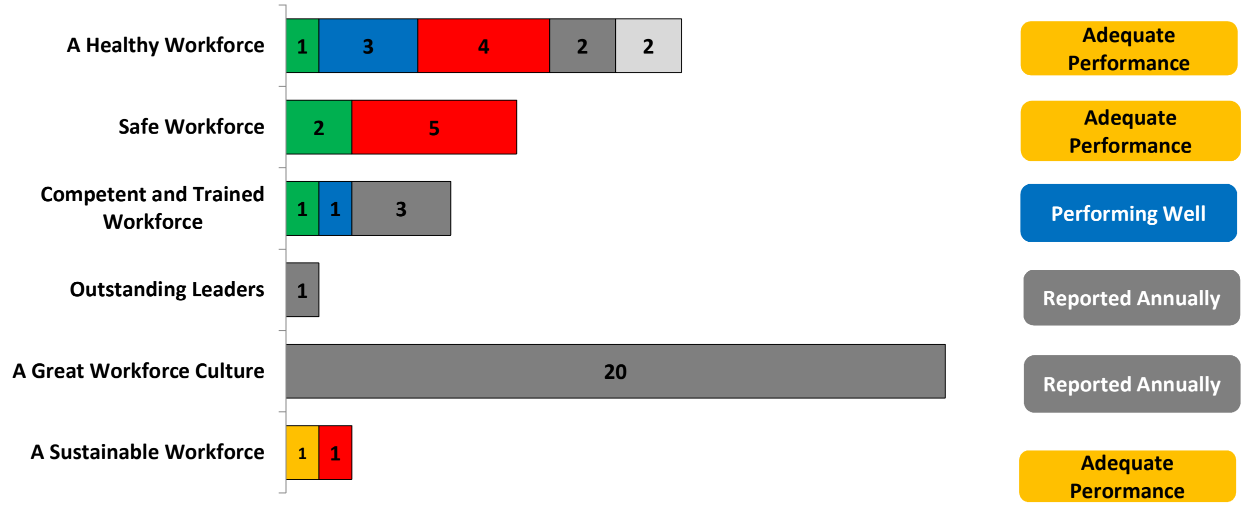
1.2.1 Improved Health Outcomes	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Percentage of Safe and Well visits that lead to a positive intervention (equipment and/or referral for additional support)	18%	7%	-11%	-	
Number of Falls related emergency admission aged 65+ to hospital*	1428	1364	-64	5%	
Percentage of Co-responder incidents attended by the Brigade where medical treatment was provided by CFB	89%	100%	11%	-	

** Reporting Period April - September due to delays in obtaining data from Health*

A PROUD, PASSIONATE, PROFESSIONAL AND INCLUSIVE WORKFORCE

Our staff are fully supported, competent and motivated to give their best in keeping Teesside safe.

A PROUD, PASSIONATE, PROFESSIONAL AND INCLUSIVE WORKFORCE STRATEGIC OUTCOMES SUMMARY



KEY	Stage 1		Stage 2
Value 4	Performing Strongly (More than 10% better than previous year)	>3.5	Performing Strongly (More than 3.5)
Value 3	Performing Well (Between 0% and 9.9% better than previous year)	2.5-3.5	Performing Well (Score 2.5 to 3.5)
Value 2	Adequate Performance (Between 0% and 9.9% worse than previous year)	1.5-2.49	Adequate Performance (Score 1.5 to 2.49)
Value 1	Requires Improvement (More than 10% worse than previous year)	<1.5	Requires Improvement (Less than 1.5)
NA	Not Recorded /Reported	--	Not Recorded /Reported
Value 0	No Activity to Assess / No Comparator Info	--	No Activity to Assess / No Comparator Info

Exceptionally Good Performance

- 15% increase in staff who have received a Personal Development Review during the current financial year;
- 40% (2) reduction in accidents causing damage to property;
- 14% (2) reduction in the number or near misses;
- 96% of those operational officers tested have passed the fitness assessment at the first attempt;
- 24% (1.59 duty days) reduction in the average number of duty days lost to sickness absence from 6.71 to 5.12 duty shifts – Fire Control.

Areas For Improvement

- 26% (1.54 duty days) increase in the average number of duty days lost to sickness absence from 5.92 to 7.46 duty days - All staff;
- 25% (1.47 duty days) increase in the average number of duty days lost to sickness absence from 6.0 to 7.47 shifts – Wholetime staff;
- 42% (2.15 duty days) increase in the average number of duty days lost to sickness absence from 5.16 to 7.31 duty shifts – Retained;
- 48% (2.63 duty days) increase in the average number of duty days lost to sickness absence from 5.51 to 8.14 duty shifts – Green Book;
- 15% (5) increase in the number of Violence to Staff incidents;
- 600% (12) increase in the number of accidents resulting in physical injury;
- 150% (6) increase in the number of RIDDOR reportable incidents.

2.1.1 A Healthy Workforce	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Percentage of operational staff who have completed fitness assessments during year	96%	96%	0%	-	↔
Percentage of operational personnel who have completed fitness assessments that have achieved / exceeded the relevant V02 rates (*based on initial pass rates*)	95%	96%	1%	-	↑
Average number of duty days lost to sickness absence per employee - All Staff	5.79	7.46	1.67	29%	↑
Average number of duty days lost to sickness absence per employee - Wholetime	6.00	7.47	1.47	25%	↑
Average number of duty days lost to sickness absence per employee - Retained	5.16	7.31	2.15	42%	↑
Average number of duty days lost to sickness absence per employee - Control	6.71	5.12	-1.59	-24%	↓
Average number of duty days lost to sickness absence per employee - Green Book	5.51	8.14	2.63	48%	↑
Percentage of total duty days lost to sickness absence where mental health issues are classed as the main cause of the absence: All staff	32%	30%	-2%	-	↓
Number of People who exceed Phased Return Limits	-	0	No comparator Information		-
Number of People who exceed Modified Duties Limits	-	6	No comparator Information		-
Time on Phased Return Duties	Reportable from 2020/21				
Time on Modified Duties	Reportable from 2020/21				

2.1.2 A Safe Workforce	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Violence to Staff Incidents (Verbal and / or Physical)	33	38	5	15%	
Number of RIDDOR reportable incidents recorded	4	10	6	150%	
Number of Accidents resulting in physical injury	2	14	12	600%	
Incidents resulting in injury	13	16	3	23%	
Number of Accidents resulting in damage to property	5	3	-2	-40%	
Number of Near Misses	14	12	-2	-14%	
Number of Vehicle Accidents	24	28	4	17%	

2.2.1 A Competent and Trained Workforce	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Maintaining Competence: Percentage of Operational & Fire Control Personnel (WT/ Retained/ Fire Control, FF-GM) who have been assessed as maintaining competency aligned to PDR core skills	78%	80%	2%	-	
Maintaining Competence: Percentage of Green Book Personnel (Grades A-J) who have been assessed as maintaining competence aligned to PDR Core Skills	Reportable from 2020/21				
Percentage of staff who have received a Personal Development Review during the current financial year	82%	97%	15%	-	
Percentage of Personnel who have completed training on areas identified within the approved Training Needs Assessment	Reportable from 2020/21				
Percentage of operational exercises undertaken and completed as a proportion of the Annual Operational Exercise Programme	Reportable from 2020/21				

2.3.1 Outstanding Leaders	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Measures Under Development	-	-	-	-	-

2.4.1 A Great Workforce Culture	2018/19	2019/20	Variance No	Variance %	RAG & DOT
2.4.1.1 All Staff Turnover as a proportion of the Workforce	Reported annually				
2.4.1.2 All Staff Voluntary turnover as a proportion of the workforce					
2.4.1.3 All Staff voluntary turnover as a proportion of the workforce females					
2.4.1.4 All staff positions gender make-up					
2.4.1.5 Grey Book positions gender make-up					
2.4.1.6 Retained positions gender make-up					
2.4.1.7 Fire Control Positions gender make-up					
2.4.1.8 Support Service positions gender make-up					
2.4.1.9 Staff classed as BME					
2.4.1.10 Staff classed as BME Grey Book					
2.4.1.11 Staff classed as BME Retained					
2.4.1.12 Staff classed as BME Fire Control					
2.4.1.13 Staff classes as BME Green Book					
2.4.1.14 Grievance cases					
2.4.1.15 Grievances - Bullying and Harassment					
2.4.1.16 Grievances - Discriminatory behaviour					
2.4.1.17 Whistleblowing Cases					
2.4.1.18 Disciplinary Cases					
2.4.1.19 Promotion Applications WT & Retained					
2.4.1.20 Promotions of WT and Retained Females					

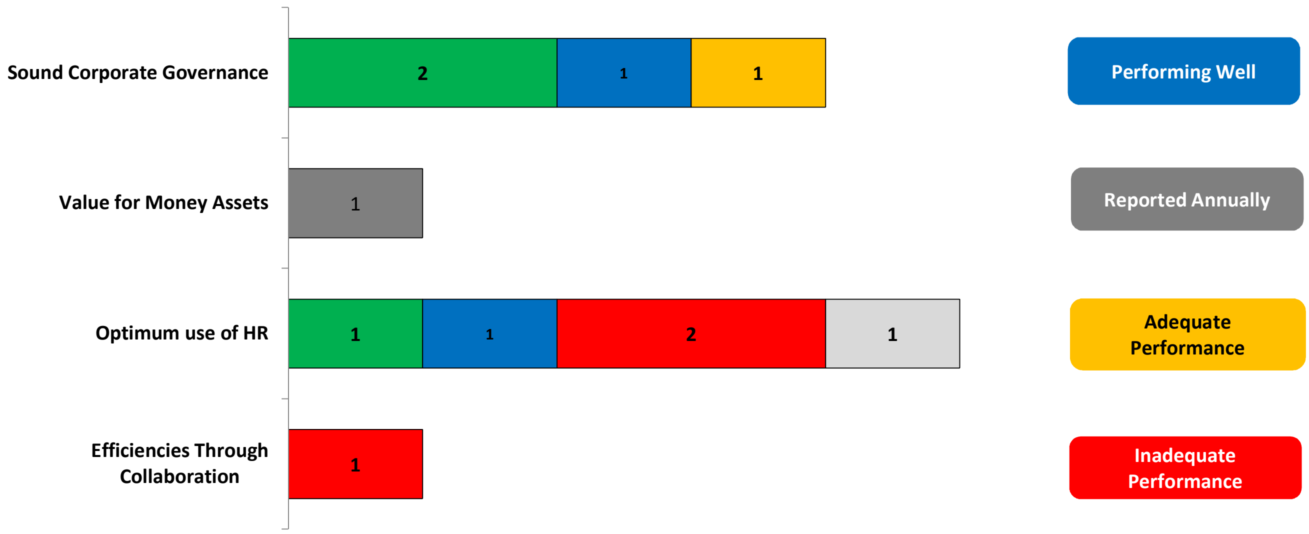
2.5.1 A Sustainable Workforce	2018/19	2019/20	Variance		RAG &DOT
			No	%	
2.5.1.1 Percentage of time 18 or more appliances are available to respond to Emergency Calls*	76%	59%	-17%	-	
2.5.1.2 Percentage of time Retained Crewed Appliances are available for Operational Response	73%	66%	-7%	-	

* Data collection commenced June 2018 for percentage of time 18 or more appliances available

EFFICIENT USE OF RESOURCES

Our resource management arrangements and collaborative working will provide our communities with a value for money fire and rescue service.

EFFICIENT USE OF RESOURCES
STRATEGIC OUTCOMES SUMMARY



KEY	Stage 1		Stage 2
Value 4	Performing Strongly (More than 10% better than previous year)	>3.5	Performing Strongly (More than 3.5)
Value 3	Performing Well (Between 0% and 9.9% better than previous year)	2.5-3.5	Performing Well (Score 2.5 to 3.5)
Value 2	Adequate Performance (Between 0% and 9.9% worse than previous year)	1.5-2.49	Adequate Performance (Score 1.5 to 2.49)
Value 1	Requires Improvement (More than 10% worse than previous year)	<1.5	Requires Improvement (Less than 1.5)
NA	Not Recorded /Reported	--	Not Recorded /Reported
Value 0	No Activity to Assess / No Comparator Info	--	No Activity to Assess / No Comparator Info

Exceptionally Good Performance

- Zero Internal Audit Report assessments deemed as limited assurance or below;
- Zero interest paid by the Brigade due to late payment of invoices.

Areas For Improvement

- 40% (34) increase in number of Malicious False Alarms from 85 to 119;
- 21% reduction in the number of Home Fire Safety Visits conducted by Partners from 1456 to 1155.

3.1.1 Sound Financial, Procurement and Corporate Governance	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Internal Audits classed as Limited Assurance or below	0	0	0	0%	
Number of Internal Audit recommendations' not completed and signed off by Internal Audit by the due deadline	1	1	0	0%	
Public Contracts Regulation 2015: Percentage of invoices paid within 30 days	97.0%	95.6%	-1.4%	-	
Public Contracts Regulation 2015: Interest Paid due to late payment of invoices	£0	£0	0	0%	

3.1.2 Value for Money Assets	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Measures Under Development	-	-	-	-	-

3.1.3 Optimum Use of Human Resources	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of Malicious False Alarms	85	119	34	40%	↑
Percentage of Malicious False Alarms resulting in mobilisation of a fire appliance	53%	65%	12%	-	↑
Staff Turnover: Percentage of staff leaving the Brigade as a proportion of the total workforce	12%	7%	-5%	-	↓
No of FTE posts vacant at end of reporting period	60.19	46.76	-13.43	-22%	↓
Percentage of call questioned non domestic automated fire alarm calls where no fire is confirmed that the Brigade attends	-	93% (26/28)	-10%	-	-

3.1.4 Efficiencies through Collaboration and Partnerships	2018/19	2019/20	Variance No	Variance %	RAG & DOT
Number of HFSV conducted by Partners (Fire Support Network)	1456	1155	-301	-21%	↓

EMERGENCY RESPONSE BENCHMARKS

EMERGENCY RESPONSE BENCHMARKS

In 2018/19 the approval of the Community Integrated Risk Management Plan 2018/22 introduced a new suite of emergency response benchmarks that moved away from the traditional risk based benchmarks for building fires to a standard benchmark for building fires in Brigade area.

Response Benchmarks – Post April 2018

Fire Control and Mobilisation

Indicator		2018/19	2019/20	Target	% Direction of travel from target
1.1.5.9	Average time taken to answer an emergency 999 call (7 seconds)	7.73	6.36	7	-9%
1.1.5.10	Average time for Fire Control to mobilise a fire appliance to an incident (seconds)	82	84	100	-16%
1.1.5.11	Percentage of times a fire appliance is dispatched to an emergency in 2 minutes	93%	89%	98%	-9%
1.1.5.12	Percentage of Wholetime appliances meeting Book Mobile threshold of 2 minutes	98%	98%	100%	-2%
1.1.5.13	Percentage of Retained appliances meeting the Book Mobile threshold of 5 Minutes	69%	71%	100%	-29%

Building Fires

Indicator		2018/19	2019/20	Target	% Direction of travel from target
1.1.1.10	Average time of first appliance attendance to a Dwelling Fire (7 Minutes)	-	00:04:58 (1078 mobilisations)	00:07:00	29%
1.1.1.11	First appliance attendance to a Dwelling Fire within 10 minutes on 90% of occasions	-	97%	90%	7%
1.1.1.12	Average time of second appliance to attend a Dwelling Fire incident (10 minutes)	-	00:07:03 (869 mobilisations)	00:10:00	30%
1.1.2.10	Average time of first appliance attendance to a building fire (7 Minutes)	00:04:48	00:04:58 (1795 mobilisations)	00:07:00	29%
1.1.2.11	First appliance attendance to building fires within 10 minutes on 90% of occasions	98%	96%	90%	6%
1.1.2.12	Average time of second appliance to attend a building fire incident (10 minutes)	00:06:41	00:07:03 (1374 mobilisations)	00:10:00	30%

Road Traffic Collisions

Indicator		2018/19	2019/20	Target	% Direction of travel from target
1.1.3.5	Average time of first appliance attendance to an immediate life threatening / rescue RTC (8 minutes)	00:05:37	00:05:33	00:08:00	-31%

High Hazard

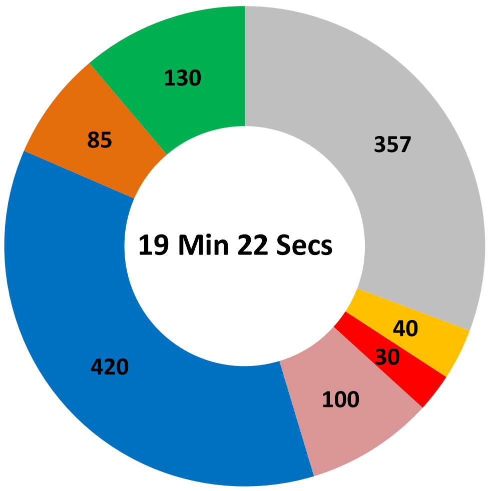
Indicator		2018/19	2019/20	Target	% Direction of travel from target
1.1.4.2	Average time of first appliance attendance to an incident at an industrial site (7 minutes)	00:05:13	00:04:45	00:07:00	-32%
1.1.4.3	Average time full mobilisation requirement of appliances to an industrial fire (20 minutes)	-	-	00:20:00	-
1.1.4.4	Average time of initial PDA attendance to Life Risk Incident on High Hazard Site	-	00:13:57	-	-

EMERGENCY RESPONSE BENCHMARKS: FIRE SURVIVABILITY

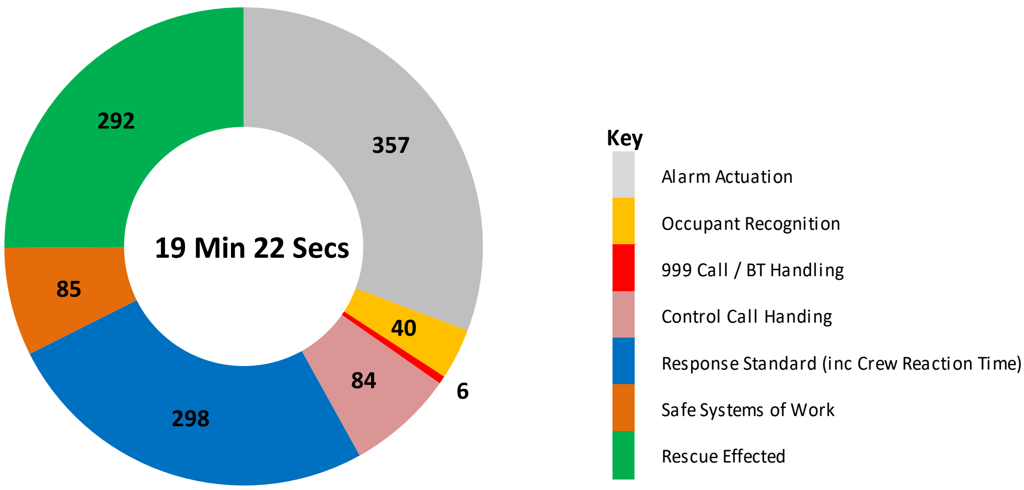
The development of our locally determined Emergency Response Standards to a Building Fire has utilised intelligence derived from live fire tests conducted in actual dwellings to establish tenability and survivability of people in fires. The tests provided raw data and enabled assessments to be made utilising the methodology set out in ISO 13571:2012 Life-threatening components of fire - Guidelines for the estimation of time to compromised tenability in fires.

A timeline for human survivability aligned to these fire tests has been developed that sets out all the components of an incident from the start of a fire in a domestic property until the last reasonable point that successful rescue could be made. In the tests it was found that the fire created untenable conditions within:
- 15:44 with the door open
-19:22 with the door closed.

Fire Survivability Model: Compartment Door Closed



Fire Survivability Actuals: Compartment Door Closed



Cleveland Fire Authority recognises the diverse make-up of the area it serves and is committed to equality, diversity and inclusion.

If you require this document in an alternative language, large print or Braille, please do not hesitate to contact us.

.بنا الاتصال في تتردد فلا ،برايل بطريقة اومطبوع باحرف كبيره او بديلة بلغة المستندهذا إلى تحتاج كنت إذا

আপনার যদি এই নথটি একটি বিকল্প ভাষা, বড় হরফে মুদ্রন বা ব্রেইলে প্রয়োজন হয়, আমাদের সাথে যোগাযোগ করতে দ্বিধা করবেন না।

Pokud potřebujete tento dokument v alternativním jazyce, velkém tisku nebo Braillově písmu, neváhejte nás kontaktovat.

اگر این نوشتار را به زبانی دیگر، با چاپ درشت یا خط بریل لازم دارید، لطفاً با ما تماس بگیرید.

Kung nangangailangan ka ng dokumentong ito sa isang alternatibong wika, malaking print o Braille, mangyaring huwag mag-atubiling makipag-ugnay sa amin

Eger tu vê belgeyê bi zimanê Kurdî, çapa bi tîpên mezin an Xetê Brîl dixwazî bi hetim bi me ra têkilliyê bigir.

如果您需要本文件的其他语言版本、大字版本或盲文版本，请随时与我们联系

Jeśli chcieliby Państwo otrzymać ten dokument w innym języku, w wersji dużym drukiem lub pisany alfabetem Braille'a, prosimy o kontakt z nami.

ਜੇ ਤੁਹਾਨੂੰ ਇਹ ਦਸਤਾਵੇਜ਼ ਕਿਸੇ ਬਦਲਵੀਂ ਭਾਸ਼ਾ, ਵੱਡੇ ਅੱਖਰਾਂ ਜਾਂ ਬ੍ਰੇਲ ਵਿੱਚ ਚਾਹੀਦਾ ਹੈ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਸਾਡੇ ਨਾਲ ਸੰਪਰਕ ਕਰਨ ਵਿੱਚ ਝਿਜਕ ਮਹਿਸੂਸ ਨਾ ਕਰੋ।

உங்களுக்கு இந்த ஆவணம் ஒரு மாற்று மொழியில், பெரிய அச்சு அல்லது பிரெயிலில் தேவைப்பட்டால், எங்களைத் தொடர்பு கொள்ள தயங்க வேண்டாம்.

یہ دستاویز اگر آپ کو کسی دیگر زبان، بڑے حروف کی چھپائی یا بریل میں درکار ہو تو برائے مہربانی بلا جھجک ہم سے رابطہ کریں

Endeavour House
Training and Administration Hub
Queens Meadow Business Park
Hartlepool
TS25 5TH

01429 872311 - communications@clevelandfire.gov.uk - www.clevelandfire.gov.uk

INTERNAL AUDIT PROGRESS REPORT

REPORT OF THE CHIEF FIRE OFFICER

CLEVELAND FIRE AUTHORITY

For Information

1. PURPOSE OF REPORT

1.1 To apprise Members of the completion of the outstanding 2018/19 audit and progress of the current 2019/20 Internal Audit Programme.

2. RECOMMENDATIONS

2.1 That Members note the Audit position of the completed 2018/19 audit.

2.2 That Members note the progress made to date in the 2019/20 Internal Audit Plan.

2.3 That Members consider whether it is necessary to report to the Fire Authority on any concerns raised.

3. BACKGROUND

3.1 Under the Accounts and Audit Regulations (2006), the Fire Authority is responsible for ensuring an adequate and effective internal audit.

3.2 At the Audit and Governance meeting on 22 February 2019, Members adopted the Internal Audit Plan for 2019/20. The audits are carried out by Hartlepool Borough Council and covered over 100 days.

4. AUDIT SUMMARY

OUTSTANDING 18/19 AUDITS	RESP OFFICER	AUDIT STATUS	ACTION	COMMENTS
Procurement – Purchase/Fuel Cards	C Cordiner	**Satisfactory Assurance**	**1 action**	**Completed -**

2019/20 AUDITS	RESP OFFICER	AUDIT STATUS	ACTION	COMMENTS
Budgetary Control	G Fowler	To commence		Planned Q4
Cash / Bank Reconciliation	G Fowler	To commence		Planned Q4
Creditors	G Fowler	**Satisfactory Assurance**	**2 actions**	**Completed**
Debtors	G Fowler	To commence		Planned Q4
Fraud Awareness	G Fowler	To commence		Planned Q4
Health and Safety	S Wilson	**Satisfactory Assurance**	**2 actions**	**Completed**
Information / Data Management inc GDPR	D Richards	In progress		Commenced Q3
National Fraud Initiative	G Fowler	In progress		Ongoing work undertaken at HBC
Officers Expenses	G Fowler	To commence		Planned Q4
Payroll	G Fowler	In Progress		Commenced Q2
Pensions	G Fowler	In Progress		Commenced Q2
Procurement	G Fowler	To commence		Planned Q4
Retained firefighter Claims	G Fowler	To commence		Planned Q4
VAT	G Fowler	To commence		Planned Q4 in conjunction with HBC audit
Full Time Fire Stations (Middlesbrough)	G Fowler	In progress		Commenced Q3

AUDIT STATUS

In progress
Completed
Undertaken behind schedule
To commence

5. 2018/19 OUTSTANDING COMPLETED AUDITS

PROCUREMENT – PURCHASE FUEL CARDS

Audit Status: Completed Satisfactory Assurance	Actions: 1 action completed

The overall opinion is that **Satisfactory Assurance** can be provided that the risks identified are well controlled.

Scope

An audit of the CFA Purchase Card process was undertaken as part of the Internal Audit Sections review of Procurement in accordance with the 2018/19 Internal Audit Plan. Purchase cards are only available to management staff and the procurement team.

Opinion

This opinion is based on the result of work done completed in the following areas:

- policy and procedures
- permitted usage
- restrictions on types of purchases
- application process
- card distribution and safe custody of cards
- transaction process
- reconciliation of statements
- authorisation controls.

Action Plan

ISS.1 Fuel Cards
Finding
There are no processes or procedures in place for the use and monitoring of fuel cards. Each time a fuel card is used a receipt is given to the officer, not all receipts are sent to the budget holder to enable a reconciliation to be completed to ensure payment values are collect.

Recommendation
A procedure note should be established which should contain sufficient detail on the process that is to be followed for both use and payment and monitoring. This should be given to all relevant staff to sign, read and understand. A reconciliation should be completed for every fuel invoice to ensure spend is accurate.

Action
The Brigade has reviewed its fuel card processes. An electronic system has now been introduced whereby the usage of a fuel card is automatically recorded and uploaded to an on-line portal for invoice reconciliation purposes.

New procedure notes have been established, for station crews to follow when drawing fuel and for admin staff to follow when undertaking the reconciliation process using the on-line portal.
Action - completed

6. 2019/20 COMPLETED AUDITS

HEALTH AND SAFETY	
Audit Status: Completed Satisfactory Assurance	**Actions: all completed**

The overall opinion is that **Satisfactory Assurance** can be provided that the risks identified are well controlled.

Scope
Health and Safety is an essential element of the corporate governance of any organisation. The basis of British health and safety law is the Health and Safety at Work Act 1974. The Act sets out the general duties that employers have towards employees and members of the public, and employees have to themselves and to each other. These duties are qualified in the Act by the principle of 'so far as is reasonably practicable', i.e. look at what the risks are and take sensible measures to tackle them. The Management of Health and Safety at Work Regulations 1999 generally make more explicit requirements of employers relating to health and safety aspects of every work activity. In addition the Health and Safety Executive (HSE) issues guidance on a range of subjects that may be specific to particular areas or industry.

The Cleveland Fire Authority Health & Safety Section is responsible for providing operational advice, guidance and support in respect of health & safety, carrying out Health & Safety inspections, guidance and assistance with risk assessments, liaising with Enforcing Authorities on issues of Health & Safety and Managing and Chairing the Health & Safety Committee. The areas under review are;

- legislative updates,
- policies and procedures,
- communication and training,
- risk assessments,
- scheduled works,
- reactive works,
- performance management,
- information governance

Opinion
The overall opinion is that Satisfactory Assurance can be provided that the risks identified are well controlled. This opinion is based on the result of Work Done as outlined above.

Action Plan
ISS.1 Scheduled Works

<u>Finding</u>
The Health and Safety Team undertake scheduled building inspections each calendar year which are recorded on a spreadsheet held by the H&S Officer. The 2019 inspections reviewed and identified the following:

- One item 'Quarterly Inspections. PNL 70' was not answered 'yes' or 'no' on any of the inspection sheets. H&S Manager advised that this will have been checked at each property and probably just that the form was not fully completed - recommend that this is checked further with the H&S Officer and updated.
- 3 inspections had been cancelled due to a station refurbishment
- 2 inspections required scheduling (QMC and the Technical Hub)
- 2 inspections are due Oct - Dec 2019.
- Outstanding actions are identified on the spreadsheet but there is no written escalation process in place.
- The spreadsheet is available for the H&S Manager to review however there are no formal monitoring processes in place to ensure inspections are undertaken in a timely manner and actions are addressed.

<u>Recommendation</u>
The escalation process for the completion of actions is documented and publicised. Also, within the H&S Team the completion of inspections and follow up of actions is monitored to ensure any key risk areas are escalated promptly.

<u>Action</u>
The PNL70 is checked online by H&S Department, however the forms had not been marked as such and this has now been rectified. Monthly monitoring is undertaken of scheduled inspections as well as outstanding actions on previous inspections already completed through a traffic light system. Action on escalation is undertaken within this monthly monitoring process. However, there is no formal procedure written down for this monitoring process and this is now being addressed and complied.

Action - completed

ISS.2 Archive Storage

<u>Finding</u>
Whilst there are arrangements in place to secure data held electronically and within the H&S Office, the storage within the Archive facility does allow access to H&S documentation by any member of staff.

<u>Recommendation</u>
The storage of Health and Safety documentation within the archive store should be reviewed to ensure the correct level of security is applied.

<u>Action</u>
The 5 boxes in the archive room have now been placed in a secure locker and the keys to the locker are securely held in the H&S Office. The locker is marked “Health & Safety”.

Action - completed

CREDITORS

Audit Status: Completed Satisfactory Assurance	Actions: all completed

The overall opinion is that **Satisfactory Assurance** can be provided that the risks identified are well controlled.

Scope
An audit has been undertaken of the CFA Creditors system in accordance with the 2019/20 Internal Audit Plan which covered the financial periods between August 2018 and July 2019

The overall audit objective was to evaluate the systems and procedures in place for ordering, receiving and paying for goods/services to ensure that the supplies of goods and services are properly authorised and comply with Financial Procedure Rules. This included reviewing the following control objectives:

- Adequate and appropriate documentation and training
- Access to the creditor system is well controlled
- Creditor accounts established are valid and appropriately authorised;
- All orders for goods and services are in accordance with CFA Financial Regulations,
- Goods received are legitimate, promptly recorded, identified as belonging to the CFA and safeguarded from loss/harm;
- Invoice certification procedures ensure that payments are only made for goods and services received;
- Controls ensure that all direct payment transactions are authorised, accurate and securely processed.
- To ensure there are arrangements in place for monitoring duplicate payments and supplier accounts.
- All payments are made in a timely manner, are authorised, complete, accurate and not previously processed
- A management trail exists;
- Performance is monitored and issues addressed when required;
- Expenditure is published in accordance with the LG Group Transparency Programme;
- The assessment of data risks and implementation of appropriate controls in accordance with HBC policies and procedures that are fully compliant with current Data Protection and GDPR guidance.

Opinion
The overall opinion is that **Satisfactory Assurance** can be provided that the risks identified are well controlled. This opinion is based on the result of Work Done as outlined.

Action Plan

ISS.1 Information Governance

Finding
There are currently no process in place to direct suppliers to the Brigades Privacy Notice

Recommendation
The Brigade should inform all suppliers when they supply personal details (i.e. bank details) of the Brigades Privacy Notice.

The *'New Supplier Account Information'* Form (FIN-49) has been updated to include a reference to the relevant Privacy Notice on the Brigade website.

Action completed

ISS.2 Performance

Finding
Working papers could not be located to support the figures reported for invoices paid within 30 days. A report was ran by the Auditor for the period reviewed, however the figure could not be reconciled to the percentage reported to Committee.

Recommendation
Supporting working papers should be provided to the auditor to enable the parameters to be checked and the figures reconciled to the Committee reports.

Action
Clear working papers and supporting evidence for this calculation have been introduced with effect from Q3 2019/20

Action completed

IAN HAYTON
CHIEF FIRE OFFICER

KAREN WINTER
DIRECTOR OF CORPORATE SERVICES

TREASURY MANAGEMENT STRATEGY 2020/21

REPORT OF THE TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 To enable the Audit and Governance Committee to scrutinise the recommended Treasury Management Strategy for 2020/21, before it is referred to the full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the recommended 2020/21 Treasury Strategy and note that if Members are content the following recommendations will be referred to the Full Authority for approval:

i) Note the 2018/19 Treasury Management outturn detailed in Section 5 and Appendix A.

ii) Note the 2019/20 Treasury Management mid-year position detailed in section 6.

iii) Approve the prudential indicators outline in Appendix B.

iv) Borrowing Strategy 2020/21
To note that in the event of a change in economic circumstances that the Treasurer may take out additional borrowing in advance of need if this secures the lowest long term interest cost.

v) Investment Strategy 2020/21
Approve the Counterparty limits as set out in paragraph 9.8.

i) Minimum Revenue Provision (MRP) Statement
Approve the following MRP statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;
- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

3. BACKGROUND

3.1 The Treasury Management Strategy covers:

- The strategy for the Authority's borrowing requirement arising from historic capital expenditure and the element of the approved Asset Management Plan funded from Prudential borrowing; and
- The annual investment strategy relating to the Authority's cash flow.

3.2 The Local Government Act 2003 requires the Authority to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code and to set prudential indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

3.3 The Act requires the Authority to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April, 2004, and has subsequently been updated, most recently in 2017.

3.4 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the full Authority. This responsibility has been allocated to the Audit and Governance Committee.

3.5 This report covers the following areas:

- Economic background and outlook for interest rates
- Treasury management outturn position for 2018/19
- Treasury Management Strategy 2019/20 mid-year review
- Treasury Management Strategy 2020/21
- Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2020/21.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

4.1 **UK** – The UK economy has faced an extended period of economic and political uncertainty. The Bank of England has recently expressed increased concerns surrounding weak global economic growth and the risk of ongoing uncertainties becoming entrenched and resulting in delayed global and UK economic recovery. Although the Bank of England recently voted to maintain interest rates at 0.75% the Monetary Policy Committee (MPC) warned that if global and UK growth does not pick up then an interest rate cut will become more likely. Conversely if there is a more rapid recovery of growth and risks recede then there will be a gradual and limited rise in interest rates. Should economic growth weaken considerably the MPC would have relatively little room to make an impact owing to the low Bank Interest Rate. Commentators suggest that this would put pressure on government to give the economy a fiscal boost through tax cuts and increase expenditure.

4.2 Inflation has been around the Bank of England target of 2% for much of 2019 but fell to 1.5% in October and forecasts indicate that it will remain around the 2% target over the next two years. However, there are potential risks of imported inflation if the value of pound reduces.

4.3 Unemployment is now at a 44 year low of 3.8% based on the Independent Labour Organisation measure. Private sector wage inflation has been positive and real terms earnings grew by more than inflation. As the UK economy is service driven an increase in household spending power is likely to feed through to providing support to the economy.

4.4 The Office for Budget Responsibility's revised growth forecast up to 2022 are set out in the following table:

Year	March 2019 Growth Forecast	November 2019 Growth Forecast
2019	1.0%	0.75%
2020	1.2%	0.75%
2021	1.75%	1.0%
2022	2.0%	1.25%

4.5 **European Union (EU) –** Growth has been slowing from +1.8% during 2018 to around 0.9% in 2019, reflecting lower global demand and more recently the impact of US tariffs on manufacturing exports such as cars.

4.6 **USA –** The easing of the fiscal policy in 2018 fueled a temporary boost in consumption. However, growth has been falling in 2019 to 1.9% in quarter 3 and is expected to fall further. Following an increase in its interest rate to 2.5% the Federal Reserve has since cut rates by 0.75% to ward off a downturn in growth.

4.7 **Other Economies –** In China economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property. The Coronavirus will have a negative impact on the Chinese economy, which will depend on how long this outbreak takes to address. Japan is still struggling to stimulate economic growth and keep inflation within its 2% target.

4.8 **Interest Rate Forecasts**

4.9 Link Asset Services (the Council's Treasury Management advisors) continue to update their internal rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy. Their latest forecast have been based on an assumption that there is an agreed deal with the EU, including agreement on the terms of trade between the UK and EU during 2020. Given the current level of political and economic uncertainty forecasts may need to be reassessed in the light of events over the coming weeks or months.

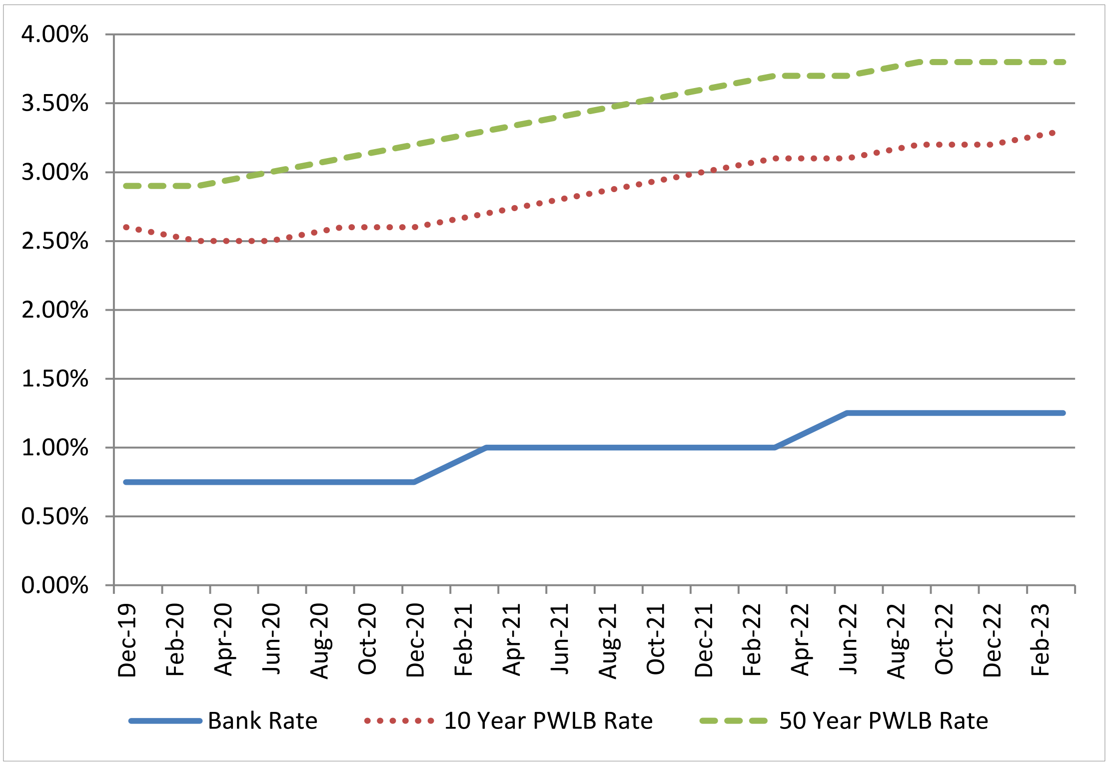
4.10 The Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% due to the ongoing uncertainty.

4.11 Link Asset Services believe that the overall longer run future trend is for PWLB rates to rise, albeit gently. PWLB rates are subject to ad hoc decisions by H.M Treasury to change the margin over gilt yields charged in PWLB rates: such changes can be up or down.

4.12 National borrowing from the PWLB has continued to increase at a rapid rate in recent years due to the historically low rates on offer. However, in October 2019, the Treasury increased the interest rate by one percentage point – meaning the typical rate for a loan is now 2.8% instead of 1.8%.

4.13 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields (i.e. Government borrowing) and PWLB rates. The forecasts made by Link Asset Services, (and MPC decisions) may be liable to further amendment depending on how the political and economic developments transpire over the next year.

4.14 Interest Rate Forecast up to March 2023



4.15 Since the late 1990s Base Rate averaged 5% until 2009 when the Bank of England reduced it to the historically low 0.5% in response to the financial crisis and increased to 0.75% in August 2018. Over the same period PWLB rates have been significantly higher than they are at present. In August 2018 the Bank of England raised the interest rate for only the second time in a decade. The rates for 10 year loans were on average 5% prior to the financial crisis but subsequently fell to between 3% and 4%. The rates for 50 year loans were also on average 5% although this trend continued throughout the financial crisis. PWLB interest rates fell to historically low levels in early 2015 predominantly as a consequence of falling oil prices. In the context of previous interest rates, current rates are at a low historic level.

5. TREASURY MANAGEMENT OUTTURN POSITION 2018/19

5.1 **Capital Expenditure and Financing 2018/19**

5.2 The Authority's approved capital programme was funded from a combination of the Capital Investment Programme Reserve and Capital Receipts.

5.3 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £0.738m, funded by a mix of the Capital Investment Programme Reserve and Capital Receipts.

5.4 The Authority's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which is not funded from revenue or capital resources. Each year the Authority is required to apply revenue resources to reduce this outstanding balance (termed the Minimum Revenue Provision).

5.5 Whilst the Authority's CFR sets a limit on the level of borrowing, the Authority can manage the actual borrowing position by either:

- borrowing externally to the level of the CFR; or
- choosing to use temporary internal cash flow funds instead of borrowing; or
- a combination of the two.

5.6 The Authority's CFR for the year was £8.462m as shown at Appendix A.

5.7 The Authority can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed to be appropriate. As previously reported, in line with the approved Treasury Management Strategy, a decision was made in 2014/15 to lock out borrowing to cover the forecast borrowing requirement up to and including 2016/17. At the time interest rates were exceptionally low and allowed the Authority to secure the business case for the Asset Management Plan. Further borrowing in April 2018 funded borrowing required up to March 2020.

5.8 The Authority's total long term external borrowing as at 31st March, 2019 was £9.4m, which funds the CFR up to 2020/21.

5.9 **Prudential Indicators and Compliance Issues 2018/2019**

5.10 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below

5.11 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. Appendix A demonstrates that during 2018/2019 the Authority has maintained gross borrowing within the Authorised Limit.

5.12 **Gross Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, over the medium term the Authority's external borrowing, must only be for a capital purpose. Gross borrowing should not exceed the CFR for 2018/19 plus the expected changes to the CFR over 2019/20 and 2020/21. The Authority has complied with this Prudential Indicator.

5.13 **The Treasury position at 31st March 2019**

5.14 The table below shows the treasury position for the Authority as at the 31st March, 2019 compared with the previous year:

Treasury position	31st March 2018		31st March 2019	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£7.6m	2.90%	£7.4m	2.90%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	**£9.6m**	**3.12%**	**£9.4m**	**3.13%**
Total Investments	**£7.6m**	**0.57%**	**£9.3m**	**0.90%**
Net Investment Position	**(£2.0m)**		**(£0.1m)**	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

5.15 A key performance indicator shown in the above table is the low average interest rate for external debt of 3.13% for debt held as at 31st March, 2019, compared to historic PWLB (Public Works Loans Board) rates.

5.16 The Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by Authority.

5.17 The Authority does not rely solely on credit ratings and takes a more pragmatic and broad based view of the factors that impact on counterparty risk. As part of the approach to maximising investment security the Authority has also kept investment periods short (i.e. in most cases up to 6 months but to a maximum of 1 year). In practice no investments were made for 1 year. The downside of this prudent approach is that the Authority achieved slightly lower investment returns than would have been possible if investments were placed with organisations with a lesser financial standing and for longer investment periods. However, during 2018/19 the risk associated with these higher returns would not have been prudent.

5.18 A prudent approach will continue to be adopted in order to safeguard the Authority's resources.

5.19 **Regulatory Framework, Risk and Performance 2018/19**

5.20 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the MHCLG has issued Investment Guidance to structure and regulate the Authority's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

5.21 The Authority has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with Treasury Management activities.

6. TREASURY MANAGEMENT STRATEGY 2019/20 MID-YEAR REVIEW

6.1 The 2019/20 Treasury Management Strategy was approved on the 15th, February, 2019. The Authority's borrowing and investment position as at 30th September 2019 is summarised as follows:

	£m	**Average Rate**
LOBO Loan #	2.0	3.95%
PWLB Loans	7.3	2.91%
Gross Debt	**9.3**	**3.13%**
Investments	16.2	0.71%
Net Investment	**6.9**	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

6.2 As part of the Treasury Strategy for 2019/20 the Authority set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis and there are no breaches to report.

6.3 The CFR and Capital Expenditure Financed by Borrowing will vary from the original estimate approved by the Fire Authority in February 2019 owing to planned capital expenditure being re-phased between financial years. Initial assessment indicate that there will be no net impact on the total borrowing forecast for the period of the MTFS although there will be timing differences around individual financial years.

7. TREASURY MANAGEMENT STRATEGY 2020/21

7.1 Prudential Indicators and other regulatory information in relation to the 2020/21 Treasury Management Strategy is set out in Appendix B.

7.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 8 and 9.

8. BORROWING STRATEGY 2020/21

8.1 Following the development and implementation of the Asset Management Plan (AMP) the Authority's CFR has risen and is forecast to continue to rise in 2019/20 and then remain broadly stable over the course of the Medium Term Financial Strategy. Therefore it was recognised that a proactive borrowing strategy would need to be adopted to finance the borrowing element of the AMP and to secure historically low interest rates.

8.2 As outlined in paragraph 5.7, decisions to borrow to the forecast CFR up to 2019/20 have already been made.

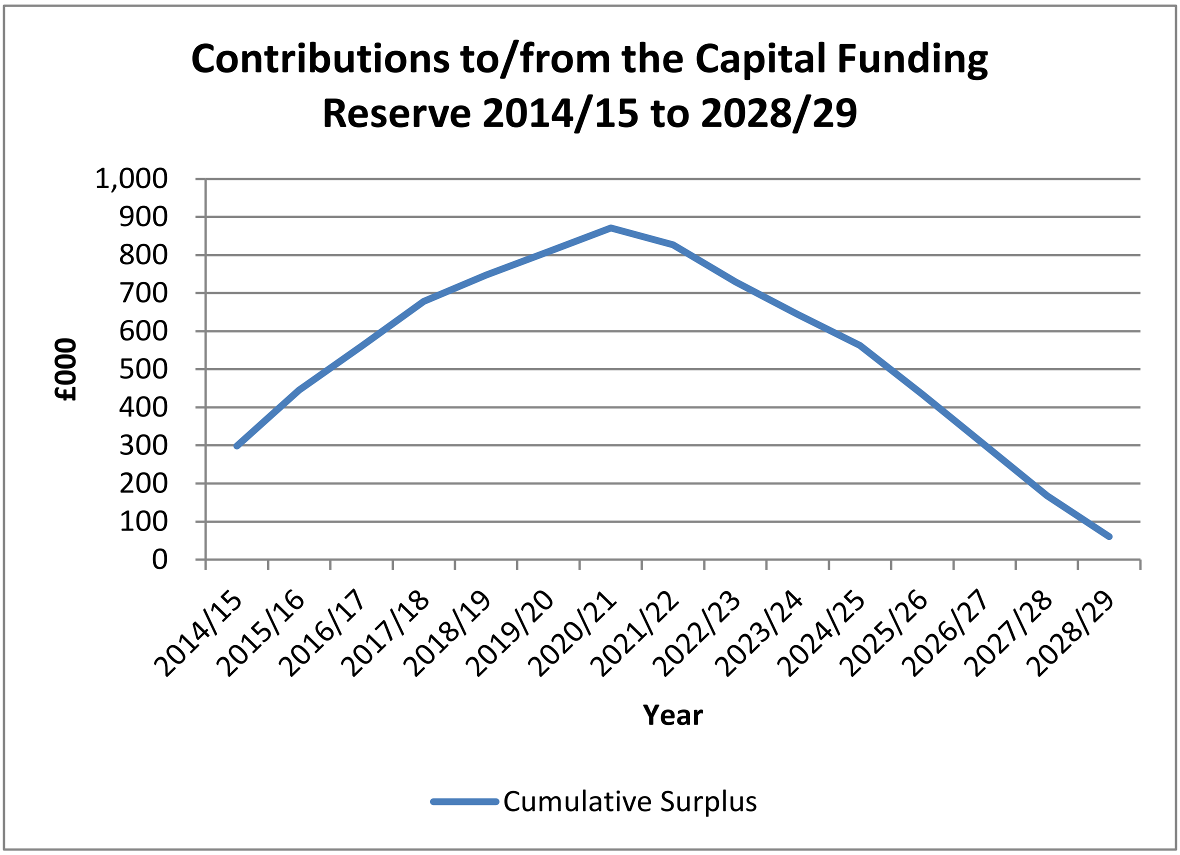
8.3 These decisions ensured the borrowing costs associated with AMP are minimised in the long term and can be sustained within the existing revenue budget of £0.8m (including using the recommended Capital Funding Phasing Reserve) over the period of the current Medium Term Financial Strategy and Integrated Risk Management Plan.

8.4 Owing to the borrowing decisions in previous years to pre fund the borrowing requirement, no additional borrowing is needed in 2019/20. However in 2020/21 it is anticipated that approximately £1m of additional funding will be necessary to fund the current approved AMP. A decision to borrow in advance of need may be taken by the Treasurer if it is in the best interests of the Authority to do so.

8.5 **Impact of Capital Programme on the Revenue Budget**

8.6 As previously reported detailed financial modelling has been undertaken to assess the impact of the capital programme on the revenue budget. This analysis indicated that in the short term, loan repayment costs will be less than the approved budget which reflects the phasing of the capital programme and the exceptionally low interest rates secured.

8.7 However, over the period 2020/21 to 2028/29 annual loan repayment costs will exceed the approved revenue budget. As outlined in previously approved Strategy reports this position will be manage using the approved Capital Phasing Reserve which will balance loan repayment costs over the period 2014/15 to 2028/29. The following graph summarises the contributions to/from the Capital Phasing Reserve over the period 2014/15 to 2028/29. The graph shows that the Capital Phasing Reserve enables loan repayment costs to be funded on a sustainable basis.



9. INVESTMENT STRATEGY 2020/21

9.1 The Ministry for Housing, Communities and Local Government (MHCLG) issued investment guidance in 2010, updated in 2017, and this forms the structure of the Authority's policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. The Authority has adopted the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and applies its principles to all investment activity. In accordance with the Code, the Treasurer has produced Treasury Management Practices covering investment counterparty policy which requires approval each year.

9.2 The primary objectives of the Authority's investment strategy in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time;
- ensuring adequate liquidity;
- investment return.

9.3 **Counterparty Selection Criteria**

9.4 The Authority's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.

9.5 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria.

9.6 The Treasurer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.

9.7 There are no proposed changes to existing counter parties and the table below shows the proposed limits in 2020/21 for the Authority:

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£5m	1 year
B	F1/A-	P-1/A3	A-1/A-	£3m	1 year
C	Debt Management Office/Treasury Bills/Gilts			£14m	1 year
D	Nationalised Banks and Banks covered by UK Government Guarantee			£5m	1 year
E	Other Local Authorities Individual Limits per Authority: - £3m County, Metropolitan or Unitary Councils - £1.5 District Councils, Police or Fire Authorities			£15m	1 year
F	Three Money Market Funds (AAA) with maximum investment of £1.5m per fund			£4.5m	Liquid (instant access)

9.9 **Specified and Non-Specified Investments**

9.10 MHCLG regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.

9.11 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of high quality counterparties for the Authority to use rather than defining what its investments are.

9.12 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
- Other Local Authorities.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

9.13 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:

- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
- Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

10. <u>MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2020/21</u>

10.1 There are two elements to the Authority annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Authority is required to pay off an element of the Capital Financing Requirement (CFR) each year through a revenue charge called the Minimum Revenue Provision (MRP).

10.2 MHCLG Regulations require the Authority to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue budget.

10.3 The budget strategy is based on the following MRP statement and the Authority is recommended to formally approve the existing statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;

- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

10.4 **CIPFA Treasury Management Code of Practice**

10.5 The Authority has adopted the CIPFA Treasury Management Code of Practice. Confirmation of this is the first prudential indicator.

10.6 **Treasury Management Advisors**

10.7 The Authority uses Link Asset Services – Treasury Solutions as its external treasury management advisors.

10.8 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

10.9 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

10.10 **Markets in Financial Instruments Directive (MIFID II)**

10.11 On 3rd January 2018 an updated version of the European Union's Markets in Financial Instruments Directive (known as MIFID II) came into effect. It is designed to offer greater protection for investors and inject more transparency into financial markets. Under MIFID II all local authorities are classified as "retail" counterparties and had to consider whether to opt up to "professional" status and for which type of investments. The Fire Authority opted up to professional status in order to maintain the Authority's ability to operate effectively under the new regime.

11. CONCLUSION

11.1 Against the uncertain national background and the requirement to make significant budget reductions to balance the 2019/20 and 2020/21 budget the Authority has secured long term borrowing at historically low interest rates. This has secured the financing of the Asset Management Plan and has protected the authority against increases in longer term interest rates. It is anticipated that further borrowing of approximately £1m will be necessary to fund the current Asset Management Plan and the timing of this borrowing will be managed carefully to minimise the long term cost to the Authority

11.2 The report confirms the previously approved strategy for managing interest rate risks with the aim of ensuring the borrowing requirement can be funded from the available revenue budget of £0.8m and use of the Capital Funding Phasing reserve.

11.3 In relation to the investment strategy the Authority has adopted an extremely prudent approach over the last few years and this it is recommended this approach continues for 2020/21.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

APPENDIX A

Prudential Indicators 2018/19 Outturn

1. <u>Ratio of Financing Costs to Net Revenue Stream</u>

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. This is slightly lower than the estimate owing to a change in the profile of funding sources compared to what was originally forecast.

2018/19 Estimate £'000		2018/19 Outturn £'000
2.86%	Ratio of Financing costs to net revenue stream	2.58%

2. <u>Capital Expenditure</u>

This indicator shows the total capital expenditure for the year and the outturn reflects the actual phasing of capital expenditure.

2018/19 Estimate £'000		2018/19 Outturn £'000
1,730	Capital Expenditure	738

The Capital Expenditure is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019. The revised estimate was £0.910m.

3. <u>Capital Expenditure Financed from Borrowing</u>

This shows the borrowing required to finance the capital expenditure programme.

2018/19 Estimate £'000		2018/19 Outturn £'000
406	Capital Expenditure Financed by Borrowing	-

The Capital Expenditure Financed by Borrowing is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019. The revised estimate was £0.

4. Capital Financing Requirement (CFR)

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority's Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2018/19 Estimate £'000		2018/19 Outturn £'000
9,205	Capital Financing Requirement	8,462

The CFR is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the authority flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

2018/19 Limit £'000		2018/19 Peak £'000
12,000	Authorised limit for external debt	9,529

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Authority is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

2018/19 Limit £'000		2018/19 Peak £'000
10,000	Operational boundary for external debt	9,529

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

2018/19 Limit £'000	Upper limits on fixed and variable interest rate exposure	2018/19 Peak £'000
100% 75%	Fixed Rates Variable Rates	79% 21%

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

	Upper Limit £'000	Lower Limit £'000	Actual by Maturity Date £'000	Actual by soonest call date £'000
Under 12 months	8,000	0	139	139
12 month to 2 years	10,000	0	143	2,143
2 years to 5 years	10,000	0	316	316
5 years to 10 years	10,000	0	541	541
10 years to 20 years	10,000	0	1,349	1,349
20 years to 30 years	10,000	0	1,802	1,802
30 years to 40 years	10,000	0	3,104	3,104
40 years to 50 years	10,000	0	0	0
50 years to 60 years	10,000	0	0	0
60 years to 70 years	10,000	0	2,000	0

The Authority’s current outstanding borrowing includes a LOBO (Lender Option Buyer Option) loan which provide fixed interest rates for defined periods and also defined dates for reviewing interest rates, known as ‘call dates’. A change to the Prudential Code requires that the call date is reflected in the Maturity Structure indicator above rather than maturity date. However the likelihood of a LOBO being ‘called’ at present is very low and both methods are presented above for completeness.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy. This is in line with the Treasury Management Strategy. Consequently all investments made during the year were limited to a maximum of one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	5,000	0	0
Actual	0	0	0

APPENDIX B

TREASURY MANAGEMENT STRATEGY 2020/21 REGULATORY INFORMATION AND PRUDENTIAL INDICATORS

1. INTRODUCTION

1.1 The regulatory information and prudential indicators for the 2020/21 Treasury Management Strategy are set out below.

2. PRUDENTIAL INDICATORS

2.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and set prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity.

2.2 The first prudential indicator is confirmation that the Authority has adopted the CIPFA Treasury Management Code of Practice, which the Treasury Management Strategy report confirms.

2.3 Details of the proposed prudential limits are set out in the following sections.

3. CAPITAL EXPENDITURE AND FINANCING REQUIREMENT

3.1 The Authority's Borrowing Strategy is driven by the Capital Financing Requirement (CFR) and the Authority's view of interest rates. The CFR is the total outstanding capital expenditure which has not yet been paid for from revenue budgets or other capital resources. It is essentially a measure of the Authority's underlying borrowing need based on capital programmes approved by the Authority in previous years.

3.2 The Government no longer issues supported borrowing allocations. Consequently all borrowing is now made under the Prudential Borrowing Code. Capital spending decisions need to have regard to the following:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the Council Tax);
- Practicality (e.g. the achievability of the forward plan).

3.4 The Authority ultimately needs to fund the CFR by borrowing money from the Public Works Loan Board (PWLB) or banks. The CFR is then repaid over a number of years reflecting the long term benefits of capital expenditure. In simple terms the CFR represents the Authority's outstanding mortgage, although the legislation and accounting requirements are significantly more complex.

3.5 The estimated Capital Finance & Borrowing Requirement is shown in the following table:

Capital Financing & Borrowing Requirement	2019/20 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
CFR at 1st April	**8,462**	**8,918**	**9,867**	**10,178**
Capital Expenditure Financed by Borrowing	904	1,399	847	254
Less Repayment of CFR	(448)	(450)	(536)	(516)
CFR at 31st March	**8,918**	**9,867**	**10,178**	**9,916**

3.6 As part of the Medium Term Financial Strategy the Authority is required to approve the 2020/21 capital programme summarised as follows:

Capital Expenditure	2019/20 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital Expenditure	2,953	1,599	847	254
Financed by:				
Capital Receipts	271	0	0	0
Capital Financing Reserve	1,733	200	0	0
Prudential Borrowing	904	1,399	847	254
RCCO	45	0	0	0
Total Funding	**2,953**	**1,599**	**847**	**254**

4. AFFORDABILITY PRUDENTIAL INDICATORS

4.1 The affordability of the approved Capital Investment Programme was assessed when the Asset Management Plan was approved and revenue costs are built into the Medium Term Financial Strategy. The 'Affordability Prudential Indicators' are detailed below and are intended to give an indication of the affordability of the planned capital expenditure financed by borrowing in terms of the impact on Council Tax and the Net Revenue Stream.

4.3 Ratio of Financing Costs to Net Revenue Stream

4.4 This shows the net cost of capital borrowing as a percentage of the net budget and the forecast annual increases reflect the phasing of borrowing to partly fund the Asset Management Plan.

%	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	2.75%	2.71%	2.98%	2.86%

5. BORROWING PRUDENTIAL INDICATORS

5.1 Debt Projections 2019/20 – 2022/23

5.2 The table below sets out the Authority's projected Capital Financing Requirement (CFR) and level of debt:

Debt and Investment Projections	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Long Term Borrowing 1 April	9,394	9,255	9,112	8,992
Expected change in Long Term Debt	(139)	(143)	(120)	(96)
Debt at 31 March	**9,255**	**9,112**	**8,992**	**8,896**
CFR	**8,918**	**9,867**	**10,178**	**9,916**
Advance/(Under) Borrowing	**337**	**(755)**	**(1,186)**	**(1,020)**

5.4 Limits to Borrowing Activity

5.5 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

5.6 The Authority needs to ensure that total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/2020 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

External Debt	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Gross Borrowing	9,255	9,112	8,992	8,896
Capital Financing Requirement	**8,918**	**9,867**	**10,178**	**9,916**

5.7 The following table shows two key limits for the monitoring of debt. The Operational Limit is the likely limit the Authority will require and is aligned closely with the actual CFR on the assumption that cash flow is broadly neutral. The Authorised Limit for External Debt is a further key prudential indicator to control the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. In practice it needs to take account of the range of cash flows that might occur for the Authority in addition to the CFR. This also includes the flexibility to enable advance refinancing of existing loans.

Borrowing Limits	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Operational Limit	10,000	12,000	12,000	12,000
Authorised limit	12,000	14,000	14,000	14,000

6. INVESTMENT PRUDENTIAL INDICATORS AND OTHER LIMITS ON TREASURY ACTIVITY

6.1 Investment Projections 2019/20 – 2022/23

6.2 The following table sets out the estimates for the expected level of resource for investment or use to defer long term borrowing.

2018/19 Outturn £'000	Year End Resources	2019/20 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
10,837	Balances and Reserves	8,683	8,421	7,471	5,792
287	Provisions	287	287	287	287
22	Collection fund Adjustment Account	0	0	0	0
11,146	**Total Core Funds**	**8,970**	**8,708**	**7,758**	**6,079**
(2,282)	Working Capital*	(2,529)	(2,529)	(2,529)	(2,529)
8,864	**Resources Available for Investment**	**6,441**	**6,179**	**5,229**	**3,550**
932	(Under)/Advance borrowing	337	(755)	(1,186)	(1,020)
9,796	**Expected Investments**	**6,778**	**5,424**	**4,043**	**2,530**

* The working capital balance is an estimate of debtors and creditors at year end.

6.3 Sensitivity to Interest Rate Movements

6.4 Sensitivity to Interest Rate Movements is a prudential indicator that the Authority is required to disclose. The following table highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. These forecasts are based on a prudent view of a +/- 1% change in interest rates. As borrowing has already been undertaken to fund the majority of the CFR there is limited risk in relation to the impact of borrowing on revenue budgets for 2020/21. For investments they are based on a prudent view of the total amount invested.

Impact on Revenue Budgets	2019/20 Estimated 1% £'000	2019/20 Estimated -1% £'000
Interest on Borrowing	0	0
Investment income	(103)	103
Net General Fund Borrowing Cost	**(103)**	**103**

6.5 There are four further treasury activity limits and the purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

6.6 The limits are:

i) Upper limits on variable interest rate exposure – This identifies a maximum limit for the Authority's borrowing and investments that are held with variable interest rates. The proposed limits are detailed in the following table.

Limits on Variable Interest Rates	2020/21 Upper £'000	2021/22 Upper £'000	2022/23 Upper £'000
Borrowing	75%	75%	75%
Investments	100%	100%	100%

ii) Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit for the Authority's borrowing and investments that are held with fixed interest rates.

Limits on Fixed Interest Rates	2020/21 Upper £'000	2021/22 Upper £'000	2022/23 Upper £'000
Borrowing	100%	100%	100%
Investments	100%	100%	100%

iii) Maturity structure of borrowing – Limits for the 'Maturity Structure of Borrowing' are intended to reduce exposure to large fixed rate sums falling due for refinancing. In the opinion of the Treasurer limits on fixed and variable rates for **borrowing** are unhelpful and could lead to higher costs of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. In the Treasurer's professional opinion this proactive management of investments and borrowing continues to provide the most cost effective strategy for the Authority, whilst not exposing the Authority to unnecessary risk. The Authority should ensure maximum flexibility to minimise costs to the revenue budget in the medium term. These limits are detailed in the following table:

Maturity Structure of fixed interest rate borrowing				
	2019/20 £000 Lower Limit	2019/20 £000 Upper Limit	2020/21 £000 Lower Limit	2020/21 £000 Upper Limit
Under 12 months	0	8,000	0	10,000
12 months to 2 years	0	10,000	0	12,000
2 years to 5 years	0	10,000	0	12,000
5 years to 10 years	0	10,000	0	12,000
10 years to 20 years	0	10,000	0	12,000
20 years to 30 years	0	10,000	0	12,000
30 years to 40 years	0	10,000	0	12,000
40 years to 50 years	0	10,000	0	12,000
50 years to 60 years	0	10,000	0	12,000
60 years to 70 years	0	10,000	0	12,000

The limits allow for borrowing up to the Capital Financing Requirement at either variable or fixed rates. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the temporary use of variable rate borrowing in the interim.

iv) Maximum principal sums invested – Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority's liquidity requirements and reflect the current recommended advice that investments are limited to short term investments i.e. up to 1 year.

Limit for Maximum Pincipal Sums Invested > 364 days			
	1 year £000	2 years £000	3 years £000
Maximum	5,000	0	0

6.7 Performance Indicators

6.8 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The Authority will produce the following performance indicators for information and explanation of previous treasury activity:

- Average rate of borrowing, movement year on year.
- Average rate of investment, movement year on year.