NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2015/16 TO 2017/18

Joint Report of the Chief Fire Officer and Treasurer

Date: 25 September 2015

Purpose of Report:

To present a Medium Term Financial Strategy to the Fire Authority for approval.

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1. BACKGROUND

1.1 The Fire Authority has a number of strategies in place for the good financial management and governance of the Authority.

1.2 It is good practice however, to bring these strategies together into a single overarching financial strategy which clearly demonstrates that the finances of the organisation are stable and ‘joined up’ with other corporate strategies such as the Integrated Risk Management Plan, the Workforce Plan and the ICT Strategy, and that the financial platform is sufficient to enable the delivery of the Authority’s corporate objectives.

2. REPORT

EXECUTIVE SUMMARY

2.1 The medium term financial strategy is attached in full to this covering report and therefore no detail is presented here. However the financial strategy includes sections as follows:

- Objectives of the strategy;
- Context of the strategy;
- Financial management;
- Funding priorities and service improvement;
- Impact of UK economic downturn;
- Medium term risks;
- Components of the medium term strategy;
- Partnership working;
- The regional dimension;
- Outlook for 2015/16, 2017/18 and beyond.

2.2 The Strategy also contains appendices on:

- Treasury management strategy;
- Prudential code indicators and targets;
- Capital programme 2015/16 – 2017/18;
- Revenue budget 2015/16 cash limited subjective analysis.

2.3 It is proposed that the Authority should adopt this medium term financial strategy and continue to review this annually.

3. FINANCIAL IMPLICATIONS

The financial implications are set out within the main body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report is reporting on matters relating to finance.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 to set a balanced budget. The medium term financial strategy is part of the process designed to assist in delivering the budget requirements and implications for each year.

8. RISK MANAGEMENT IMPLICATIONS

The establishment of a robust framework for financial management and the allocation of resources to corporate priorities will do much to minimise the risks to the achievement of the organisation's objectives.

9. RECOMMENDATIONS

That Members adopt the medium term financial strategy and continue to review this annually.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley	Peter Hurford
CHIEF FIRE OFFICER	**TREASURER**

NOTTINGHAMSHIRE
Fire & Rescue Service

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY

2015/16 to 2017/18

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SECTION 1: OBJECTIVES OF THE STRATEGY

1.1 The objectives of the Authority's financial strategy are as follows:

1. To provide a stable financial foundation to assist the decision making process.

2. To be fully cognisant of other supporting plans and strategies such as the workforce plan, equalities objectives and ICT strategies in order to provide a cohesive framework.

3. To enable the Authority to be proactive rather than reactive in terms of financing

4. To show how resources support the Authority's Service Plan over its full term.

5. To support sustainable service delivery by the use of revenue budgets, reserves and balances.

6. To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.

7. To hold a working balance sufficient to respond to unexpected events and/or opportunities.

8. To be flexible and responsive to changes in needs and legislation

9. To support the continuance of the Authority's core services and strategies.

10. To ensure that the capital base of the Authority can be maintained within affordable and sustainable limits.

11. To provide forward looking indications of Council Tax levels.

Within this overall set of objectives the strategy must seek to find creative ways of using resources to minimise the impact of reducing funding from Central Government.

1.2 A number of principles have been developed to underpin these objectives:

1. Resources will be prioritised to meet the core aims of the Service as set out in the Integrated Risk Management Plan and its updates.

2. Priorities will be reviewed in the light of available resources and financial performance

3. Capital Receipts will only be applied to the redemption of debt or the financing of additional capital assets

4. Capital will be financed using the most advantageous method prevailing at the time finance is required within the requirements of the Prudential Code. Full options appraisal will be carried out before financing decisions are taken.

5. Capital development will only be carried out where there is a synergy with existing plans and where the investment fits into the sustainable capital plan.

6. The rate of return on investments will take account of the advice received from the Authority’s external advisors

7. Investment decisions will be based on a balance of risk and return, remain biased towards low risk activity and follow the CIPFA principles of Security, Liquidity, and Yield in that order.

8. Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by balances unless this is part of a long term sustainable strategy and approved by Members.

9. Charging for services will remain sensitive to the needs of communities and their expectations of the service.

10. Sponsorship funding will not be sought to underpin front line or core service delivery unless a long term plan for sustainability has been developed.

11. The Authority will continue to direct resources to the areas of greatest need in our communities and seek to address the wider safety agenda.

12. The Authority will actively seek to work with partner organisations in both setting and delivering priorities.

13. The Authority will apply any year end surpluses to balances and/or reserves.

14. Longer term financial planning will take account of the possible use of reserves and balances to minimise the effect of reductions in funding as a means of transition but not of permanent support.

1.3 There are a number of key outputs which will help to both assure and monitor the effectiveness of this strategy and the underlying principles. The following list is not exhaustive but provides a flavour of the outputs that may be expected:

- Production of the three year revenue and capital budgets, including associated briefing papers, consultations and seminars.

- The production of longer term strategies for ICT, Transport, Property and Equipment such that financial planning can be carried out both within and beyond the window of the medium terms financial strategy.

- Production of quarterly monitoring statements for both Capital and Revenue including project based performance as appropriate.

- Supporting information provided to all Council Taxpayers via the internet

- Prudential Code Monitoring Reports produced quarterly

- External Audit reports
- Risk based approach to the maintenance of Balances and Reserves
- Internal Audit reports reviewed by the Finance and Resources Committee
- Grant Claims etc. submitted on time.

SECTION 2: CONTEXT OF THE STRATEGY

2.1 The primary focus of the organisation is set out in a fundamental strategy document, the Integrated Risk Management Plan (IRMP). This plan sets out the business of the organisation over the next 3 years. This essentially represents the Service delivery commitments to the general public and it is therefore essential that resources are effectively managed to achieve the outcomes set out in this plan.

2.2 A Medium Term Financial Strategy sets out how finances are to be managed in such a way as to manage levels of Council Tax, Reserves and Balances. In simplistic terms it will set out how a stable and robust financial platform can be created such that developments and improvements in services set out in the IRMP can both be achieved and sustained over time.

2.3 This strategy is set against a backdrop of consistently reducing central government funding; a situation which is unlikely to improve going forward. It has therefore been necessary to adopt a more assertive position in relation to budgets.

SECTION 3: FINANCIAL MANAGEMENT

3.1 The External Auditors of the Authority have consistently issued unqualified audit reports and positive management letters to the Fire Authority in respect of their audit of accounts. There have been a number of changes in the presentation of the accounts in recent years which primarily relate to the implementation of International Financial Reporting Standards (IFRS) but these changes are now well embedded.

3.2 Following the abolition of the Audit Commission the Authority's external auditors have been changed to KPMG. The staff providing the key roles of Audit Manager and Lead Auditor were originally transferred from the Audit Commission however both of these roles have changed during 2014.

3.3 Although the process of external assessment by the Audit Commission has been discontinued the Service recognises that the high standards achieved as part of this process can be continued and developed.

3.4 The prevailing economic climate has caused increased financial pressures to be placed upon all public sector bodies and the Fire Service is no exception. There have been a number of significant changes to the funding mechanism and it is clear that the overall funding position is expected to continue to worsen over the next three years.

3.5 The challenge of the organisation however is not how to survive in this period of austerity but how to continue to both provide and develop high quality services for the communities it serves. Finance is a clear enabler in this context and sound financial management is essential to ensure that maximum value can be achieved with the resources available.

3.6 The organisation will continue to manage its financial resources to the highest professional standards and back this up with a strong governance framework which will include scrutiny by the Finance and Resources Committee (both generally and as an Audit Committee), regular reporting to elected members and the Corporate Management Board. In addition an independent Internal Audit function is maintained to give additional assurances to both Members and Senior Officers.

3.7 The post of Finance Director is to be deleted from 1st October 2015 and so some consideration has needed to be given to the availability of strategic financial advice and the professional "strength in depth" provided under current arrangements. This will be addressed by the Treasurer adopting a slightly wider role and the Head of Finance reporting directly to the Chief Officer.

3.8 The Authority will continue to have the help and advice of an independent Treasurer who will continue to work closely with the Head of Finance to advise the Fire Authority on financial matters and provide an independent source of advice when required. It is envisaged that the new Treasurer will take a broader role in financial strategy and this again strengthens the financial management role.

SECTION 4: FUNDING PRIORITIES AND SERVICE IMPROVEMENTS

4.1 The challenge for the organisation in times of financial constraint is to find a way to continue to develop and improve the service against this backdrop of uncertainty. This will require both strong leadership and financial stability.

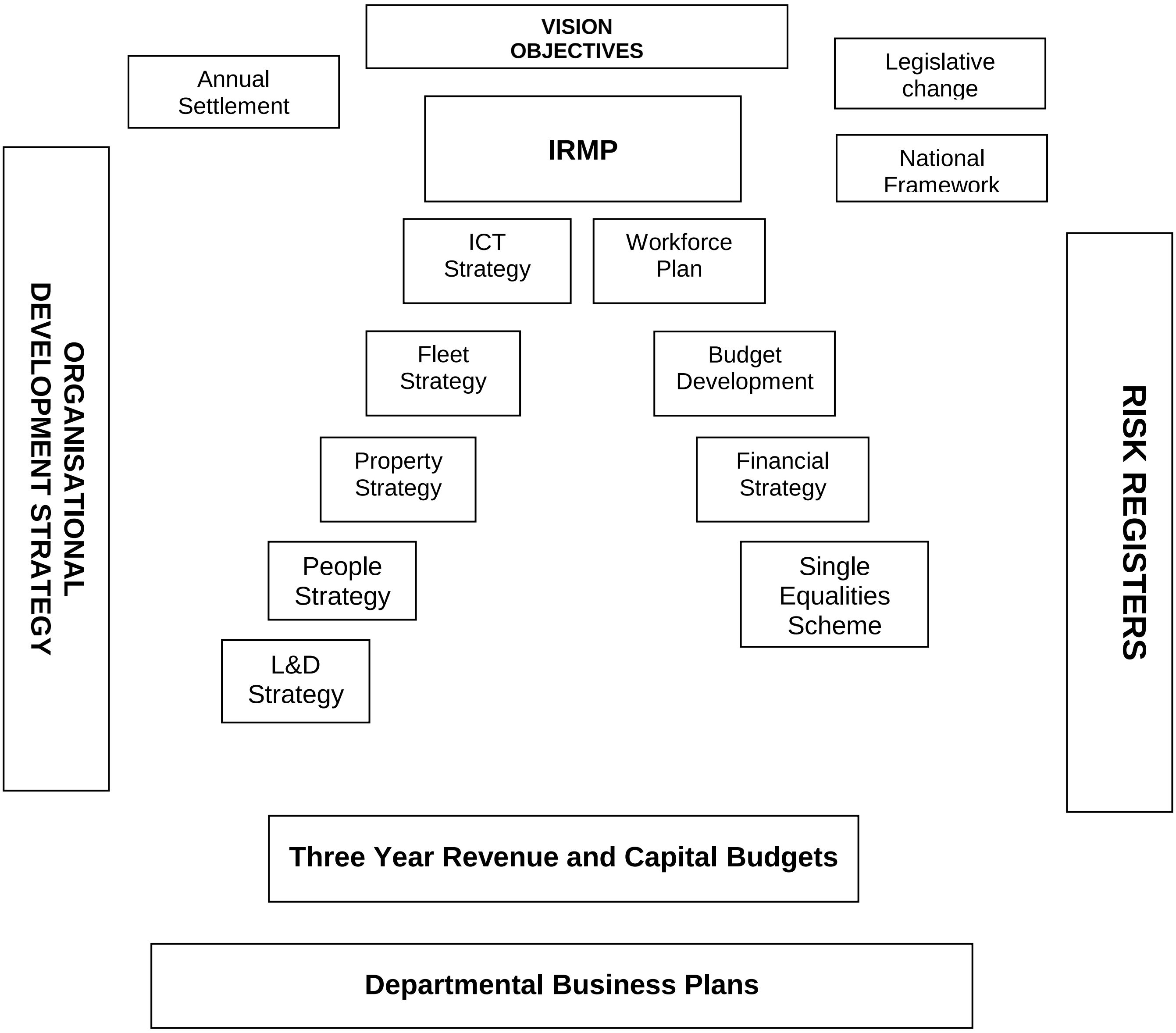
4.2 The funding priorities of the Authority relate entirely to those set out in the IRMP and underpin the three guiding principles of the organisation. These are:

- To deliver a high quality service
- To maintain high standards of governance and financial stability
- To have an engaged and motivated workforce

4.3 This approach is mirrored through into the budget and resource planning processes. The detailed working underlying the Authority's budget proposals for 2015/2016 to 2017/18 shows a clear commitment by both officers and Members to the delivery of these broad priorities and also resourcing the individual projects and activities which will ensure their delivery.

4.4 It is also important to appreciate that the aspirations of the Authority in respect of equality and inclusion remain of paramount importance both within the workforce principle and the service delivery principle. It is recognised that these aspirations are not wholly internal and all members of the various communities served by NFRS must be able to access the full range of services in ways appropriate to them.

4.5 Notwithstanding the primacy of the IRMP there is a framework of interrelated plans and strategies which together provide the basis for the continued provision of and development of the service. This is best illustrated by the following diagram:



4.6 The development of departmental plans and strategies and the alignment of these with other plans, both departmental and corporate, has been much improved since changes in the internal governance structures have been introduced.

4.7 The creation of the Service Managers Forum has made a significant contribution to governance as it has a more empowering approach by Strategic Managers. Undoubtedly decisions are made at more appropriate levels and as a result decisions are faster and of better quality.

4.8 These changes have allowed budget holders, service managers, Finance, HR and other support functions to work together to develop plans which consider interdependencies, pressure on both financial and non-financial resources, and relative priority of proposed developments and their relevance to the plan. This process has also “sharpened up” medium term revenue and capital planning.

4.9 Developments in the service will be resourced from a number of sources including:

- Recycling resources released by efficiency savings
- Reassessment of service priorities
- Additional revenue budget allocation where appropriate
- Government Grant Funding
- Sponsorship (where resources are temporary or not core activity)

4.10 That is not to say that there will be no changes in service delivery or requirements for staffing reductions to enable the budgets to be brought into balance. In fact future predictions of grant reductions would suggest that this may need to be the case.

4.11 The performance management framework will need to be strengthened in appropriate areas in order to bring together financial and non-financial performance to enable the achievement of service priorities to be monitored and strive to achieve continuous improvement.

4.12 Time limited and specifically targeted government funding will be used to fund specific and non-recurring cost items and fund capacity building around service improvement.

4.13 The operation of the Prudential Code for Local Authorities creates opportunities for capital investment and asset planning which were not possible under the old capital financing regime. This will enable the Authority to make maximum use of capital investment to support the achievement of objectives.

4.14 A pro-active approach to the achievement of Value for Money by seeking to embed VFM principles continues to release resources to improve service delivery.

4.15 The Authority’s Trading Company will continue to operate and seek to broaden its trading base to maximise profits. It is hoped that the dividends arising from these profits may be recycled into community based initiatives in future years.

4.16 It may be possible going forward to consider alternative investment strategies to maximise earnings potential but this would always be discussed by the Finance and Resources Committee.

SECTION 5: IMPACT OF UK ECONOMY

5.1 It would be inappropriate to consider a Medium Term Financial Strategy without making some mention of the current economic position in the UK and considering how its effects might be managed and/or mitigated.

5.2 The financial year 2014/15 has seen some improvement in the prospects for the UK economy but despite early signs of growth the overall position remains fairly static. Unemployment is reducing and yet robust economic growth is still awaited. Rises in the housing market generally continue to cause something of a “feel good factor” as has the impact of reducing fuel prices. How much of this economic growth is real and will transfer into the real economy is yet to be seen. Interest rates have fallen in the Eurozone to try to counter the risks of deflation and this will almost certainly have an impact on the ability of UK investors to secure reasonable interest rate returns

5.3 The main focus of investing surplus cash will be to protect the Authority’s capital, and higher interest rates will not be taken at the expense of security. Regular risk assessments will continue to take place which will result in regular amendments to the approved counterparty list.

5.4 The possible recovery of the property market may also have an impact on the Authority’s finances as the balance sheet value of properties begin to rise again.

5.5 By far the most significant consideration for the Medium Term Financial Strategy is the general state of Central Government Finances. The UK as a whole remains in deficit and central government are continuing with their austerity programme to turn this situation around. The intention to protect Health, Foreign Aid and now Defence leaves the remaining parts of the public sector even more vulnerable to grant reductions and the prospect of the Service suffering additional reductions in external funding of 25-40% is by far the greatest issue that this strategy has to face.

SECTION 6: MEDIUM TERM RISKS

6.1 The Authority’s Strategic Risk register has identified that there are a number of risks over and above budget reductions which can affect this strategy in the medium term, some of which are beyond the direct control of the Authority. The rapidly changing economic climate at the present time, for example, brings with it a number of risks any one of which could significantly impact upon this strategy.

6.2 *Investment Interest Rates.* The Authority has accumulated reserves of cash both in respect of working balances and other reserves. These cash balances are invested to generate income from interest. The outlook for rates is still very low which means that vetting and the choice of borrower is becoming more important. The process for managing these funds is set out in the Treasury Management Strategy document which is approved by the Fire Authority in February of each year.

6.3 *Loan Interest Rates.* As the Authority matures and outstanding debt becomes a more significant burden on the revenue budget there is naturally an increased exposure to movements of interest rates. Although the Authority has adopted a general policy of using fixed interest rate vehicles to minimise this risk in the longer term there is still an exposure from the loan charges on new capital being greater than anticipated.

6.4 It is common in the Public Sector to use maturity loans as the most appropriate vehicle for capital financing. These loans do not repay any capital until maturity but interest charges only, and they therefore present a refinancing risk at the end of their term. They are currently the most cost effective way of borrowing but it is considered essential that the Authority has sufficient accumulated cash to repay principal at term. This ensures that the authority retains control of overall debt levels.

6.5 In order to assist this, the authority will take opportunities to make voluntary MRP contributions as they arise.

6.6 The Authority has adopted a medium term strategy to hold long term debt at low rates but reschedule this at a later date if rates are more advantageous. The overall strategy for borrowing is set out in the Treasury Management Strategy document and in the Prudential Code Report. This strategy needs to “follow through” in terms of eventually seeking to mirror the debt outstanding profile with the profile of asset lives. This will be possible by rescheduling debt again if shorter term interest rates fall in relation to long rates however there is no sign of this at present.

6.7 The Authority will remain at risk of breaching its own prudential code targets for loan maturity due to the current policy of holding back on borrowing and using internal cash resources. As the year progresses it is likely that borrowing will be required and it is possible that this discrepancy can be resolved but this will depend on the availability of attractive rates.

6.8 *Pensions* There are a number of risks associated with pensions:

- That employers contributions for non-uniformed personnel will rise significantly.

- That employers contributions for uniformed personnel will rise significantly.

- That the pattern of early retirements and Ill Health retirements in the service will have a serious impact on budgets if unchecked. The Authority has little control over Ill Health retirements but early retirements for non-uniformed staff can be managed.

6.9 In the first scenario, it is likely that employers’ contributions to the local government pension scheme will continue to rise. However, recent consideration of this issue shows that this is unlikely to be significant unless the Authority’s record of low rates of early and ill health retirements worsens. The performance of pension funds had been poor in recent years but the recent performance by the Stock Market has delivered significantly increased returns. The Nottinghamshire fund shows a bias of fund investments towards equities rather than fixed interest bonds and so has benefitted from this change. The overweight exposures to property which had been having a negative effect have now begun to return to normal levels with both property values and rental streams beginning to rise. The most recent actuarial valuation shows that the Fire Service element of the fund is close to being in balance and therefore the requirement to make additional payments to reduce a deficit may reduce shortly.

6.10 Since the passing of annual pension liabilities for fire fighters to the CLG, employers have been required to make a 21.7% of salary contribution to the scheme for those staff in the old 1992 scheme. For those in the 2006 scheme the contribution is 11.9%. There are no indications that this will rise in the short term.

6.11 Recent revisions to the Local Government Pension scheme may also help to keep employer contributions steady or may even reduce them over time.

6.12 The introduction of a new firefighters' pension scheme from April 2015 may eliminate some of these pressures going forward but indications are that an employer contribution rate of 14.3% will be required.

6.13 A big risk in the short and medium term however remains in the area of Ill Health retirement mentioned above. All the costs from such retirements now fall directly on to Authority budgets and costs per early retiree could be as high as £120,000. The Authority continues to maintain a budget for ill health retirements based on historical data and also has set aside a specific reserve to ensure that the volatility of these payments is "smoothed" through to the revenue account in a manageable fashion.

6.14 The main concern is that with firefighters now expected to work longer before retirement there may be an increase in ill health retirements as staff are unable to meet fitness standards.

6.15 *Grant Funding*. The last Revenue Support Grant settlement in the traditional form was received during 2012/13. From 2013/2014 onwards there has been a radical change both to the amount of grant payable and the way that it is calculated. Locally collected business rates are now retained within local budgets and there is also a requirement for Fire Authorities to pay their share of council tax benefits. The risks are highlighted below.

6.16 *Council Tax Support.* Prior to 2013/2014 Council Tax Support, or Benefit, was paid out by the billing authorities and funded entirely by government grant. It therefore had no impact on Fire Authorities. This position has changed however and now, whilst Council Tax Benefit continues to be paid by the billing authorities, the funding is drawn from both the billing authorities and the precepting authorities of which Fire is one. In return for this Government have made a grant which is the equivalent of 90% of 2012/2013 spending on council tax benefit to help authorities fund this change. This presents a number of risks:

- Authorities may not be able to collect Council Tax from households that have never paid the tax before

- Any increase in claimants will need to be funded locally

- The amount given by way of grant is absorbed into Revenue Support Grant for 2015/16 and has been reduced in line with other grant reductions even though demand may rise.

6.17 Early indications are that this is not having quite the effect that might have been anticipated but the process is still developing.

6.18 *Business Rates.* The principle behind the retention of business rates is one that is generally supported, in that it allows Local Authorities to benefit from economic regeneration in their areas. Fire authorities have little or no influence over economic regeneration and therefore via a series of complex calculations are what is known as “top up” authorities. This means that a Fire Authorities business rates will be “topped up” to the amount that they would have received under the old regime. What it doesn’t mean however is that it will always be like this and this situation could change. More fundamentally the old concept of needs driven Revenue Support Grant is essentially over. In future most if not all central government grant will be in the form of business rates and “top up” payments. The fundamental problem with this approach is that whilst deprivation and other cost drivers of service provision had been taken into account within the Revenue Support Grant formula, there are no such drivers within the NNDR funding being based, as it is, entirely on the collection of business rates.

6.19 *Long Term Capital Sustainability.* As referred to above the Authority is becoming more mature in terms of the build up of loan debt and leasing to support the capital base of the organisation. It is considered that debt financing costs should not usually consume more than 8% of revenue budgets and this “credit ceiling” for affordable borrowing, which is covered within the principles of the Prudential Code, will be more closely matched to the profile of the asset base going forward. This strategy is to ensure that the credit ceiling is not reached before the requirement to undertake major capital schemes is exhausted. The Authority has considered the sustainability of its capital plans in terms of the ICT Strategy, the Fleet Strategy and the Property Strategy and these have been mapped out over a 20 year period to ensure that the revenue budget can continue to support them.

6.20 Revenue Budget pressure and the availability of surplus balances has caused the Authority to use surplus revenue budget to fund capital items. This has been expedient in the short term but cannot be continued indefinitely because capital assets which have been purchased from revenue will create an underlying need to borrow for replacement in future years which may cause the 8% ceiling to be breached.

6.21 The 8% ceiling is further threatened by the reducing size of the revenue budget.

6.22 The Prudential Code requires that capital investment plans, including financing, are affordable, prudent and sustainable. The further use of revenue underspends or balances to fund capital investment will not meet the sustainability requirement so the approach in future will be to ensure that the capital programme contains only “invest to save” or essential projects and to use the cash released from the Minimum Revenue Provision charge to repay loans such that new loans are only required to finance new capital expenditure and not to replace expiring maturity loans.

6.23 In the meantime revenue contributions will be allocated against a range of asset lives thus spreading this risk over a number of years.

SECTION 7: COMPONENTS OF THE MEDIUM TERM STRATEGY

7.1 This section briefly explains some of the processes and key components that underpin the medium term financial strategy.

7.2 *Revenue and Capital Budgets.* The process for the preparation of revenue and capital budgets is now mature but continues to develop each year. There is now positive involvement of business plan owners in the development of the budgets which have been drawn up side by side with business plans. This has continued to be developed still further in the preparation of the Revenue Budget from 2015/16 to 2017/2018 and there is now increased ownership around budget decisions. This has meant that, as planned, budgets were being developed at the operational level from July onwards whilst discussions were taking place over the overall budget strategy. The Finance and Resources Committee had full involvement in the process and the Chair of the Finance and Resources Committee played an active part in interviewing budget managers to fully understand the underlying detail within the budgets. The Finance and Resources Committee made proper and detailed recommendations to the Authority.

7.3 The maturity of other plans and strategies has also proven useful in this process as retirement and recruitment profiles from the workforce plan have informed the revenue budget process and the strategies for ICT, Fleet and Property have enabled a cohesive Capital Programme to be developed. It is important to understand that the process of constructing a revenue and capital budget is an iterative one which is driven entirely by organisational priorities. The service’s plans and strategies directly drive the budget and not the other way around. Of course, affordability is a key consideration hence the iterative nature of the process but it is important that when financial constraints are imposed the impacts on service development and/or delivery are fully transparent. Therefore there is a direct relationship between the Fleet Strategy and the Capital Programme because the Capital Programme was developed from that strategy and the two are in complete alignment. The same is true for other strategies also.

7.4 Underperformance of the Capital Programme continues to give some cause for concern. Although there are good reasons why the Capital Programme continues to underspend it is not acceptable that revenue funds are required to be earmarked to finance the capital programme and then not used. The opportunity costs of this over provision may begin to impact on the service. In order to alleviate this issue it has been accepted that there will be an element of “over programming” but that revenue to support the capital programme will take this into account.

7.5 *Council Tax.* As part of the budget setting for 2015/2016 to 2017/2018 the Authority agreed indicative budgets for 2015/2016, 2016/2017 and 2017/2018 of £41,212,721, £42,636,983 and £43,630,100 respectively. This required a rise in Council Tax for 2015/2016 of 1.95% to £72.44 at Band D and similar rises in future years.

7.6 *Fees and Charges.* The Authority is allowed to make charges for the provision of a range of services to the public and to commerce. It has however been the practice of the Authority to avoid making charges for services which the public have a reasonable expectation of receiving free of charge. For example the Authority could make a charge for pumping out a domestic cellar after a flood but it was decided some years ago that this would not be reasonable. Instead the Authority has concentrated on charging for the more unusual requests often where there is no risk of death or injury, such as filling swimming pools and gaining entry. In addition the Authority makes charges for pollution incidents whenever possible on the principle that the polluter should pay for the damage that they cause. Special Service Charges are currently under review and it is possible that a wider range of activities may be charged for going forward.

7.7 *Treasury Strategy*. The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 27 February 2015. This strategy complies fully with the Chartered Institute of Public Finance and Accountancy code of practice on Treasury Management which the Authority has adopted. The strategy relies for its success on the appointment of financial advisors who enable the Authority to lend and borrow as prudently as possible. Efforts will continue to be made to ensure a sufficient spread of borrowers to minimise risk exposures.

7.8 *External Funding*. Efforts will continue to be made to secure as much external funding as possible either from Government Grant or from sponsorship and partnerships. These are managed carefully to ensure that the sudden withdrawal of funding does not have a negative impact on revenue budget nor cause the Authority embarrassment from having to close down successful projects due to lack of external funding.

7.9 There are no plans at the present time to enter into any Private Finance Initiative (PFI) funding for capital projects unless there is a strong indication that such a vehicle might prove cost effective.

7.10 *Reserves and Provisions.* The Local Government Act 2003 requires that Authorities maintain adequate reserves and provisions to help ensure that the medium term policy programme is sustainable and that it can be delivered. In accordance with good accounting and financial practice, reserves and provisions will always be made in the accounts where appropriate. In simple terms the difference between a reserve and a provision is that a provision is made for a known liability arising from a legal obligation whereas a reserve is created for a discretionary purpose.

7.11 *Working Balances.* In addition to reserves and provisions the Authority is also required to maintain an adequate level of working balances and the Treasurer is required to certify that these are adequate under S25. Local Government Act 2003.

7.12 Balances are maintained at an appropriate level by carrying out a risk assessment of financial risk exposures and calculating a value for balances. Accepting that the value of balances may fluctuate to deal with both emergent and changing risk the Authority has decided to target a minimum level of balances of £4.0m. At the end of 2015/16 the level of balances is expected to be of the order of £6.7m although there are planned reductions in balances going forward as they are used to cushion the transition to a tighter financial regime in future years.

7.13 *The Prudential Code.* The freedoms provided by the Prudential Code for Capital Accounting are to be fully used to make the best possible investment decisions in relation to capital spending in order that meaningful choices can be made between borrowing, leasing and the use of capital receipts. Nevertheless it is still considered important that the Authority should not expose itself to unduly high levels of debt. This can be difficult to gauge as the Authority is maturing and therefore levels of debt will be expected to rise each year. However, it is necessary for a view to be taken as to how much debt is sustainable in the longer term. This position has been reviewed and it is clear that given the strategies in place for Fleet and Property over the next 20 years levels of debt can be maintained to a level where the revenue effects of borrowing do not exceed 8% of overall revenue resources available. The risk to this is that as revenue budgets fall this underlying percentage will begin to rise.

7.14 *Value for Money*. The Authority continues to show its commitment to achieving Value for Money although the focus during 2014/2015 has been very much on achieving the significant budget reductions required to deal with grant reductions.

SECTION 8: PARTNERSHIP WORKING

8.1 The Authority remains committed to working in partnership to achieve overall outcome objectives and partnerships and collaborations are to be actively encouraged providing that they remain focussed on the delivery of the Authority's objectives. This relies therefore on the identification of shared outcomes with potential partners and the identification of commissioning opportunities with the third sector. Again the common thread of equality will run through some of this partnership work where the Service seeks to build trust and respect amongst disadvantaged groups both for the benefit of service delivery and recruitment.

8.2 The initiative launched in 2007/8 to enable stronger links to be forged with the voluntary sector by sponsoring some voluntary sector led projects in support of our Service Plan objectives continues to gain momentum.

SECTION 9: THE REGIONAL DIMENSION

9.1 The Authority remains committed to supporting joint and collaborative working with colleagues across the region and it is considered that the tri-service control centre initiative may encourage further co-operation.

9.2 The commitment to the Tri-Service Control Project remains high on the Authority's priorities as this will provide an efficient method of call handling and mobilisation.

SECTION 10: OUTLOOK FOR 2015/16, 2016/17 AND BEYOND

10.1 The Authority set a budget in February 2015 which for 2015/2016, whilst requiring some budget reductions, is largely balanced, in fact £570,000 will be transferred to balances. The estimate for 2016/2017 however is indicating a shortfall of the order of £1.8m. As this rolls forward, and if unaddressed, it becomes £3.5m by 2017/2018. The prospects are for this deficit to rise still further in 2018/2019 and 2019/2020 which means that the outlook is considerably worse than in previous years.

10.2 Current predictions of budget requirements as set out on the February budget papers are:

Year	**£'s**	**% Increase**
2015/2016	41,212,721	
2016/2017	42,636,983	3.5
2017/2018	43,630,100	2.3

10.3 Funding Streams however are expected to reduce as follows:

	2015/2016 £	**2016/2017 £**	**2017/2018 £**
Revenue Support Grant	9,772,122		
Business Rates Actual	3,441,383		
Top Up Grant	6,477,078		
Council Tax Freeze Grant Previous years	334,364		
Freeze Grant 2013/2014	235,811		
Total Grant Yield	**20,260,758**	**18,639,897**	**17,335,105**

10.4 There are no indications yet as to whether further reductions in grant are expected beyond 2017/2018 although the Local Government Association have provided some estimates which have been used in the above table. There may be further financial challenges but these remain unclear at present.

10.5 By ignoring any possibility of further freeze grants and assuming that Council Tax yield will increases by 1% or 2% in each of the years 2015/2016 and 2016/2017 the shortfall is calculated as follows:

	2015/2016 £	2016/2017 £	2017/2018 £
Total Grant Yield	20,260,758	18,639,897	17,335,105
Budget Requirement	41,212,721	42,636,983	43,630,100
Balance to be met locally	20,951,963	23,997,086	26,294,995
Council Tax Yield*	21,109,003	21,320,093	21,533,294
Budget Deficit		**2,676,993**	**4,761,702**
Budget Surplus	**157,040**		
Council Tax Freeze Grant	244,066	488,132	732,198
Budget Shortfall		**2,188,861**	**3,939,504**
Budget Surplus	**401,106**		

*Assumes a 1% rise in tax base but no rise in Council Tax

The above figures suggest that further savings of approximately £3.9m will be required by the start of the 2017/2018 financial year. It should be pointed out that if the deficit of £2.2m in 2016/2017 is resolved then the deficit in 2017/2018 would reduce to £1.75m.

10.6 The above figures can be offset to some degree by increases in the levels of Council Tax; a 1% increase yielding approximately £200,000 p.a.

10.7 More recent estimates show that grant reductions going forward may be far more severe than these predictions and therefore budget planning for 2016/2017 is expected to be working to much lower figures when the results of the 2015 spending review are released.

10.8 When looking for budget reductions the overall spend profile of the Authority must be considered. It has previously been reported to Members that the percentage split of the budget by major heading is:

Uniformed Pay	64%
Non-Uniformed Pay	11%
Transport/Premises	9%
Capital Financing	9%
Communications/IT	7%

Indeed more recent estimates show that nearly 80% of all spending is on public facing services and only 4.5% is spent on corporate support.

10.9 The Fire Cover Review currently taking place may offer some alternative options for savings by way of further adjusting how the front line service is delivered but even these measures may be insufficient to meet the required reductions. Nevertheless, this strategy is designed to support the authority through this very difficult period and ensure that the future remains financially sound.

APPENDIX A

TREASURY MANAGEMENT STRATEGY FOR 2015/16

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

The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy: this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Capita Asset Services.

The strategy covers:

- Prudential and treasury indicators;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy;
- Policy on use of external service providers;
- The Minimum Revenue Provision policy;
- Training of Officers and Members.

The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

BALANCED BUDGET REQUIREMENT

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

- Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

ECONOMIC BACKGROUND

Growth in the Gross Domestic Product (GDP) for the UK was strong in both 2013 (2.7%) and 2014 (2.6%) and there is some optimism that this will continue as the positive effects of the fall in the price of oil feeds through to the economy. Despite this, there needs to be a move away from reliance on consumer spending and the housing market to stimulate economic growth and towards manufacturing and exporting

Unemployment is steadily falling and this is expected to continue, although this may lead to significant increases in wage growth over the next few years. Consumer Price Index (CPI) inflation has fallen sharply, reaching a low of 0.5% in December 2014, and it is thought that inflation could become negative in 2015 although would return to positive over the medium term.

The public sector deficit has not reduced as planned, and this means that the Government is committing to a speedier elimination of this deficit over the next few years. Gilt yields have fallen to very low levels and this has reduced the interest payments on Government debt.

The Eurozone continues to face the threat of weak or negative growth and of deflation. In January 2015 the European Central Bank launched a Euro 1.1 trillion programme of quantitative easing to promote growth. There is still a concern about levels of sovereign debt, particularly for Greece, Italy, Portugal, Ireland and Cyprus.

Economic forecasting remains difficult, with a number of external factors influencing the UK position. The longer term expectation is for gilt yields and PWLB rates to rise.

Capita Asset Services has provided a forecast on the bank interest rate, which draws on current City forecasts:

Capita Asset Services Bank Rate Forecasts	
As at 31 March 2015	0.50%
As at 31 March 2016	0.75%
As at 31 March 2017	1.25%
As at 31 March 2018	2.00%

MANAGEMENT OF CASH RESOURCES

The Authority uses a main current account, an investment account and a number of local petty cash accounts. All of these accounts are held with Barclays Bank PLC and are managed online. This system allows the Authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained at a minimum level. All surplus funds are held either in the investment account for short periods or are lent to institutional borrowers over longer periods.

The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The Prudential Code report included an overdraft limit of £500,000 within the authorised limit to allow for such instances. It is proposed that the overdraft facility remains at a level of £200,000.

Part of the treasury management operation is to ensure that cash flows are adequately planned, with cash being available when it is needed. A 3 year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3 month forecast is updated regularly and this process reveals when cash surpluses are likely to arise.

The current bank account is checked on a daily basis and the balance is transferred to the investment account (Business Premium Account) if the interest rate is favourable.

Cash management processes have been examined by internal auditors and have been shown to be robust.

BORROWING STRATEGY

The prudential indicators for borrowing are set out in Appendix B. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2015/16 report which is elsewhere on this agenda.

The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2015/16 this figure is estimated at £27,981,000, which is lower than would have been the case if the Authority had not approved the use of revenue reserves to finance future capital expenditure as part of the budget 2011/12 to 2013/14.

The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (PWLB). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. Its interest rates are generally favourable compared to those applicable to borrowings from other sources within the marketplace. However, in 2007/08, a £4m loan was borrowed from a bank, with a fixed interest rate which was lower than the equivalent PWLB rate. It is therefore proposed that the Authority continues to borrow primarily from the PWLB, but considers fixed rate market borrowing when market rates are lower than PWLB rates.

The loan of £4m referred to in paragraph 2.20 is structured as a "Lender Option Borrower Option (LOBO)" loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long term debt at a lower rate depending on which is the most advantageous option for the

Authority. As the interest rate was not changed on 7 March 2013, the next opportunity for a revision is 7 March 2018.

Over the next three years, it is anticipated that the Authority will need to borrow up to £13m to finance the capital programme and to replace up to £4m of maturing loans.

Capita Asset Services’ view on future PWLB interest rates is:

	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Mar 17	Mar 18
5 yr PWLB	2.20%	2.20%	2.30%	2.50%	2.60%	3.20%	3.60%
10 yr PWLB	2.80%	2.80%	3.00%	3.20%	3.30%	3.80%	4.20%
25 yr PWLB	3.40%	3.50%	3.70%	3.80%	4.00%	4.50%	4.80%
50 yr PWLB	3.40%	3.50%	3.70%	3.80%	4.00%	4.50%	4.80%

The table above has been adjusted for the PWLB certainty rate, which is a 20 basis points reduction in the interest rate for Authorities such as this one which have applied for it.

In view of the above forecast the Authority’s borrowing strategy will be based upon the following information.

- A combination of capital receipts, internal funds and borrowing will be used to finance capital expenditure in 2015/16 and beyond.

- Two PWLB loans will mature in the medium term (£2m in 2016/17 and £2m in 2017/18). These will need to be replaced with new borrowing and it is estimated that new borrowing in the period 2015/16 to 2017/18 will be in the region of £13m.

- Capita Asset Services’ view is that PWLB rates are likely to rise over the next three years. It may therefore be advantageous to take out new loans earlier in the period, as this will have a lesser impact on the revenue budget for the periods of the loans. However if this is in advance of the need to spend, there will be a cost of capital impact as referred to in paragraph 2.27 below.

- PWLB rates on loans of less than ten years duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority will mean that longer term borrowing at a higher cost is required to give a balanced loans portfolio. New borrowing is likely to be for durations which are between 15 and 35 years and above 45 years to re-balance the loans portfolio.

- Consideration will also be given to borrowing fixed rate market loans at 0.25% – 0.50% below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- PWLB Maturity loans will continue to be taken if the overall cost of such loans is less than the equivalent Annuity loans. If this strategy results in a short term breach of the Gross Borrowing and Capital Financing Requirement indicator, then the reasons for this will be explained to members of the Authority. The Prudential Code for Capital Finance 2015/16 report, which is also on the agenda, explains this issue in more detail.

In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change in position:

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;

- If it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

The Authority’s gross debt position is projected to be £20.4m by the end of 2014/15, but investments of approximately £7m are expected to be in place at 31 March 2015, giving a net debt position of around £13m. Currently, investment interest rates are substantially lower than debt interest rates so the use of reserves rather than borrowing to finance capital expenditure over the past three years has resulted in better value for money in the short term. This strategy came to an end by the close of 2013/14 and, with interest rates likely to rise over the medium term, additional longer term costs will be incurred when surplus reserves have been exhausted and there is once more a requirement to borrow at higher rates.

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed, although this scenario is unlikely anyway given that current borrowing rates are higher than current investment interest rates, creating a cost of capital impact. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of funds invested. In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy;

- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, this would indicate a potential to generate savings by switching from long to short term debt. However, a premium would be payable which may negate the savings, and the loan maturity profile of the Authority indicates that this would increase exposure to interest rate risk. It is therefore unlikely that rescheduling of debt will take place in 2015/16 although this will be kept under review should circumstances change. Rescheduling will be considered for the following reasons:

- The generation of cash savings and / or discounted cash flow savings;
- Enhancing the balance of the portfolio by amending the maturity profile.

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

INVESTMENT STRATEGY

The Authority will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance. The Authority's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

Investment opportunities will arise when there are temporary cash surpluses. In accordance with guidance from CIPFA, and in order to minimise the risk to investments, the Authority sets a minimum acceptable credit quality of counterparties for investment. To determine the institutions with which investments may be placed, the Authority uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. It is recognised that ratings should not be the sole determinant of the quality of an institution, and Capita's creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries;
- Information from the financial press and share price information.

The methodology used by Capita to create creditworthiness ratings is being amended. This is due to the withdrawal by the credit ratings agencies of an uplift in ratings due to implied sovereign support for institutions. The actual removal of implied sovereign support is only likely to happen when it is deemed that financial institutions are stronger and less vulnerable to financial crisis.

The modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and enable diversification in investments. These colour codes are used by the Authority to determine both the credit-worthiness of institutions and the duration for investments. It is regarded as an essential tool, which the Authority would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Capita's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

Institutions within the "purple band" (24 months), the "yellow band" (5 years) or with no colour band will not be used.

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to or deducted from by Officers should ratings change in accordance with this policy.

The latest credit list provided by Capita will be made available to Members at the meeting.

In accordance with its low risk appetite, the Authority may undertake the following types of "specified" investments:

- Deposits with the Debt Management Office (Government);

- Term deposits with Banks and Building Societies;

- Call deposits with Banks and Building Societies;

- Term Deposits with uncapped English and Welsh local authority bodies;

- Triple-A rated Money Market Funds;

- UK Treasury Bills.

The risks associated with investing will be reduced if investments are spread e.g. over counterparties or over countries. The Authority will therefore aim to limit its investment with any single counterparty to £2m. It is, however, difficult to impose any further spreading requirement due to the relatively small size of the Authority's investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.

The majority of past investments have been for periods of 3 months or less. In the current financial climate no term deposit investments with other counterparties, such as UK semi-nationalised banks and local authorities, will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The Authority will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

All credit ratings will be monitored via a weekly update from Capita Asset Services. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Capita creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Investments will normally be made for durations which accord with Capita's credit quality list so, for example, an investment would be made for no more than 100 days (3 months) with a "Green" rated counterparty. This policy works well with fixed term deposits but where the Authority invests in a "call" account in a bank there is no fixed duration for the deposit. In such instances, officers will monitor intelligence about the bank and give notice to withdraw funds immediately if there is any indication of a substantially increased risk to the security of the deposit. Where call accounts are used, deposits will only be made where the minimum notice period is no longer than the Capita suggested duration for that institution, and it is therefore recognised that the total period of the investment may be longer than the Capita suggested duration in some cases.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

MINIMUM REVENUE PROVISION POLICY 2015/16

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were provisions dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.

Under the regulations, Authorities must make a "prudent provision" for MRP and guidance is given on the interpretation of this: "provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service". This guidance translates into the asset life method. Authorities are permitted to continue charging MRP calculated using the old method for borrowing and credit arrangements which funded capital expenditure incurred before 1 April 2007. This method calculates a charge of 4% of the capital financing requirement each year to revenue.

The following policy on MRP is therefore recommended to members and budgetary provision for MRP has been made on this basis:

- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2015/16 will continue to be calculated on the basis of the 4% CFR (capital financing requirement) method. This method will continue to be used in future years for capital expenditure incurred during or before 2006/07.

- For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2015/16 will be calculated on the basis of the Asset Life method.

The regulations also allow for Voluntary Revenue Provision (VRP) charges to be made. A VRP charge would be in addition to the MRP charge and the two advantages of making such a charge would be that firstly in future years a “holiday” could be taken in respect of MRP charges up to the value of the total VRP charges in prior years, and secondly future MRP charges would be reduced, resulting in revenue budget savings. If the situation arises in the year whereby Officers feel that a VRP charge would be advantageous (e.g. if there are revenue budget underspends), then a recommendation will be made to Finance and Resources Committee to approve a VRP charge during the year.

TRAINING OF OFFICERS AND MEMBERS

Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes. It is also suggested that those tasked with treasury management scrutiny responsibilities also have access to suitable training and a treasury management training seminar was last held for Members of the Finance and Resources Committee in July 2014. The requirement for further Member training will be kept under review over the next year.

APPENDIX B

PRUDENTIAL INDICATORS AND TARGETS

PRUDENTIAL INDICATORS FOR AFFORDABILITY

Estimates of the Ratio of Financing Costs to Net Revenue Stream for 2014/15, 2015/16, 2016/17 and 2017/18, and Actual Ratio of Financing Costs for 2013/14

2013/14 Actual £000s	2014/15 Estimate £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s
Ratio of Financing Costs to Net Revenue Stream				
7.3%	5.0%	5.3%	5.9%	6.9%

On 24 October 2008 the Finance and Resources Committee considered a report on Sustainable Capital Plans. This report concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the ratio of financing costs to net revenue stream should not exceed 8%. The table above shows that the use of revenue contributions to finance capital over the past two years has had the effect of reducing this ratio and keeping it within the 8% target despite significant reductions in the net revenue stream (revenue budget).

Estimates of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D) for 2013/14, 2014/15, 2015/16 and 2016/17

2014/15 Estimate £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s
Incremental Impact on Council Tax			
-£3.97	£0.18	£0.96	£1.58

The table above shows that the effect of financing capital expenditure from reserves in 2011/12, 2012/13 and 2013/14, and the use of capital receipts in 2013/14, is a significant reduction in the incremental impact on council tax in 2014/15. Beyond this, there are small incremental increases which reflect the impact on the revenue budget of financing the capital programme.

PRUDENTIAL INDICATORS FOR PRUDENCE

Gross Borrowing and the Capital Financing Requirement

This indicator has been amended in the 2011 revision to the Prudential Code and the revision took effect in the 2013/14 financial year. It used to be “Net Borrowing” i.e. borrowing minus investments but is now “Gross Borrowing”. This indicator requires that external borrowing does not, except in the short term, exceed the total of the capital financing requirement estimated up to the end of 2017/18. Performance against this indicator will be monitored throughout the year. For information, at 31 March 2014 (2013/14 financial year), the Capital Financing Requirement was £22,751k, Net Borrowing (total borrowing less investments) was £12,411k and Gross Borrowing was £22,476k. The estimate of the Capital Financing Requirement at the end of 2017/18 is £34,935k, thereby demonstrating that the indicator has not been breached. At the end of 2017/18, Gross Borrowings are expected to be in the region of £30m, with the Capital Financing Requirement estimated at £34.9m showing that this indicator should be achievable.

Treasury Management

As required by this indicator, the Authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT

Estimate of Total Capital Expenditure to be Incurred in 2013/14, 2014/15, 2015/16 and 2016/17, and Actual Capital Expenditure for 2012/13

2013/14 Actual £000s	2014/15 Estimate £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s
Capital Expenditure Total				
3,327	6,438	4,869	6,015	4,290
Capital Expenditure – Financed by Borrowing / Finance Lease				
0	3,884	1,346	4,580	2,574
Capital Expenditure – Financed by Revenue Contributions				
1,652	0	0	0	0
Capital Expenditure – Financed by Internal Funds				
84	1,216	1,273	1,420	1,701
Capital Expenditure – Financed by Capital Grant				
1,591	1,088	0	0	0
Capital Expenditure – Financed by Capital Receipt				
0	250	2,250	15	15

The estimates for 2015/16 to 2017/18 are submitted to the Fire Authority for approval elsewhere on this agenda. The capital expenditure estimate for 2015/16 shown in the above table includes assumed slippage from 2014/15. The final capital expenditure for each year may be different from the figures shown above but overall should be similar. Various financing methods have been assumed for the future years but in reality, decisions relating to financing methods will be taken as part of options analyses which will consider the best long term options for the Authority. These options need to be assessed at the time of financing. “Internal funds” in the above table refers to the use of cash available within budgeted resources generated by the minimum revenue provision charge, which is a non-cash transaction. Unused cash from this source is assumed to be carried forward for use in future years.

Estimate of Capital Financing Requirement as at the end of 2013/14, 2014/15, 2015/16 and 2016/17, and Actual Capital Financing Requirement as at 31/03/13

2013/14 Actual £000s	2014/15 Estimate £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s
Capital Financing Requirement				
22,751	26,635	27,981	32,561	34,935

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure, and represents the Authority’s underlying need to borrow for capital purposes. It will therefore be the aggregate of all capital expenditure, less any revenue contributions, capital grants or capital receipts. The above table shows that the Capital Financing Requirement increases between 2013/14 and 2017/18, which is largely due to the lack of capital grant or revenue contributions available to fund the capital programme, resulting in a requirement for borrowing.

The Sustainable Capital Plans report referred to in paragraph 2.1 also concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the capital financing requirement in future years should not exceed £40m.

Operational Boundary and Authorised Limit for External Debt

The Operational Boundary is the Authority’s estimate of its total external debt, net of investments but including other long-term liabilities which are separately identified. This is to reflect the most likely scenario and not the worst case. It is possible for the operational boundary to be temporarily breached to take account of unusual movements in cash flow but this should not be a regular occurrence. A variation from the operational boundary is permissible, but will be reported to the Fire Authority.

The Authorised Limit is essentially the same as the Operational Boundary but allows headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Authority is exposed to at any given time. Any proposed variation from the Authorised Limit must be authorised by the Fire Authority

Cash flow forecasts have been prepared for 2015/16 to 2017/18 and indicate that there will be no difficulty in maintaining a positive current account balance on a month by month basis and therefore there is no proposal to seek an increase in the Authority’s approved overdraft limit of £200,000. However, previous experience shows that these estimates can sometimes be wrong temporarily due to delays in income receipts and it has proved necessary in the past to negotiate temporary increases in this figure of up to £500,000. It is therefore proposed that this buffer of

£500,000 should be included within both the operational boundary and the authorised limit.

	2015/16 £000s	2016/17 £000s	2017/18 £000s
Operational Boundary			
O.B. for borrowing	28,076	27,776	30,076
O.B. for other long term liabilities	0	0	0
Total - Operational Boundary for External Debt	28,076	27,776	30,076
Authorised Limit			
A.L. for borrowing	30,883	30,553	33,083
A.L. for other long term liabilities	0	0	0
Total - Authorised Limit for External Debt	30,883	30,553	33,083

Actual External Debt as at 31/03/14

	2013/14 £000s
Actual borrowing	22,476
Actual other long term liabilities	53
Total – Actual External Debt	22,529

INDICATORS FOR TREASURY MANAGEMENT

The Service carries out its own treasury management in accordance with the CIPFA Code of Practice for Treasury Management, which was revised in 2011. The Authority has adopted a low risk approach to treasury management, which seeks to ensure that investments are secure and that there is sufficient liquidity of funds to enable the Authority carry out its business.

Gross and Net Debt

The actual amount of external long term borrowing as at 31/03/14 was £22,476k, with short term borrowing totalling £2,068k. Other long term liabilities at the same date amounted to £53k. At the same date, the amount of investments was £10,065k, giving a net debt position of £12,411k as at 31/03/14.

The Treasury Management Strategy 2015/16 report, which is elsewhere on this agenda, outlines the proposal to borrow over the next three years to finance the capital programme and to replace maturing loans, and the decision about when to borrow will depend upon interest rate forecasts. For the purposes of setting indicators, assumptions have been made about when borrowing may take place – the reality of this will be determined by Officers in conjunction with the Authority's treasury advisers.

Interest Rate Risk Exposure

In terms of borrowing, it has been considered prudent to use Public Works Loans Board (PWLB) fixed interest loans on most occasions. This is because the PWLB generally offers rates which cannot be obtained elsewhere in the marketplace. However the Authority did take out a market loan in 2007/08, benefiting from an advantageous rate. Unlike lending, borrowing is a low risk activity so future borrowing arrangements will be entered into on the basis of what is most advantageous for the Authority at the time. Any proposals to borrow from alternative sources to the PWLB will be discussed and agreed with the Treasurer.

Borrowing in the past has been at fixed interest rates although variable rates are not ruled out. It is therefore considered that up to 30% of borrowing might come from variable rate sources if these are considered financially advantageous at the time of financing. For policy changes beyond this, however, it is suggested that Fire Authority approval should be sought.

The total value of lending is not expected to exceed £26m, which is likely to peak around July 2015 however it is difficult to assess what the likely investment profile might be as this depends upon capital expenditure timings as well as the level of pension top up grant received from the Department for Communities and Local Government, and the timing of borrowing. The aim will be to reduce risk by investing funds in more than one institution at any given time. Members should note, however, that it is not feasible to set a maximum limit for investing with any one institution as the numbers of banks which meet our minimum credit rating criteria is now very few and even those on the list will not always accept our investments as the Authority is a “small player”. The Authority can also invest in Money Market Funds in line with the Treasury Management Strategy.

It is proposed that the Authority sets the following limits for interest rate exposures:

	Benchmark %	**2014/15 %**	**2015/16 %**	**2016/17 %**	**2017/18 %**
Interest Rate Exposures					
Upper Limit for fixed rate exposures	100%	100%	100%	100%	100%
Upper Limit for variable rate exposures	30%	30%	30%	30%	30%

Loan Maturity

The code of practice and CIPFA guidelines state that there should be no direct linkage between the assets financed and the term of loans taken out. Upper limits in terms of loan maturity are set to ensure that the Authority is not exposed to the risk of having to repay loans and then re-borrow in the short term when interest rates might be high.

It is recommended that the maturity structure limits remain unchanged for 2015/16. Projections of principal repayments for currently held loans show that it is likely that maturity structure limits will be breached next year until a new loan is taken. When borrowing does take place, it should therefore be for a longer term than 15 years to protect the Authority from future interest rate risk. New borrowing with maturity of around 35-45 years should be avoided due to the current structure of borrowing in the 'over 20 years' category.

Limits on the Maturity Structure of Borrowing		
	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
Over 20 years	100%	30%

Principal Sums Invested for Periods Longer than 365 Days

Investments arising from borrowing to support the capital programme are unlikely to exceed one year in duration, however for surplus cash which supports reserves it may be desirable to invest monies for a slightly longer period to achieve a level of certainty around interest receipts and perhaps beneficial interest rates. Such decisions will be influenced by market conditions at the time and the liquidity of funds will be of paramount importance. It is proposed that Officers should be able to invest monies for longer than a year if this appears to be an advantageous strategy, but that a maximum limit of £2m be applied to any such investments. This will contain the Authority's exposure to the possibility of loss arising from having to seek early repayment of investments.

2015/16 £000s	2016/17 £000s	2017/18 £000s
Prudential Limits for Principal Sums Invested for Periods Longer than 365 Days		
2,000	2,000	2,000

APPENDIX C

The proposed Capital Programme for 2015/2016 to 2017/18

	Estimated Slippage	2015/2016 £000's	Total 2015/2016 £000's	2016/2017 £000's	2017/2018 £000's
Transport					
Rescue Pump Replacement	253,020	623,860	876,880	937,695	939,615
Special Appliances	272,000	0	272,000	75,000	0
Command Support Unit	120,000	0	120,000	0	0
Appliance Eqpt	36,405	16,960	53,365	25,440	25,440
Light Vehicles	394,500	381,020	775,520	479,240	205,405
Total Transport	**1,075,925**	**1,021,840**	**2,097,765**	**1,517,375**	**1,170,460**
Equipment					
Equipment for Specials	0	15,000	15,000	0	0
Replacement Breathing Apparatus	0	0	0	0	600,000
Radio Replacements	0	0	0	0	0
Total Equipment		**15,000**	**15,000**	**0**	**600,000**
Property					
Retention - Retford FS	0	60,000	60,000	0	0
Retention - London Road	0	0	0	0	60,000
Construction of London Road	0	4,000,000	4,000,000	439,400	0
Fire Station Project Initial Design- Worksop	0	75,000	75,000	0	0
Fire Station Project Initial Design – Newark	0	75,000	75,000	0	0
Fire Station Project Initial Design - Hucknall	0	75,000	75,000	0	0
Purchase of Land	0			400,000	400,000
Construction Stage of New Station (Assumed commence in Sept 2016)	0			1,400,000	1,100,000
Construction Stage of New Station (Assumed commence in Nov 2017)	0				800,000
Property Total	**0**	**4,285,000**	**4,285,000**	**2,239,400**	**2,360,000**
I.C.T					
Renewals Programme	0	140,000	140,000	140,000	140,000
Mobile Computing	0	60,000	60,000	20,000	20,000
PABX Replacement	25,000	0	25,000	0	0
Business Process Automation	150,000	0	150,000	0	0
CFRMIS Online	47,000	0	47,000	0	0
ICT Total	**222,000**	**200,000**	**422,000**	**160,000**	**160,000**

	Estimated Slippage	2015/2016 £000's	Total 2015/2016 £000's	2016/2017 £000's	2017/2018 £000's
IT Systems					
Agresso Upgrade	0	70,000	70,000	0	0
Tranman	0	25,000	25,000	11,000	0
Payroll System	0	40,000	40,000	0	0
IT Systems Total	**0**	**135,000**	**135,000**	**11,000**	**0**
Total Programme	**1,297,925**	**5,656,840**	**6,954,765**	**3,927,775**	**4,290,460**

APPENDIX D

CASH LIMIT 2015/16 to 2017/18

		Original Budget 2014/2015 £000's	Revised Budget 2014/2015 £000's	Budget Requirement 2015/2016 £000's	Budget Requirement 2016/2017 £000's	Budget Requirement 2017/2018 £000's
Employees	Direct Employee Expenses	32,661	32,657	31,342	32,195	32,618
	Indirect Employee Expenses	530	554	521	521	521
	Pension	778	778	821	859	874
		33,968	**33,989**	**32,684**	**33,574**	**34,012**
Premises-Related Expenditure	Repairs Alterations and Maintenance of Buildings	537	537	544	560	576
	Energy Costs	389	389	371	401	401
	Rents	95	95	95	13	3
	Rates	712	712	712	724	724
	Water	65	65	72	81	85
	Fixture and Fittings	1	1	1	1	1
	Cleaning and Domestic Supplies	272	271	300	314	314
	Grounds Maintenance Costs	25	25	26	27	28
	Premises Insurance	26	26	35	36	37
	Refuse Collection	35	35	37	38	39
		2,158	**2,157**	**2,192**	**2,194**	**2,207**
Transport-Related Expenditure	Direct Transport Cost	1,123	1,120	1,127	1,129	1,169
	Recharges	146	146	128	128	128
	Public Transport	22	30	17	17	17
	Transport Insurance	267	267	266	271	277
	Car Allowances	375	373	369	369	369
		1,932	**1,935**	**1,907**	**1,915**	**1,960**
Supplies & Services	Equipment Furniture and Materials	724	725	683	680	681
	Catering	46	47	44	44	44
	Clothes Uniforms and Laundry	294	294	264	264	264
	Printing Stationery and General Office	79	82	85	95	95

APPENDIX D

CASH LIMIT 2015/16 to 2017/18

		Original Budget 2014/2015 £000's	Revised Budget 2014/2015 £000's	Budget Requirement 2015/2016 £000's	Budget Requirement 2016/2017 £000's	Budget Requirement 2017/2018 £000's
	Expenses					
	Services	489	492	474	480	482
	Communications and Computing	1,608	1,607	1,542	1,498	1,498
	Expenses	39	39	36	36	36
	Grants and Subscriptions	35	34	36	37	37
	Miscellaneous Expenses	318	318	272	275	278
		3,632	**3,637**	**3,436**	**3,408**	**3,415**
Third Party Payments	Other Local Authorities	102	102	103	103	103
	Private Contractors	23	23	23	24	24
		125	**125**	**126**	**127**	**127**
Support Services	Finance	153	158	162	165	168
	Corporate Services	41	41	43	44	44
		194	**199**	**204**	**208**	**212**
Sales Fees & Charges	Customer and Client Receipts	-552	-122	-144	-146	-147
		-552	**-122**	**-144**	**-146**	**-147**
Other Income	Government Grants	-515	-515	-470	-470	-470
	Other Grants/Reimbursements and Contributions	-267	-731	-873	-621	-621
	Interest	-86	-86	-76	-66	-56
		-868	**-1,333**	**-1,419**	**-1,157**	**-1,147**
Capital Financing Costs	Interest Payments	961	961	952	1,092	1,289
	Debt Management Expenses	1,343	1,343	1,273	1,420	1,701
		2,304	**2,304**	**2,225**	**2,512**	**2,990**
Budget		**42,892**	**42,892**	**41,213**	**42,637**	**43,630**