NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2014/15 TO 2016/17

Report of the Chief Fire Officer

Date: 27 June 2014

Purpose of Report:

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

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1. BACKGROUND

1.1 The Fire and Rescue 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

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 2014/15, 2015/16 and beyond

2.2 The Strategy also contains appendices on:

Value for Money Programme
Treasury Management Strategy
Use of Balances
Prudential Code
Capital Programme 2009/10 – 2011/12
Revenue Budget 2009/10 – 2011/12
Sustainable Capital Plans

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 of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An initial equality impact assessment has identified no specific aspects relating to a disproportionate effect in respect of the key equality strands.

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 the Authority adopts this Medium Term Financial Strategy and continues to review this annually.

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

None.

John Buckley
CHIEF FIRE OFFICER

Appendix A

NOTTINGHAMSHIRE
Fire & Rescue Service

Medium Term Financial Strategy
2014/15 to 2016/17

Contents

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 cogniscent 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 notwithstanding the commitment to allow sums to be carried forward until such time as the target level of balances has been achieved.
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.
15. Opportunities for collaboration and co-operation will be sought out where there are financial or service advantages.

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 procurement 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

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.

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.

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 will change in 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 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 Authority also has the help and advice of an independent Treasurer who works with the Director of Finance to advise the Fire Authority on financial matters and provide an independent source of advice when required. This again strengthens the financial management role.

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.

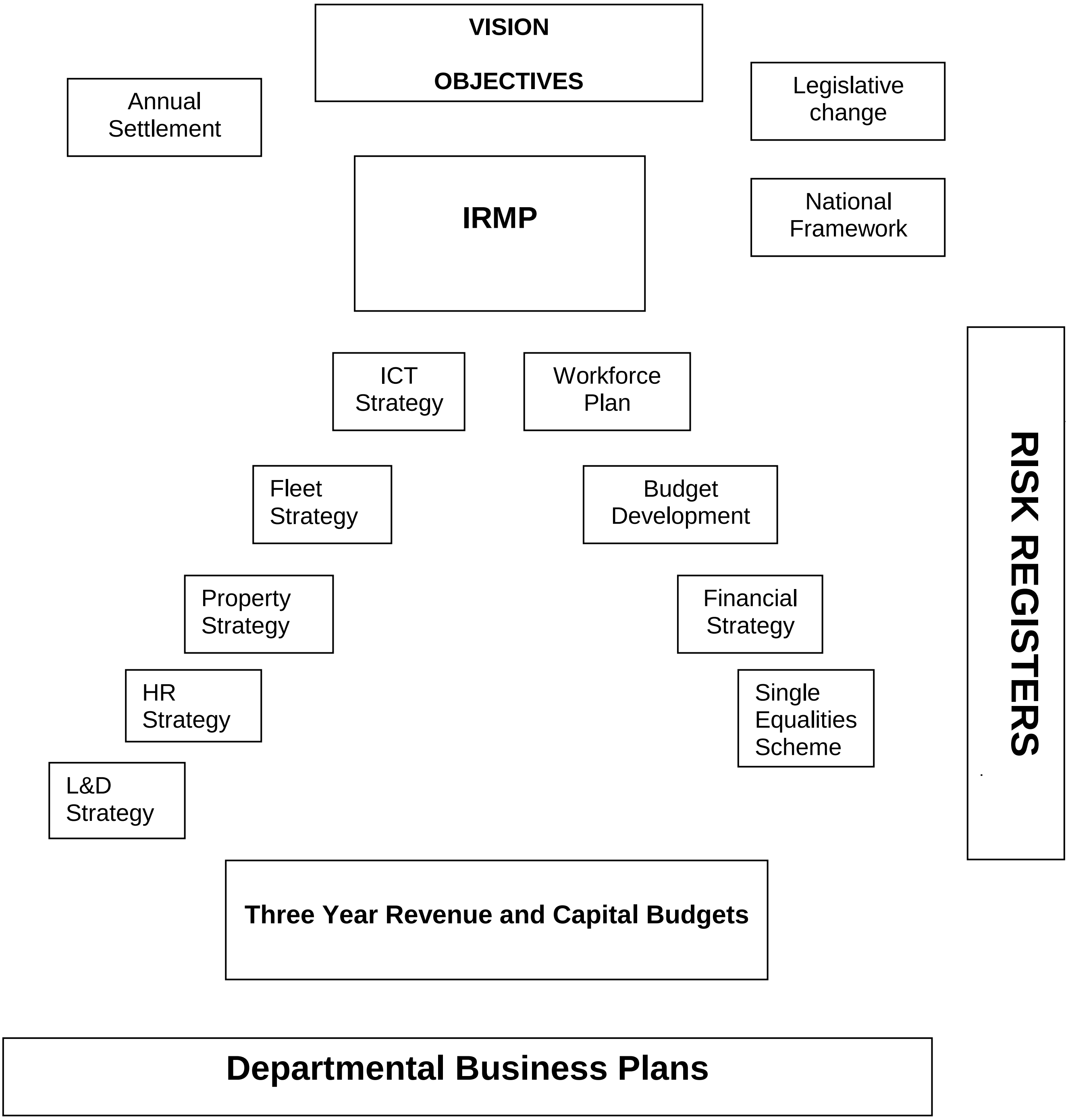
4.2 The funding priorities of the Authority relate entirely to those set out in the IRMP and relate to the six service priorities set out therein. These are:

Service Delivery
Employees and Workforce
Improvement and Governance
Engagement and Partnerships
Environment
Inclusion and Equality

4.3 This approach is mirrored through into the budget and resource planning processes. The detailed working underlying the Authority's budget proposals for 2014/2015 to 2016/17 shows a clear commitment by both officers and Members not only to the delivery of these broad priorities but also to 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 are not wholly internal. 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 These changes allow 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.

4.8 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)

4.9 That is not to say that there will not be changes in service delivery or requirements for staffing reductions to enable the budgets to be brought into balance.

4.10 The performance management framework will enable the achievement of service priorities to be monitored and strive to achieve continuous improvement.

4.11 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.

4.12 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.

4.13 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.

4.14 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.

5 Impact of UK Economic Downturn

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. These are certainly extraordinary times which whilst a proactive response might be desirable a reactive response might be all that is available.

5.2 The financial year 2013/14 has seen some improvement in the prospects for the UK economy but the overall position remains vulnerable. Unemployment is reducing and yet robust economic growth is still awaited. Rises in the housing market generally have caused something of a “feel good factor” and yet there are already concerns that this could overheat quite quickly. Eurozone inflation rates are at a level which concerns the European Central Bank and interest rates are set to fall in Europe to counter the risk of deflation. 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 falling price of property will also have a significant impact on the Authority’s finances as the balance sheet value of properties will fall. This devaluation effect seems to have been slowing down during 2012/2013 and the outlook for 2014/15 and beyond is more positive

5.5 It is a general assumption that Fire and Rescue Services throughout the country may experience increasing demand for their services as the economy shrinks however there is no indication of this so far.

5.6 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 is in huge deficit and central government are making significant reductions in expenditure to turn this situation around. The prospect of the Service suffering additional reductions in external funding of 15-20% is by far the greatest issue that this strategy has to face.

5.7 There seems little doubt however that the period of austerity which was often referred to is more likely to become the normal backdrop for the public sector.

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. At the present time loan rates are at a low point and therefore the Authority might expect to benefit from this and opportunities to restructure debt will be considered should these arise.

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 *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.

6.8 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. Similar overweight exposures to property however are having a negative effect as property values and rental stream values are falling. Nevertheless 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.

6.9 Since the passing of annual pension liabilities for fire fighters to the CLG, employers have been required to make a 21.3% of salary contribution to the scheme for those staff in the old 1992 scheme. For those in the 2006 scheme the contribution is 11%.

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

6.11 Retained Firefighters have been successful in a case arguing for them t be admitted to the 1992 pension scheme and for this admission to be retrospective. There are no indications of cost for this change other than nationally where costs could be as high as £500m. These costs will probably be charged to the notional pension fund for the firefighters scheme and be reflected ultimately in actuarial calculations and employer contribution rates. Eventual costs will depend upon a number of issues such as take up rates and how the costs are distributed.

6.12 The introduction of a new firefighters pension scheme from April 2015 may eliminate some of these pressures but the financial impacts of these changes are not yet apparent.

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 *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. For the first time, locally collected business rates are 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.

6.15 *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 collected 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 2014/15 and therefore will be reduced in line with other grant reductions even though demand may rise.

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

6.16 *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.

6.17 *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. The results of this process are shown as an appendix to this report.

6.18 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.

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

6.20 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.

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

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 2014/15 to 2016/2017 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 2014/2015 to 2016/2017 the Authority agreed indicative budgets for 2014/2015, 2015/2016 and 2016/2017 of £42,891,865, £43,209,162 and £43,814,547 respectively. This required a rise in Council Tax for 2014/2015 of 1.95% to £71.05 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.

7.7 *Treasury Strategy*. The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 28 February 2014. 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.

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.

7.9 *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.

7.10 *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.

Balances are maintained at an appropriate level by carrying out a risk assessment of financial risk exposures and calculating a minimum 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 £4.2m. By the end of 2013/14 the level of balances is expected to have been reduced to be of the order of £6.2m. There are planned reductions in these balances over the short term to support reductions in revenue budgets as part of the transition to a tighter financial regime. As an example, such cushioning may enable the authority to use natural wastage as a means of reducing establishment numbers rather than compulsory redundancies.

7.11 *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.

7.12 *Value for Money*. The Authority continues to show its commitment to achieving Value for Money although the focus during 2013/2014 has been very much on achieving the significant budget reductions required to deal with grant reductions. Nevertheless value for money activity has continued and a report to the Finance and Resources Committee on 4th April 2014 sets out performance against targets for 2013/2014 and proposals for activity during 2014/2015.

8 Partnership Working

8.1 The Authority is 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.

8.3 There are various partnership opportunities that are beginning to emerge such as new build projects at Central and Eastwood Fire Stations where co-location is likely and a wider initiative across the County for providing accommodation for the ambulance service at a number of locations.

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.

10 Outlook for 2014/15, 2015/16 and beyond

10.1 The Authority set a budget in February 2014 which for 2014/2015, whilst requiring some budget reductions, is balanced. The estimate for 2015/2016 however is indicating a shortfall of the order of £1.5m. As this rolls forward, and if unaddressed, it becomes £2.4m by 2016/2017 and may rise beyond this if reductions in funding continue. It is worthy of note that this position has improved markedly from that is the previous MTFS which was predicting £4.6m if issues were not addressed.

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

Year	£'s	% Increase
2014/2015	42,891,865	
2015/2016	43,209,162	0.7
2016/2017	43,814,547	1.4

10.3 Funding Streams however are expected to reduce as follows:

	2014/2015	2015/2016	2016/2017
	£	£	£
Revenue Support Grant	12,511,048	10,387,258	0
Top Up Grant	6,355,632	6,531,053	0
Total Grant Yield	22,163,002	20,313,716	19,482,735
Council Tax Yield	20,728,863	21,345,740	21,978,834
Total Funding	42,891,865	41,659,456	41,461,569
Reduction in Funding		**1,232,409**	**197,887**

10.4 There are no indications yet as to whether further reductions in grant are expected beyond 2016 although a reduction of 4% has been assumed. 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:

	2014/2015	2015/2016	2016/2017
Revenue Support Grant	12,511,048	10,387,258	
Top Up Grant	6,355,632	6,531,053	
NNDR	3,296,322	3,395,405	
Total Grant Yield	22,163,002	20,313,716	19,482,735
Council Tax Yield	20,728,863	21,345,740	21,978,834
Total Funding	42,891,865	41,659,456	41,461,569
Budget Requirement	42,891,865	43,209,162	43,814,547
Surplus	**0**	**0**	**0**
Deficit	**0**	**1,549,706**	**2,352,978**

It should be pointed out that if the deficit of £1.5m in 2015/2016 is resolved then the deficit in 2016/2017 would reduce to ££803,000.

10.6 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 and related costs	9%
Communications/IT	7%

10.7 The front line support service of the Fire Authority is small when compared with the size of the front line service and those areas which are directly public facing. The value of public facing services and unavoidable external costs of capital are probably of the order of £39.5m of the total budget thus leaving approximately £3.4m as the true cost of these supporting services. It is inconceivable that savings of nearly £2.5m could be made from a £3.4m budget without compromising the Authority's ability to fulfil its statutory responsibilities.

10.8 The Fire Cover Review offered 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.

Appendix A

Value for Money

Value for Money Programme 2014/15

A report was presented to the Fire Authority in February 2014 which set out the areas in which savings can be made in order to balance the revenue budget in the medium term. In addition to the items highlighted in this report, managers are continuing to seek savings in other areas, and to generally find ways to improve the efficiency and effectiveness of the Service wherever possible. This will be achieved by improving systems and processes to ensure that resources are being used as effectively as possible, and by securing good value for money when purchasing goods and services.

The implementation of the enhanced crewing model is due to commence in the summer. Initially the model will be piloted at Bingham and Worksop subject to satisfactory negotiation with the trade unions. This new crewing system will involve individuals providing immediate cover at these stations for 4 to 5 hours per day during peak hours, and providing on-call cover at other times. They will also work additional hours, either providing wholetime cover at a ‘sister’ station or carrying out any other activity which is deemed suitable. This will enable the wholetime establishment to be reduced. This model will therefore deliver the required levels of fire cover in these areas whilst also achieving cost savings.

Audits will be carried out on gas, electricity, water and phone charges to ensure that the Service is paying the correct amount for utilities. The Estates Department is commissioning a company called British Independent Utilities (BIU) to undertake an audit of gas and electricity charges. BIU will review all invoices from the last three years to look for evidence of overcharging and identify opportunities to recover revenue. They will also ensure that the suppliers are offering the most appropriate tariffs. Waterwatch UK will undertake an audit of water rates, looking for evidence of overcharging and ensuring that rateable values are correct. Similarly, the ICT Department is arranging an audit of phone bills from the past few years to ensure that the Service has not been overcharged. The Service won’t incur any charges for these audits unless savings are made, as all three organisations operate on a “share of savings” basis.

There are plans for the Prince’s Trust Teams to be run from fire stations instead of hiring rooms elsewhere. The Worksop and Sherwood Teams have already moved into Worksop station and Highfields station respectively, saving approximately £10k per annum. The Mansfield and Newark Teams will be moving into Mansfield and Newark stations in the summer, it is estimated that this will save an additional £13k per annum.

The Estates Manager is exploring opportunities to share premises with other organisations. It has already been agreed that East Midlands Ambulance Service will share four of the Service’s sites, and they are considering sharing eight more. This arrangement will generate rental income, which will be partially offset by an increase in running costs at retained standalone sites. The running costs at wholetime stations will be largely unaffected. In addition to generating income, this could lead to closer working arrangements and present opportunities for further collaboration in the future.

There are plans for Nottingham City Council to rent accommodation at the new London Road fire station in order to co-locate their Emergency Planning Team with the Fire and Rescue Service. As this means that the project to build the new station will fulfil the criteria of encouraging collaboration and improving local accountability, the Service has submitted a bid for capital grant funding from central government.

The ICT Department has reviewed the Service's mobile phone requirement and is renewing the mobile phone contracts. It has undertaken a trial to identify which mobile devices are best suited to the needs of NFRS staff, and has categorised users into those requiring "talk & text", those requiring email capability, and those requiring smartphones. It is purchasing three new models of phone to meet these requirements, replacing the existing phones which had, in many cases, exceeded their intended operational lifespan. The purchase of the phones is to be partly funded by a "technology fund" which is provided by EE as part of the new phone contract. The contract itself gives better value for money, and has the potential to generate annual revenue savings of up to £23k provided that users stay within their allocated minutes of talk time. The Service is also switching the provider of the SIM cards used on fire appliances, and this is expected to generate annual savings of around £4k.

Office 365 E4 licenses will be purchased for the 115 users of Windows phones under the new Microsoft Volume Licensing Agreement. These licenses will enable users to install Microsoft Office on up to 5 devices and access a cloud-based server for email, chat, SharePoint and file storage. This will lead to more efficient mobile working. There is also the possibility that remote printing will be introduced for the users of mobile devices.

The Safecom printers currently used at Headquarters will be rolled out to stations. This will reduce printing costs and enable the supplier to remotely detect faults and monitor consumables, thus ensuring that problems are addressed promptly and effectively.

The Evaluation Officer is focused on developing and applying evaluation methods to training and risk reduction work, in order to deliver efficiency and effectiveness in these areas. The application of the SARA (Scan, Analyse, Respond, Assess) model to risk reduction work ensures that initiatives are effective and focused towards specific risk issues, which enables the development of clear measurable aims. The focus of future initiatives is influenced by the outcomes of the evaluation process, and lessons can be learned from those initiatives which have and have not been successful in the past. The development of evaluation processes for training is still within its early stages. However NFRS consistently report upon attendees' reactions towards training courses, measuring perceived usefulness and relevance through the generation of both quantitative and qualitative data, in order to identify areas for improvement. Future work will focus upon developing methods to measure longer term outcomes.

The new mobilising system developed as part of the Tri-Service Control Project will deliver economy savings of £4k per annum through a reduction in maintenance costs compared to the current system.

The Supplies Manager is in the process of exploring options for collaborative procurement of certain goods, in partnership with Derbyshire Fire and Rescue Service. The intention will be to make economy savings, and details of the potential scale of these savings should become apparent as negotiations develop.

Appendix B

TREASURY MANAGEMENT STRATEGY FOR 2014/15

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 2014/15 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

Until 2013, the economic recovery in the UK since 2008 had been the slowest recovery in recent history, however growth gained some momentum in 2013 and the Bank of England has upgraded growth forecasts from 1.7% to 2.8% for 2014.

Despite this, there is still some way to go before economic conditions return to normal. There needs to be significant growth in the three main sectors of services, manufacturing and construction in order for the recovery to become more firmly established. Wage inflation remains significantly below CPI inflation, so disposable income and living standards are under pressure.

In August 2013 the Bank of England issued forward guidance which stated that the Bank will not start to consider raising interest rates until the unemployment rate has fallen to 7% or below. The guidance is subject to provisos around inflation and this makes the forecasting of the bank rate much more difficult than previously.

Inflation has fallen from a peak of 3.1% in June 2013 to 2.0% in December 2013 and is expected to remain near to the 2% target level over the next two years. The UK has lost its AAA rating from Fitch and Moody's but this did not result in any significant market reaction.

The longer term prospect is that gilt yields and PWLB rates will rise due to the high volume of gilt issuance in the UK and of bond issuance in other major western countries.

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 2014	0.50%
As at 31 March 2015	0.50%
As at 31 March 2016	0.50%
As at 31 March 2017	1.25%

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 three year cash flow projection is prepared together with a three month rolling cash flow forecast. The three month forecast is updated regularly and this process reveals when cash surpluses are likely to arise.

The current bank account is cleared to zero on a daily basis with the balance being transferred to the investment account (Business Premium Account).

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 2014/15 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 2014/15 this figure is estimated at £26,996,000, 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. The interest rate was unchanged on 7 March 2013.

Over the next three years, it is anticipated that the Authority will need to borrow up to £9m 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 14	Jun 14	Sep 14	Dec 14	Mar 15	Mar 16	Mar 17
5 yr PWLB	2.50%	2.60%	2.70%	2.70%	2.80%	3.10%	3.40%
10 yr PWLB	3.60%	3.70%	3.80%	3.80%	3.90%	4.20%	4.50%
25 yr PWLB	4.40%	4.50%	4.50%	4.60%	4.60%	5.00%	5.10%
50 yr PWLB	4.40%	4.50%	4.50%	4.60%	4.70%	5.10%	5.20%

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, capital grant, internal funds and borrowing will be used to finance capital expenditure in 2014/15 and 2015/16.

- One PWLB loan will mature in the short term (£2m in 2014/15). This will need to be replaced with new borrowing and it is estimated that new borrowing in the period 2014/15 to 2015/16 will be in the region of £5m.

- 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 2014/15 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 £22.6m by the end of 2013/14, but investments of approximately £9m are expected to be in place at 31 March 2014, giving a net debt position of around £14m. 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 will come 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 2014/15 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.

This 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 3 months

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 withdraw funds immediately if there is any indication of a substantially increased risk to the security of the deposit.

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 2014/15

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 2014/15 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 2014/15 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 for Members of the Finance and Resources Committee is in the process of being arranged at the time of writing this report.

Appendix C

Prudential Indicators and Targets

PRUDENTIAL INDICATORS FOR AFFORDABILITY

Estimates of the Ratio of Financing Costs to Net Revenue Stream for 2013/14, 2014/15, 2015/16 and 2016/17, and Actual Ratio of Financing Costs for 2012/13

2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Ratio of Financing Costs to Net Revenue Stream				
7.8%	5.6%	5.4%	6.1%	6.5%

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

2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Incremental Impact on Council Tax			
-£3.91	-£0.41	£0.69	£0.43

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 2013/14. 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 2016/17. Performance against this indicator will be monitored throughout the year. For information, at 31 March 2013 (2012/13 financial year), the Capital Financing Requirement was £25,004k, Net Borrowing (total borrowing less investments) was £13,468k and Gross Borrowing was £25,596k. The estimate of the Capital Financing Requirement at the end of 2016/17 is £29,427k. The revision of this prudential indicator has resulted in the Authority breaching the indicator in the short term and CIPFA has anticipated that this may be case for some Authorities, who must then explain the reasons for the breach. The reason why this Authority may not be able to keep Gross Borrowings below the Capital Financing Requirement in the short term is due to the structure of its borrowings. The majority of Authority loans are now maturity loans for which the principal sums are repaid at the end of the term and the decision to take out maturity loans has been based on advantageous interest rates at the time. The Authority has also made past decisions to gain longer term certainty by locking in lower interest rates on longer term loans. With the change in this indicator, the Authority will not be able to take account of cash set aside to repay loans on maturity and there may be some years when Gross Borrowing does exceed the Capital Financing Requirement. At the end of 2016/17, Gross Borrowings are expected to be in the region of £28.3m, with the Capital Financing Requirement estimated at £29.4m so although in the short term there has been a breach, in the medium term this indicator will be met. The Treasury Management Strategy 2014/15, which is elsewhere on this agenda, will further address this issue.

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

2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Capital Expenditure Total				
2,430	4,952	6,281	4,696	4,544
Capital Expenditure – Financed by Borrowing / Finance Lease				
0	0	3,600	206	2,225
Capital Expenditure – Financed by Revenue Contributions				
814	1,729	0	0	0
Capital Expenditure – Financed by Internal Funds				
0	0	1,343	1,490	1,569
Capital Expenditure – Financed by Capital Grant				
1,616	1,088	1,088	750	750
Capital Expenditure – Financed by Capital Receipt				
0	2,135	250	2,250	0

The estimates for 2014/15 to 2016/17 are submitted to the Fire Authority for approval elsewhere on this agenda. The capital expenditure estimate for 2014/15 shown in the above table includes assumed slippage from 2013/14. 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. The table above assumes that in 2012/13 and 2013/14 a total of £2,543k of reserves will be used to finance capital expenditure. “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

2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's
Capital Financing Requirement				
25,004	23,396	26,996	27,202	29,427

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 reduces overall between 2012/13 and 2013/14 mainly due to the effect of significant revenue financing during the three years to 2013/14.

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 2014/15 to 2016/17 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.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Operational Boundary			
O.B. for borrowing	26,346	30,346	28,346
O.B. for other long term liabilities	0	0	0
Total - Operational Boundary for External Debt	26,346	30,346	28,346
Authorised Limit			
A.L. for borrowing	28,981	33,381	31,181
A.L. for other long term liabilities	0	0	0
Total - Authorised Limit for External Debt	28,981	33,381	31,181

Actual External Debt as at 31/03/13

	2012/13 £000's
Actual borrowing	25,596
Actual other long term liabilities	53
Total – Actual External Debt	25,649

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 31/03/13 was £22,475k, with short term borrowing totalling £3,121k. Other long term liabilities at the same date amounted to £53k. At the same date, the amount of investments was £12,128k, giving a net debt position of £13,521k as at 31/03/13.

The Treasury Management Strategy 2014/15 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 £17m, which is likely to peak around July 2014 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. 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.

The Authority has set the following limits for interest rate exposures:

	Benchmark %	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's
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 2014/15. Projections of principal repayments for currently held loans show that by March 2014, the total proportion of loans with a repayment profile of between 1 and 5 years will be slightly over 30%, rising to 33% by March 2015. 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 364 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.

2013/14 £000's	2014/15 £000's	2015/16 £000's
Prudential Limits for Principal Sums Invested for Periods Longer than 364 Days		
2,000	2,000	2,000

APPENDIX D

Capital Programme for 2014/2015 to 2016/17

	2014/2015 £000's	2015/2016 £000's	2016/2017 £000's
Transport			
Rescue Pump Replacement	910,020	619,970	1,265,500
Vehicles Equipment	36,405	24,270	48,540
Light Vehicles	137,500	289,885	436,448
Total Transport	**1,083,925**	**934,125**	**1,750,488**
Equipment			
Replacement Cutting Equipment	0	800,000	0
Replacement Breathing Apparatus	0	0	300,000
Radio Replacements	250,000	0	0
Total Equipment	**250,000**	**800,000**	**300,000**
Property			
Rebuild, Refurb	2,310,000	2,315,500	2,315,500
Total Property	**2,310,000**	**2,315,500**	**2,315,500**
Information Technology			
Business Continuity and Disaster Recovery	30,000	30,000	30,000
Business Expansion	25,000	25,000	25,000
Replacement Equipment	85,000	85,000	85,000
Microsoft Software Licences	200,000	0	0
Telephone System PABX Replacement	250,000	0	0
Storage Area Network and Back up solution Replacement	100,000	0	0
Total Information Technology	**690,000**	**140,000**	**140,000**
Finance			
Agresso Upgrade	0	70,000	0
New Payroll System	30,000	40,000	0
Total Finance	**30,000**	**110,000**	
Total Programme	**4,363,925**	**4,299,625**	**4,505,988**

APPENDIX E

CASH LIMIT

		Original Budget 2013/2014 £000s	Revised Budget 2013/2014 £000s	Budget Requirement 2014/15 £000s	Budget Requirement 2015/16 £000s	Budget Requirement 2016/17 £000s
Employees	**Direct Employee Expenses**	32,925	32,912	32,661	32,561	32,901
	Indirect Employee Expenses	497	507	530	523	523
	Pension	775	775	778	838	876
		34,197	**34,194**	**33,968**	**33,922**	**34,299**
Premises-Related Expenditure	**Repairs Alterations and Maintenance of Buildings**	488	500	537	538	545
	Energy Costs	373	373	389	412	442
	Rents	107	107	95	95	95
	Rates	652	652	712	722	734
	Water	53	53	65	67	68
	Fixture and Fittings	1	1	1	1	1
	Cleaning and Domestic Supplies	295	295	272	278	284
	Grounds Maintenance Costs	24	24	25	25	26
	Premises Insurance	26	26	26	27	27
	Refuse Collection	34	34	35	36	37
		2,054	**2,065**	**2,158**	**2,202**	**2,260**
Transport-Related Expenditure	**Direct Transport Cost**	1,082	1,082	1,123	1,173	1,238
	Recharges	189	189	146	146	146
	Public Transport	26	27	22	22	22
	Transport Insurance	207	207	267	272	278
	Car Allowances	420	420	375	368	368
		1,924	**1,924**	**1,932**	**1,980**	**2,051**
Supplies & Services	**Equipment Furniture and Materials**	925	953	724	676	636
	Catering	55	65	45	45	45
	Clothes Uniforms and Laundry	328	343	294	264	264
	Printing Stationery and General Office Expenses	88	89	79	88	98
	Services	484	495	489	469	475

CASH LIMIT

		Original Budget 2013/2014	Revised Budget 2013/2014	Budget Requirement 2014/15	Budget Requirement 2015/16	Budget Requirement 2016/17
		£000s	£000s	£000s	£000s	£000s
	Communications and Computing	1,714	1,714	1,608	1,616	1,606
	Expenses	49	56	40	40	40
	Grants and Subscriptions	38	38	35	38	38
	Miscellaneous Expenses	578	563	318	319	320
		4,257	**4,315**	**3,632**	**3,555**	**3,522**
Third Party Payments	**Other Local Authorities**	100	100	102	103	103
	Private Contractors	24	24	23	23	24
Support Services	**Finance**	175	175	153	156	159
	Corporate Services	42	42	41	42	42
		218	**218**	**194**	**198**	**201**
Income	**Customer and Client Receipts**	-664	-614	-552	-553	-553
	Government Grants	-222	-222	-515	-416	-416
	Other Grants/Reimbursements and Contributions	-2,209	-2,337	-267	-240	-240
	Interest	-125	-125	-86	-86	-86
		-3,220	**-3,298**	**-1,420**	**-1,295**	**-1,295**
Capital Financing Costs	**Interest Payments**	1,059	1,059	961	1,030	1,079
	Debt Management Expenses	3,286	3,298	1,343	1,490	1,569
		4,345	**4,357**	**2,304**	**2,520**	**2,648**
Budget		43,899	43,899	42,892	43,209	43,815