Public Document Pack

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM
FIRE AND RESCUE AUTHORITY

MEETING OF THE AUTHORITY

Date: Friday, 27 June 2014 **Time:** 10.30 am

Venue: Fire and Rescue Services HQ, Bestwood Lodge, Arnold Nottingham NG5 8PD

Members are requested to attend the above meeting to be held at the time, place and date mentioned to transact the following business

Clerk to the Nottinghamshire and City of Nottingham Fire and Rescue Authority

AGENDA **Pages**

8	**EXCLUSION OF THE PUBLIC** TO CONSIDER EXCLUDING THE PUBLIC FROM THE MEETING DURING CONSIDERATION OF THE REMAINING ITEM(S) IN ACCORDANCE WITH SECTION 100A(4) OF THE LOCAL GOVERNMENT ACT 1972 ON THE BASIS THAT, HAVING REGARD TO ALL THE CIRCUMSTANCES, THE PUBLIC INTEREST IN MAINTAINING THE EXEMPTION OUTWEIGHS THE PUBLIC INTEREST IN DISCLOSING THE INFORMATION	
9	**EXEMPT MINUTES** Last meeting held on 23 May 2014 (for confirmation)	95 - 96
10	**RESILIENCE PLANNING AND ARRANGEMENTS UPDATE** Report of the Chief Fire Officer	To be available at the meeting

ANY COUNCILLOR WHO IS UNABLE TO ATTEND THE MEETING AND WISHES TO SUBMIT APOLOGIES SHOULD DO SO VIA THE PERSONAL ASSISTANT TO THE CHIEF FIRE OFFICER AT FIRE SERVICES HEADQUARTERS ON 0115 967 0880

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ABOVE, PLEASE CONTACT THE CONSTITUTIONAL SERVICES OFFICER SHOWN ON THIS AGENDA, IF POSSIBLE BEFORE THE DAY OF THE MEETING.

Constitutional Services Officer: Carol M Jackson
0115 8764297
carol.jackson@nottinghamcity.gov.uk

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM
FIRE AND RESCUE AUTHORITY

M I N U T E S of the **Annual General Meeting** of the Authority held on **23 MAY 2014** at Fire and Rescue Service Headquarters, Bestwood Lodge, Nottingham from 10.30 am to 11.40 am

Membership

Councillor Jon Allin
Councillor Chris Barnfather
^ Councillor Eunice Campbell
^ Councillor Ian Campbell
Councillor John Clarke
Councillor Jon Collins
Councillor Stephen Garner
Councillor Brian Grocock
Councillor Michael Payne
Councillor Darrell Pulk
Councillor Ken Rigby
Councillor Tony Roberts
Councillor David Smith
Councillor Tim Spencer
Councillor Gordon Wheeler
Councillor John Wilmott
Councillor Malcolm Wood
Councillor Liz Yates

Members absent are marked ^

1 APPOINTMENT OF CHAIR

AGREED to appoint Councillor Darrell Pulk as Chair of the Authority for the municipal year (2014/2015).

2 APPOINTMENT OF VICE-CHAIR

AGREED to appoint Councillor Brian Grocock as Vice-Chair of the Authority for the municipal year (2014/2015).

3 APOLOGIES FOR ABSENCE

Councillor Eunice Campbell
Councillor Ian Campbell

4 DECLARATIONS OF INTERESTS

None

5 MINUTES

The Authority confirmed the minutes of the meeting held on 28 February 2014, as a correct record and they were signed by the Chair.

6 CHAIR'S ANNOUNCEMENTS

The Chair reported on the following matters:

(a) the Chair apologised for the last minute distribution of the report for agenda item 7, Membership of the Authority, Review of Committees, Appointment to Committees and Boards and dates of Future Meetings and thanked Malcolm Townroe, the Clerk for his assistance in completing the report;

(b) the Chair and ACFO Craig Parkin had attended the Annual International Service of Thanksgiving at the National Memorial Arboretum in Staffordshire on Sunday, May 11. The event had also been attended by the Fire Minister, Brandon Lewis;

(c) the Chair and the Chief Fire Officer were in the midst of a tour of all fire stations in the County talking to every watch. The Chair had noted that morale amongst fire-fighters was good despite the ongoing industrial relations issues with the Government. The Chair stated that he is anxious to improve member/workforce engagement during the coming year;

(d) the Chair has written to Nottinghamshire's MP's to introduce John Buckley as the new Chief Fire Officer and to talk about budget demands placed on Nottinghamshire and City of Nottingham Fire and Rescue Service (NFRS) over the coming months. The Chair also hopes to engage leaders of local councils in discussions about budget issues and their implications for local authorities;

(e) the Chair welcomed County Councillor Jon Allin to the Authority and confirmed that he would be writing to Councillor Colleen Harwood to thank her for her hard work over the past year;

7 MEMBERSHIP OF THE AUTHORITY, REVIEW OF COMMITTEES, APPOINTMENTS TO COMMITTEE AND BOARDS AND THE DATES OF FUTURE MEETINGS

Councillor Wheeler requested an adjournment to allow Members the opportunity to read the Clerk's report which had only been distributed at the beginning of the Meeting.

The Chair adjourned the meeting for 15 minutes. The Meeting resumed at 10.47 am.

Malcolm Townroe, the Clerk and Monitoring Officer introduced his report noting the appointments to the Authority, reviewing the committee structure, requesting nominations to committees and boards, including Chairs, and seeking confirmation of dates of meetings.

The Clerk advised Members that the proposed changes to the committee structure involved three strands;

- the removal of the Performance Monitoring Committee, which, over the last year had only considered one overall performance report at each meeting. This work was to be subsumed into the work of the Policy and Strategy Committee and the terms of reference of the Policy and Strategy Committee would be amended to reflect this change;

- the removal of the requirement for the Policy and Strategy Committee to include a member from the Human Resources, Finance and Resources and Community Safety Committees;

- the removal of the Best Value Revue Board which had not met for several years.

Members welcomed the opportunity for the Authority to be able to contribute towards the overall savings having to be made by NFRS. Councillor Wheeler thanked the officers involved in producing the performance reports for the Performance Monitoring Committee over the last few years. Councillor Wheeler requested that Special Responsibility Allowances (SRA's) be reviewed with a view to making further savings for the Service if possible. This should involve a cross party discussion. Councillor Wheeler also expressed his disappointment that the chairs of the Committees were all Labour Members.

RESOLVED

(1) to appoint the membership of the Fire and Rescue Authority for the municipal year 2014/15 as follows:

City Council appointments:

Councillor Eunice Campbell
Councillor Jon Collins
Councillor Brian Grocock
Councillor David Smith
Councillor Tim Spencer
Councillor Malcolm Wood

County Council appointments:

Councillor Jon Allin
Councillor Chris Barnfather
Councillor Ian Campbell
Councillor John Clarke
Councillor Stephen Garner
Councillor Michael Payne
Councillor Darrell Pulk
Councillor Tony Roberts
Councillor Ken Rigby
Councillor Gordon Wheeler

Councillor John Wilmott
Councillor Liz Yates

(2) to approve the revised committee structure;

(3) (a) to appoint the membership and Chairs to Committees and Boards, as follows:

<u>Policy and Strategy Committee</u>

Councillor D Pulk (Chair)
Councillor C Barnfather
Councillor J Collins
Councillor B Grocock
Councillor G Wheeler
Councillor J Wilmott

<u>Human Resources Committee</u>

Councillor M Payne (Chair)
Councillor E Campbell
Councillor I Campbell
Councillor S Garner
Councillor L Yates

<u>Community Safety Committee</u>

Councillor D Smith (Chair)
Councillor B Grocock
Councillor K Rigby
Councillor T Roberts
Councillor J Wilmott

<u>Finance and Resources Committee</u>

Councillor M Wood (Chair)
Councillor J Allin
Councillor C Barnfather
Councillor J Clarke
Councillor G Wheeler

<u>Personnel Committee</u>

Councillor E Campbell
Councillor S Garner
Councillor M Payne
Councillor T Spencer
Councillor J Wilmott
Councillor L Yates

Appointments Committee

Councillor D Pulk (Chair)
Councillor J Allin
Councillor B Grocock
Councillor K Rigby
Councillor G Wheeler
Councillor M Wood

Strategic Equalities Board

Councillor D Pulk
Councillor J Allin
Councillor I Campbell
Councillor S Garner
Councillor K Rigby
Councillor T Roberts
Councillor D Smith

(b) to approve the following dates of Committees:

Nottinghamshire and City of Nottingham Fire and Rescue Authority (10.30 am)

27June 2014

26 September 2014

19 December 2014

27 February 2015

22 May 2015 AGM

Policy and Strategy Committee (10.00 am)

18 July 2014

17 October 2014

6 February 2015

24 April 2015

Human Resources Committee (10.00 am)

11July 2014 (13.30 pm)

10 October 2014 (13.30 pm)

30 January 2015

24 April 2015

Community Safety Committee (10.00 am)

4 July 2014

3 October 2014

9 January 2015

27 March 2015

Finance and Resources Committee (10.00 am)

11 July 2014

10 October 2014

16 January 2015

17 April 2015

The Personnel Committee will meet as required;

The Appointments Committee will meet as required;

The Strategic Equalities Board will meet quarterly.

8 COMMITTEE OUTCOMES FOR NOTING

The Chairs of the following committees, produced reports which included the minutes of those meetings:

(a) Performance Monitoring Committee 11 April 2014;

(b) Finance and Resources Committee 4 April 2014;

(c) Community Safety Committee 28 March 2014;

(d) Human Resources Committee 11 April 2014;

(e) Policy and Strategy Committee 18 April 2014.

RESOLVED to note the reports and the business undertaken by the Committees.

9 EXCLUSION OF PUBLIC

The Authority decided to exclude the public from the meeting to discuss the exempt minutes of the last meeting held on 22 February 2013 in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act. The minutes are a record of the decision made in private at the meeting.

10 RESILIENCE PLANNING AND ARRANGEMENTS UPDATE

John Buckley, the Chief Fire Officer presented his report updating the Authority on the arrangements and plans in place for dealing with the on-going industrial dispute.

RESOLVED

(1) to note the latest update from the Chief Fire Officer and continue to support the activities in place to maintain operational cover;

(2) to accept further update reports to either the full Fire Authority or Policy and Strategy Committee, as appropriate.

This page is intentionally left blank

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

ANNUAL REVIEW OF GOVERNANCE

Report of the Chief Fire Officer

Date: 27 June 2014

Purpose of Report:

To inform Members of the review of the Authority's governance arrangements that has been recently carried out by the Strategic Director of Finance and Resources.

CONTACT OFFICER

Name :	Neil Timms Strategic Director of Finance and Resources
Tel :	0115 967 0880
Email :	neil.timms@notts-fire.gov.uk
Media Enquiries Contact :	Bridget Aherne (0115) 967 0880 bridget.aherne@notts-fire.gov.uk

1. BACKGROUND

1.1 Each year the Authority is required to include an annual governance statement in the final accounts. This statement reviews the governance arrangements and comments on any challenges for those arrangements going forward.

1.2 This report seeks the approval of members to the signing off of the governance statement by the Chair and the Chief Fire Officer.

2. REPORT

2.1 The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework “Delivering Good Governance in Local Government”.

2.2 The annual governance statement sets out how NFRS has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an annual governance statement.

2.3 The statement is appended in full as appendix A to this report.

2.4 The key challenges for governance identified in the review are as follows:

i) Noticeable reductions in central government grant have meant that the Authority has had to make significant savings over the three year CSR period whilst continuing to maintain a service which meets public expectations.

ii) A major review of fire cover, the first for over 20 years, has identified some significant changes to the service delivery model across the county. This review was approved by Members and is now in the process of full implementation.

iii) The Authority’s prudent financial management, as shown in the MTFS, has allowed impact of budget reductions to be phased. This will help to provide continuous stability during a period of immense transition.

iv) The appointment of new Members of the Fire Authority is always possible following the AGMs of the constituent Authorities and this presents a key challenge for the Authority. The Members training programmes and seminar sessions will be key to ensuring all remain appraised of up-to-date information to enhance the formal decision making process.

v) There are also a number of external factors which present financial risks to the Authority going forward. These need to be considered as part of the Strategic Risk assessment

vi) During the coming year, the Service will seek to address the above matters through its current structures and processes to further enhance governance arrangements.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising from this 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

Equalities is a core value of the Authority and it is evident from the review of the governance framework that equalities issues are properly addressed within it.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

8.1 The governance framework of the authority is that series of systems, processes, values and culture which direct and control all decision making and policy development within the organisation. It is important therefore to review this regularly to ensure that this framework remains sufficiently robust and compliant with the code. The risk of not doing so is that the organisation could become dysfunctional and fail to set proper objectives and/or fail to achieve them.

8.2 There is also a requirement under regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an annual governance statement.

9. RECOMMENDATIONS

It is recommended that Members approve the content of the annual governance statement.

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

None.

John Buckley
CHIEF FIRE OFFICER

Appendix A

NOTTINGHAMSHIRE FIRE AND RESCUE AUTHORITY ANNUAL GOVERNANCE STATEMENT

1.0 SCOPE OF RESPONSIBILITY

1.1 Nottinghamshire Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvements in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, use of its resources and including arrangements for the management of risk and the maintenance of an effective internal control environment.

1.3 The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government.*

1.4 This statement sets out how the Authority has complied with the code and also meets the requirements of regulations 4(3) and 4(4) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, cultures and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is part of an on-going process designed to identify and prioritise the risks to the achievement of Nottinghamshire Fire and Rescue Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 A key element of the Internal Control Environment is the development and maintenance of Strategic, Corporate and Departmental risk registers which are understood and managed by senior managers.

2.4 The governance framework has been in place at the Authority for a number of years however it is kept under regular review and modified periodically.

3.0 **THE GOVERNANCE FRAMEWORK**

3.1 In addition to the Annual Governance Statement the Authority has a Code of Corporate Governance that the Authority will commit to in carrying out its duties and responsibilities. In this document, officers have identified against each of the Code's principles what source documentation or existing practice demonstrates how the Authority complies with the principles that make up the Code.

3.2 In developing a code of corporate governance the Authority has sought compliance with the CIPFA/SOLACE guidelines but has also sought to develop internal governance structures that also follow the OECD principles which provide a stronger framework for internal decision making.

3.3 Some elements of governance have recently changed and were agreed by the Fire Authority at the annual general meeting in May 2014 which, whilst after the year end, are clearly relevant to readers of the accounts. There are essentially three changes to the governance framework which are reflected in the framework below:

Changes in the Committee Structure to remove the performance monitoring committee.

Changes in the composition of the Corporate Management Board to include a wider group of senior managers and moving meetings to monthly rather than weekly.

Changes to the corporate objectives of Response, Protection, Prevention, Resilience, Diversity and Workforce and Governance Improvement to new Service priorities of Service Delivery, Employees and Workforce, Improvement and Governance, Engagement and Partnerships, Environment and Inclusion and Equality.

3.4 Summarised below are some of the key elements of the systems and processes that underlie the Authority's governance arrangements:

3.5 **Identifying and Communicating the Authority's vision and outcomes for citizens and service users:**

3.5.1 After consulting with the citizens of Nottinghamshire and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the vision and service objectives for the organisation. The latest IRMP covers the period 2014–2019 and the Authority consults with the citizens and other stakeholders to formulate its business plans for each financial year within this plan.

3.5.2 The Authority's vision is "Creating Safer Communities" and it strives to deliver this by developing a set of cohesive business plans and working in partnership with others to provide an excellent, affordable service to all the diverse communities of Nottinghamshire. To deliver this the Authority has established six Service Priorities:

Service Delivery

We will deliver a professional, effective and value-for-money emergency response service to all those who live, work and travel in the county of Nottinghamshire.

We will continue to use a risk-based approach to improve our service to individuals, communities and local businesses with an emphasis on creating safer communities, and reducing death and injuries. We will do this through our key themes: preparedness, response, prevention and protection.

Employees and Workforce

We will maintain, support and develop our workforce to ensure an environment in which we can deliver a professional and effective service to the people of Nottinghamshire.

We will ensure that our employees have the capacity and skills to meet our delivery objectives and provide a work place where our employees feel supported, valued and competent to undertake their roles.

Improvement and Governance

We will look to continuously improve upon previous achievements and assure our stakeholders that the organisation has an appropriate infrastructure for governance to support future success.

With increasing demand for services likely across the public sector, NFRS will be required to base its decisions upon robust intelligence and work alongside its partner/agency service providers in a more collaborate manner.

Engagements and Partnerships

We will look to develop and maintain effective strategic and community partnerships.

We will continue to work closely with our partners and community organisations in order to identify and keep safe those members of our communities who are most at risk.

Environment

We aim to reduce the Service's impact on the environment through a combination of measures including considering the environment when making decisions, investing in technology and delivering training and education initiatives.

We will continue to be committed to minimising our impact on the environment by integrating environmental considerations in all aspects of our work, by meeting legal standards, seeking competent advice and adopting best practice.

Inclusion and Equality

Provide services tailored to meet the needs of our communities.

Nottinghamshire Fire and Rescue Service prides itself on its approach to inclusion and equality. We work on the principle that to treat people equally, we may need to treat them differently.

3.6 **Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:**

3.6.1 The Service operates a system of cascading business plans. The IRMP is the highest level and from this a series of departmental and functional business plans are produced. Progress against these plans is reported on regularly using a piece of specialist software and the performance management team report on progress and outcomes to the relevant committees. These reports had previously been presented to the Performance Committee.

3.6.2 Each of the Strategic Directors are required to report monthly to the Corporate Management Board on performance within their Directorates and give assurances in relation to the achievement of business plans.

3.7 **The Internal Control Environment:**

3.7.1 The Authority's internal control environment comprises many systems, policies, procedures and operations. In reality these split into risk management, internal check/financial control and internal audit. Internal Check and financial control are clearly targeted towards financial matters whereas risk management has a much broader brief and is more associated with the risk of non-achievement of objectives and targets. The system cannot however eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority, where possible will eliminate that risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.7.2 **Policy and Decision Making Process**

The Authority has democratic control over its activities via an approved committee structure with agreed powers and duties that are periodically reviewed. The Authority has a written constitution that sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable. There is a formal briefing process prior to reports being finalised for Committee or Fire Authority meetings thus allowing key Members an opportunity to scrutinise proposed reports in detail The Authority also runs Member away-days, seminars and training sessions to help Members discuss issues in more detail and in a less formal environment.

3.7.3 **Management Structure**

The Authority has a clear management structure with defined roles and responsibilities. The Corporate Management Board has recently been extended to include all department heads as well as the Directors. This is because weaknesses were identified in the previous structure of steering groups which could make the decision making process opaque and blur lines of accountability. The current structure empowers managers to make appropriate decisions but also places accountability at the centre of this process. Some steering groups still exist but this is more to do with resolving interdependencies between departmental business and setting priorities.

The Authority has an approved scheme of delegation to officers that is reviewed periodically by the Chief Fire Officer and the Clerk, with any changes being approved by the Fire Authority.

3.7.4 **Established Policies, Procedures & Regulations**

The Authority ensures compliance with established policies, procedures, laws and regulations. The information regarding policies and procedures is held on the intranet, and these are continually enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of financial regulations which clearly define how decisions are taken and the processes and controls required to manage risk. The list below outlines some of the key policies and process in place to enhance the internal control system, that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations & Standing Orders
- Scheme of Delegation
- Anti-Fraud and Corruption Policy
- Whistleblowing Policy
- Complaints procedure
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Equality and Diversity schemes
- Robust Workforce plan and establishment model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedures, discipline processes, through to performance development reviews

3.7.5 **Internal Audit Function**

The Authority has a strong Internal Audit function arrangement with Nottinghamshire County Council, and has well-established protocols for working with External Audit.

3.7.6 **Risk Management Strategy**

The Authority has a well-established and embedded risk management strategy. This is managed on two levels, firstly at the corporate/strategic level by The Finance and Resources Committee. This Committee has delegated responsibility from the Fire Authority as part of the Governance arrangements and is advised by the ACO Finance and Resources on behalf of the Chief Fire Officer. In addition, the Service also maintains an approach to Risk via its business plan monitoring which is administered through its Corporate Services Department. This ensures the service's Risk Manager can support departmental heads in robustly assessing the risks to the achievement of the services objectives.

3.7.7 **Best Value Duty**

The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency, and effectiveness as required by the Best Value duty and its own Value for Money programme.

3.7.8 **Financial Management**

Financial management in the Authority and the reporting of financial standing is undertaken through a financial system which integrates the general ledger, sales ledger and purchase ledger functions and facilitates good budgetary control.

4.0 REVIEW OF EFFECTIVENESS

4.1 The Authority has responsibility for conducting a review of the effectiveness of its governance framework including the system of internal control, at least annually. The review of effectiveness is informed by the work of the Corporate Management Board and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal audit
- External bodies

4.3 The Authority and Its Committees

4.3.1 **The Authority**

The Authority has reviewed the vision and strategic service objectives as part of the budgeting process. At the 28th June 2013 Authority meeting Members reviewed the performance of the Senior Management Team and set their objectives for 2013/2014.

At the annual general meeting in May the format and structure of its democratic decision process was reviewed and changes were made to the committee structure. The result was that approval was given to the powers and make-up of the following committees:

- The Policy and Strategy Committee
- The Finance & Resources Committee
- The Community Safety Committee
- The Human Resources Committee

In addition to the above there are also panels for appointments, Equalities and Personnel matters

Terms of reference and responsibilities for all of these Committees form part of the Authority's Governance arrangements.

4.4 **Management Review**

4.4.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems.

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority's management structure and processes. The 2014/19 Integrated Risk Management Plan sets out the Authority's key objectives and these are reflected in annual departmental business plans. These plans are then monitored by the Corporate Services department and managed by the individual departmental management teams. Directors will assess achievement against key objectives and departmental KPIs which are reported monthly to the Corporate Management Board.

4.4.3 Risk management at the strategic/corporate level forms part of the overall responsibilities of The Finance and Resources Committee and Members of this committee take a keen interest in Risk Management. This Committee have considered the desirable risk appetite of the organisation in a proactive way, and set risk targets for the Service to report against. Risk Management is an integral part of project management and business planning within the Corporate Services department and both this and operational risk management, which is managed within the Risk Response function, are considered strong. The Service also maintains a comprehensive approach to health and safety which is undertaken by the Service's Health and Safety advisor and monitored by the Health Safety and Wellbeing Committee. This group of Officers and representative Bodies reports quarterly to the Corporate Management Board.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer is responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with. The monitoring officer is a qualified solicitor provided on a contractual basis to the Authority by the Legal Services Department of Nottingham City Council. This arrangement also includes support for the Authority's wider governance structure.

- A Responsible Finance Officer has been appointed as the independent Treasurer to the Authority to ensure the proper and effective administration of the financial affairs of the Authority. The Strategic Management Team ensure that the Authority approve a realistic and affordable financial plan for both revenue and capital expenditure which links to the IRMP. The Authority continued to ensure it had strong arrangements for managing its finances including strong leadership throughout the year. The financial planning process is well embedded and understood across the Authority by staff and Members. An in house financial team managed by the ACO Finance and Resources maintain the correct competencies and ensure that the Strategic Team receive all appropriate information to support the key decisions and objectives of the service.

4.4.5 In addition to the Treasurer the Authority also employs a Director of Finance and Resources who fulfils the role of Chief Financial Officer. This Director is a member of the Strategic Management Team and the Corporate Management Board and is responsible for advising both senior managers and elected members on all financial matters. In effect this is a role shared with the Treasurer who is seen to act independently of the Strategic Management Team advice to the Fire Authority. In reality these two officers work very closely together. Both of these officers are professionally qualified and have many years' experience within Local Government finance.

4.4.6 A review has been carried out of the role of Chief Financial Officer and, always accepting that the key statutory responsibilities under Section 114 and Section 151 are held by the Treasurer, all of the principles set out in the CIPFA document *The role of the Chief Financial Officer* are met.

4.4.7 Budget monitoring remains robust at both strategic and service level via the production of monthly financial monitoring reports for both Capital and Revenue budgets. These reports as well as being scrutinised by budget managers are also reported monthly to the Corporate Management Board and quarterly to the Finance and Resources Committee.

4.4.8 Functional Heads also exercise a detailed degree of budget monitoring against the capital programme.

4.4.9 The External Auditor approved an unqualified Statement of Accounts for 2012/13 and it is anticipated this will be repeated in 2013/14. A presentation by the Director of Resources on the final accounts together with a detailed year-end report to the Authority helped communicate the year-end position to Members in a clear and understandable format.

4.4.10 Specific training is to be organised for elected Members to fully understand the format and nature of the accounts such that they can apply meaningful scrutiny and ask relevant and searching questions of officers

4.5 Internal Audit

4.5.1 The Authority procured its internal audit service under a contract with Nottinghamshire County Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2013/14, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to Chief Fire Officer, the Director of Finance and Resources and the relevant managers as appropriate. All finalised reports were submitted to the Finance and Resources Committee acting in its role as Audit Committee. Audit reports are also fed into the performance management function within the Corporate Services Department to ensure that recommendations are implemented to agreed timescales.

The Annual Internal Audit Report to the Finance and Resources Committee on 11 July 2014 concluded that:

> "From the work carried out during the 2013/14 financial year, we have been able to satisfy ourselves that the overall level of internal control is satisfactory and provides a good basis for effective financial and resource management".

4.6 External Review

4.6.1 The External Auditors are required by the International Standard on Auditing 260 (ISA 260) to communicate about the audit of the Authority's financial statements with those charged with governance. This communication is in the form of a written report which was presented to Members in September 2013.

4.6.2 The principal purposes of the Auditors' report are:

- To present key issues identified during the audit of the financial statements for the year ended 31 March 2013 and any material misstatements in the accounts
- To report on any key issues for governance
- To report on the Auditors' Value for Money conclusion
- To give an "audit opinion" on the financial statements
- To report on the implementation of any recommendations in the previous year's ISA 260 report
- To seek approval to the management representation letter, which confirms the Authority's responsibilities and actions in relation to the financial statements

4.6.3 The ISA 260 report confirmed that the accounts production and audit processes were good, with no specific risks identified. In addition, the organisational and IT control environment was found to be effective overall, with sound controls in the Authority's financial systems.

5.0 **SIGNIFICANT ISSUES FOR GOVERNANCE**

5.1 Noticeable reductions in central government grant will mean the Authority will have to continue to make significant savings over the next two to three years at least, whilst continuing to maintain a service which meets public expectations.

5.2 The Authority's prudent financial management, as shown in the Medium Term Financial Strategy, will allow it to phase in the impact of budget reductions and consider further implementation of the Fire Cover Review. This will help to provide continuous stability during a period of immense transition.

5.3 During the coming year, the Service will seek to address the above matters through its current structures and processes to further enhance governance arrangements.

Signed…………………………………	Signed…………………………………
Cllr Darrell Pulk	John Buckley
CHAIRMAN	CHIEF FIRE OFFICER

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY

LOCAL CODE ON CORPORATE GOVERNANCE

AIMS OF THE LOCAL CODE ON CORPORATE GOVERNANCE

Nottinghamshire and City of Nottingham Fire and Rescue Authority and its Officers are committed to ensuring that it has an excellent system of corporate governance. The Authority embraces the principles of good governance: openness, inclusivity, integrity and accountability.

The Authority is dependent on its Members and officers in delivering excellent corporate governance, and requires them to conduct themselves in accordance with the high standards expected by the citizens of Nottinghamshire. The Service will respond positively to the recommendations of external audit and statutory inspectors and implement agreed actions effectively.

AIMS

The Authority is committed to delivering excellent corporate governance in all aspects of its work, including:

1. Focusing on the community

The Authority and its Officers will:

- Work for and with our communities;
- Exercise leadership in our local communities;
- Contribute to and promote the well-being of our communities.

2. Arrangements for service delivery

The Authority and its Officers will:

- Aim to improve its services to local communities;
- Ensure that its policies are implemented;
- Act upon its decisions.

3. The structures and processes in place

The Authority and its Officers will maintain effective political and managerial structures and processes to govern decision making and the exercise of authority within the organisation.

4. Managing risk and establishing internal control

The Authority and its Officers will establish and maintain a strategy, framework and processes to manage risk and demonstrate effective internal control.

5. Maintaining standards of conduct

The Authority will work to ensure that high standards of behaviour are shown by its Members, officers and agents. The Service has drawn together a detailed framework for establishing excellent corporate governance as set out in this statement. Compliance with the framework will be monitored each year and reported to the Policy and Strategy Committee.

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

LOCAL CODE ON CORPORATE GOVERNANCE

LOCAL CODE ON CORPORATE GOVERNANCE

Nottinghamshire and City of Nottingham Fire and Rescue Authority is committed to ensuring that it has an excellent system of corporate governance and embraces the core principles of good governance:

1. Focusing on the purpose of the organisation and on outcomes for the community and creating and implementing a vision for the local area.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.

3. Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

5. Developing the capacity and capability of Members and officers to be effective.

6. Engaging with local people and other stakeholders to ensure robust public accountability.

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. By publishing this Local Code on Corporate Governance the Authority is demonstrating its commitment to achieving these aims.

The Authority, in embracing the core principles, will contribute to leadership for Nottinghamshire by providing a vision for our Fire and Rescue Service and leading by example in the way it makes decisions, and implements those decisions.

The Authority will produce an annual governance statement in order to report publicly on the extent to which it complies with the core principles including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. This complies with regulation 4(2) Accounts and Audit regulations.

The Service's Chief Fire Officer will be responsible for overseeing the implementation and monitoring of the Local Code on Corporate Governance, reviewing its operation in practice and recommending any changes that may be necessary to maintain it and ensure its effectiveness in practice. The Chief Fire Officer and Strategic Directors will be responsible for ensuring that officers in their departments are aware of and embrace the principles of good corporate governance set out in this Code.

The core principles have been translated into a framework which seeks to ensure that they are fully integrated in the conduct of the Service's business and establishes a means of demonstrating compliance. The framework is based on the SOLACE/CIPFA 2007 publication "Delivering Good Governance in Local Government".

The authority will respond positively to the recommendations of external audit and statutory inspectors in respect of corporate governance and implement agreed actions effectively.

THE CORE PRINCIPLES - FRAMEWORK

1. Focusing on the purpose of the service and on outcomes for the community and creating and implementing a vision for the local area, by:

a. Exercising strategic leadership by developing and clearly communicating the Service's purpose and vision and its intended outcomes for citizens and service users. To achieve this, the Authority will:

i) Develop and promote the Service's purpose and vision
ii) Review on a regular basis the Service's vision for the area and its implication for the Service's governance arrangements
iii) Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners
iv) Produce an annual report to coincide with the Statement of Accounts, by the 30 September each year

b. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning. To achieve this, the Authority will:

i) Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available.
ii) Put in place effective arrangements to identify and deal with failure in service delivery.

c. Ensuring that the Authority makes best use of resources and that tax payers and service users receive excellent value for money. To achieve this, the Authority will:

i) Maintain a Value For Money programme to ensure that Value for Money can be demonstrated.

Examples of how the Authority demonstrates commitment to this core principle:

- Local Code on Corporate Governance;
- Partnership protocols;
- Annual financial statements;
- Annual business plan;
- Performance management framework;
- Customer Comments Procedure.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles, by

a. Ensuring effective leadership throughout the Service and being clear about the boundaries that exist between Officer and Members functions and of the roles and responsibilities of the scrutiny function. To achieve this, the Authority will:

i) Set out a clear statement of the respective roles and responsibilities of the Strategic Management Team (SMT) and of SMTs Members individually and the Service's approach towards putting this in to practice.
ii) Set out a clear statement of the respective roles and responsibilities of other Officers and Members generally.

b. Ensuring that a constructive working relationship exists between Elected Members and officers and that the responsibilities of Members and officers are carried out to a high standard. To achieve this, the Authority will:

i) Determine a scheme of delegation and reserve powers within the Members Handbook including a formal schedule of those matters specifically reserved for collective decision of the Authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.
ii) Make the Chief Fire Officer responsible and accountable to the Authority for all aspects of operational management.
iii) Develop protocols to ensure that the Chair of the Fire Authority and Chief Fire Officer negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.
iv) Make the Authority's Section 151 Officer responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
v) Make the Clerk to the Fire Authority responsible to the Authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

c. Ensuring relationships between the Authority, its partners and the public are clear so that each knows what to expect of the other. To achieve this, the Authority will:

i) Develop protocols to ensure effective communication between Members and officers in their respective roles
ii) Set out the terms and conditions for remuneration of Members and officers and an effective structure for managing the process, including an effective remuneration panel if required
iii) Ensure that effective mechanisms exist to monitor service delivery
iv) Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated
v) When working in partnership, ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Authority
vi) When working in partnership ensure that there is clarity about the legal status of the partnership and ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions

Examples of how the Service could demonstrate its commitment to this core principle:

- The Authority's Standing Orders;
- Records of decisions and supporting materials;
- Conditions of employment;
- Scheme of delegation;
- Job descriptions/specification;
- Member/officer protocol;
- Corporate plans;
- Budgets;
- Protocols for partnership working including an assessment toolkit and exit strategies.

3. **Promoting values for the Service and demonstrating the values of good governance through upholding high standards of conduct and behaviour, by**

   a. Ensuring the Authority's Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance. To achieve this, the Authority will:

      i) Ensure that the Authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect
      ii) Ensure that standards of conduct and personal behaviour expected of Members and officers, of work between Members and officers and between the Authority, its partners and the community are defined and communicated through codes of conduct and protocols
      iii) Put in place arrangements to ensure that Members and officers of the Authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice

   b. Ensuring that organisational values are put into practice and are effective. To achieve this the Authority will:

      i) Develop and maintain shared values including leadership values for both the Authority Members and officers reflecting public expectations, and communicate these with Members, officers, the community and partners
      ii) Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice
      iii) Develop and maintain an effective Standards Committee
      iv) Use the organisations shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Authority
      v) In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively

Examples of how the Service could demonstrate its commitment to this core principle:

- Codes of conduct;
- Performance appraisal;
- Customer Comments procedures;
- Anti-fraud and –corruption policy;
- Standing Orders;
- Financial Regulations;
- Regular reporting to Full Authority;
- Decision-making practices;
- Gifts and hospitality policy;
- Protocols for partnership working.

4. **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk, by**

   a. Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny. To achieve this the Authority will:

i) Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the Authority's performance overall
ii) Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
iii) Put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice
iv) Develop and maintain an effective Performance Committee which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee
v) Ensure that effective, transparent and accessible arrangements are in place for dealing with Customer comments

b. Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs. To achieve this the Authority will:

i) Ensure that those making decisions for the Authority are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications
ii) Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately

c. Ensuring that an effective risk management system is in place. To achieve this the Authority will:

i) Ensure that risk management is embedded into the culture of the Authority, with Members and Officers at all levels recognising that risk management is part of their jobs
ii) Ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting with or appointed by the Authority have access

d. Using their legal powers to the full benefit of the citizens and communities in their area. To achieve this the Authority will:

i) Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities
ii) Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law
iii) Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes

Examples of how the Service could demonstrate its commitment to this core principle:

- Members' code of conduct;
- Training for committee Members;

- Publication of SMT and PaCT meetings within the service;
- Customer Comments procedure;
- Risk management protocol;
- Standing orders and financial regulations;
- Whistleblowing policy;
- Monitoring officer provisions.

5. Developing the capacity and capability of members and officers to be effective, by

a. Making sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles. To achieve this the Authority will:

   i) Provide induction programmes tailored to individual needs and opportunities for Members and officers to update their knowledge on a regular basis
   ii) Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council

b. Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group. To achieve this the Authority will:

   i) Assess the skills required by Members and officers and make a commitment to develop those skills to enable roles to be carried out effectively
   ii) Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed
   iii) Ensure that effective arrangements are in place for reviewing the performance of the Strategic Management Team as a whole and of individual Members and agreeing an action plan which might, for example, aim to address any training or development needs

c. Encouraging new talent for membership of the Authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal. To achieve this the Authority will:

   i) Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Authority
   ii) Ensure that career structures are in place for Members and officers to encourage participation and development

Examples of how the Service could demonstrate its commitment to this core principle:

- Training and development plans;
- Induction programme;
- Personal development reviews;
- Update courses/information;
- Succession planning;
- Provision and maintenance of the Members' Handbook.

6. **Engaging with local people and other stakeholders to ensure robust public accountability, by**

   a. Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships. To achieve this the Authority will:

      i) Make clear to themselves, all officers and the community to whom they are accountable and for what
      ii) Consider those institutional stakeholders to whom the Authority is accountable and assess the effectiveness of the relationships and any changes required

   b. Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Authority, in partnership or by commissioning. To achieve this the Authority will:

      i) Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively
      ii) Hold meetings that are open to the public unless there are good reasons for confidentiality
      iii) Ensure that arrangements are in place to enable the Authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands
      iv) Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result
      v) On an three year basis, publish a community safety plan which will be updated annually, giving information on the Authorities vision, strategy, plans and as well as information about its outcomes achievements the in the previous period
      vi) Ensure that the Authority as a whole is open and accessible to the community, service users and its officers and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so

   c. Making the best of human resources by taking an active and planned approach to meet responsibility to officers. To achieve this the Authority will:

      i) Develop and maintain a clear policy on how officers and their representatives are consulted and involved in decision making

Examples of how the Service could demonstrate its commitment to this core principle:

- Annual report;
- Partnership framework;
- Community Safety plan and annual updates;
- Standing Orders.

This page is intentionally left blank

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

PROVISIONAL OUT-TURN FOR 2013/2014

Joint Report of the Treasurer and Chief Fire Officer

Date: 27 June 2014

Purpose of Report:

To report to Members on the latest estimate of the financial performance of the Service in the year 2013/14, analysing significant variances against the original budget. The Statement of Accounts for 2013/14 will show the final position and will be reported to Members in September 2014.

CONTACT OFFICER

Name :	Neil Timms Strategic Director of Finance and Resources
Tel :	0115 967 0880
Email :	neil.timms@notts-fire.gov.uk
Media Enquiries Contact :	Bridget Aherne (0115) 967 0880bridget.aherne@notts-fire.gov.uk

1. BACKGROUND

1.1. The Authority's Statement of Accounts is produced annually and is a comprehensive statement of the Authority's financial position and financial transactions in the reported year. The un-audited Statement of Accounts for the financial year 2013/2014 is required to be completed and then authorised for issue to the external auditor before 30 June 2014 by the Treasurer to the Fire Authority.

1.2. The audit of the Statement of Accounts is due to take place in August 2014, and the audited Statement of Accounts and the external auditor's Annual Governance Report will be presented to Members of the Fire Authority on 26 September 2014.

1.3. The purpose of this report is to give Members an overview of the Authority's financial performance in 2013/2014 prior to the full report in September. At the time of writing this report, detailed work on the closure of accounts was still in progress so the figures reported herein are estimated but unlikely to significantly change.

2. REPORT

EXECUTIVE SUMMARY

2.1 The 2013/2014 year was another challenging one financially, with the amount of grant funding from Central Government reduced, and further grant reductions expected in future years. A number of planned savings were implemented during the year with the aim of reducing costs going forward and preserving the Authority's strong, underlying financial position. The bulk of these savings related to the final stage of implementing the Fire Cover Review findings, with a number of other smaller savings achieved as well.

2.2 The approved Revenue Budget for 2013/2014 was £43.899m. The predicted actual spend against this budget is£45.453m, whichis an overspend of £1.554m. This is a planned overspend, and includes a Voluntary Revenue Provision charge of £1.000m, which was approved by the Finance and Resources Committee in January 2014, as well as a revenue contribution to finance capital expenditure of £1.736m. Both of these initiatives will contribute towards the on-going budget savings required in future years

2.3 The budget for the year assumed that there would be a net overspend of £2.065m funded by a contribution from General Reserves. Diligent management of the budget throughout the year has reduced this planned overspend, and many of the individual underspends arising in the year are in those areas where base budget reductions have already been effected for the 2014/2015 budget.

2.4 Given the overspend reported, General Reserves are expected to have reduced to the level of £6.210m at 31 March 2014. This leaves the Authority in a sound position in terms of being able to use further General Reserves to cushion the transition towards a revenue budget which is expected to be £2.4m lower within two financial years, whilst still maintaining at least the minimum level of reserves identified in the most recent risk assessment reported to Members in February 2014.

REVENUEBUDGET

2.5 There were two budgets set for 2013/2014, which allowed for General Reserves to be used in a planned way to support capital expenditure and reduce on-going revenue costs.The first of these was a contribution from General Reserves £2.065m which was to part fund abudget for revenue contributions to finance capital expenditure of £2.318m.

2.6 As the final predicted outturn position on capital expenditure is an underspend of £5.012m (as explained in paragraphs 2.47 to 2.53) only some of this revenue contribution was required.Nevertheless a Voluntary Revenue Provision (VRP) charge was made in the year following approval from the Finance and Resources Committee, and this will help to achieve on-going savings in capital financing budgets going forward.

2.6 A summary of variances is shown in the following table with detailed explanations in the following paragraphs.

	Annual Budget 2013/14	**Provisional Actual 2013/14**	**Provisional Variance 2013/14**
	£000's	**£000's**	**£000's**
Employees	34,522	34,546	24
Premises	2,370	2,509	139
Transport	1,924	1,911	(13)
Supplies & Services	4,424	3,574	(850)
Third Party Payments	136	112	(24)
Support Services	218	188	(30)
Income	(1,315)	(1,672)	(357)
Capital Financing	2,345	3,309	964
Net reserves contributions	(725)	976	1,701
Total	**43,899**	**45,453**	**1,554**

Employees

2.7 Wholetime Operational Pay: (annual budget £23,443k). The provisional outturn overspend is £148k. Within this total overspend were net costs of £15k arising from industrial action. The costs of maintaining crewing, partially offset by an underspend in respect of pension contributions being different from budgeted assumptions, accounted for the remainder of the overspend.

2.8 Non-Uniformed Pay: (annual budget £5,694k). The provisional outturn underspend is £280k.There were a number of vacancies which arose during the year, which have not been filled and which consequently created an underspend against the budget.

2.9 Retained Pay: (annual budget £2,809k). The provisional outturn underspend is £395k. An underspend was forecast against this budget throughout the year, with £200k of savings taken against the 2014/15 budget and a buffer left in place with which to implement the Enhanced Crewing model. The underspend has been reduced by £57k relating to pay for contingency crews covering periods of industrial action

2.10 Control Pay: (annual budget £1,044k). The provisional outturn overspend is £67k.This has arisen mainly because of the Tri-Service system project which required additional support from employees. As a result the establishment was over by 1.5 FTEs for much of the year.

2.11 Staffing Costs Other: (annual budget £42k). The provisional outturn overspend is £306k. Of this £298k was unbudgeted and is the charge re loss of protected pension age, which Members of the Policy and Strategy Committee have approved.

2.12 Indirect Employee Expenses: (annual budget £607k). The provisional outturn underspend is £43k. Overall, the direct training budget underspent by £23k, although this is partially offset by a £10k overspend within the Supplies and Services category. The underspend included £12k not spent on short courses and conferences, as well as £12k underspent on strategic manager training due to the impending changeover of personnel. The budget for relocation expenses underspent by £14k because there was very little demand for it this year.

2.13 Pensions and Redundancy: (annual budget £884k). The provisional overspend of £221k is made up of £245k overspend on redundancy and pension strain, and a £24k underspend on ill health / injury pension charges. During the year a number of Retained Duty System redundancies were effected re Arnold Fire Station plus two phase 1 voluntary redundancies and two phase 2 voluntary redundancies. The remaining phase 2 voluntary redundancies will take place in 2014/15 and an accrual / provision has been made in 2013/14 for these redundancy costs. The ill health / injury budget is difficult to predict and in this year actual occurrences amounted to less than budgeted for.

Premises

2.14 Building Maintenance: (annual budget £775k). The provisional outturn overspent by £201k during the year on backlog maintenance. The Finance and Resources Committee in January 2014 approved an overspend on backlog maintenance to be funded by the net underspend on pay budgets.

2.15 Electricity & Gas: (annual budget £380k). The provisional outturn underspend of £26k is largely due to the mild winter.

2.16 Rents: (annual budget £117k). The provisional outturn underspend is £28k. Of this, £8k relates to the recharges from the City Council in respect of Central Fire Station which were lower than budgeted for. The remainder is due to savings arising from Prince’s Trust teams relocating out of commercial premises and into fire stations. These savings have already been taken into account in the budget for 2014/15

Transport

2.17 Staff Travelling Allowances: (annual budget £416k). The provisional outturn underspend is £44k. Car allowances continue to underspend as they did in 2012/13, and this is once again due to the vacancies.Travel budgets for 2014/15 have been further reduced following a review during the budget process.

2.18 Motor Insurance: (annual budget £207k). The provisional outturn overspend of £60k arose during the year following the insurance tender and was the result of a worsened claims history as well as prevailing market conditions.

2.19 Vehicle Leasing & Hire: (annual budget £189k). The provisional outturn underspend is £39k and this is mainly in the area of finance lease extensions, which are difficult to predict due to the timing of appliance procurement.

Supplies and Services

2.20 Operational Equipment: (annual budget £505k). The provisional outturn underspend is £119k.This year has seen an increase in the recycling of operational equipment wherever possible e.g. ladders, coupled with very careful monitoring of the budget with a view to making savings.

2.21 Furniture & Equipment: (annual budget £131k). The provisional outturn underspend of £68k has arisen mainly in the areas of office equipment (£27k) and cleaning equipment (£39k). Again, budgets have been carefully monitored and, in the case of office equipment, opportunities have been taken to recycle items.

2.22 Printing, Stationery, Office Expenses: (annual budget £90k). The provisional outturn underspend is £17k.As electronic communications increase, stationery requirements are reducing, resulting in this underspend.

2.23 Other Services: (annual budget £485k). The provisional outturn underspend is £97k. There are a number of variances within this budget. The marketing and publicity budget underspent by £23k, with a changeover of manager during the year and a detailed budget review due next year.Occupational Health costs underspent by £24k and almost all of this related to the contract for the provision of a physician, which was re-tendered during the year resulting in reduced costs with effect from October 2013. The budget surplus has been retained to allow for the increased costs of asbestos medicals with effect from April 2014. The uninsured losses budget underspent by £23k – this budget is difficult to predict and very much subject to claims received during the year. Finally the external audit fees budget underspent by £15k due to in-built contingency of £5k not being required, as well as two audit fee rebates for 2012/13 and 2013/14.

2.24 Protective Clothing & Uniform: (annual budget £354k). The provisional outturn underspend of £118k is made up of £81k re Protective Personal Equipment (PPE) and £37k re uniform. The uniform budget is very closely managed with a view to delivering savings, whilst the approach with PPE is now to purchase very little new kit and to repair and recycle the existing kit, which has resulted in savings.

2.25 Communications and Computing: (annual budget £1,774k). The provisional outturn underspend is £143k. The contracts for computer software maintenance and non-contracted services have underspentby £102k and this area will be subject to a base budget review during the next budget process.The budget for public consultation has underspent by £78k because the amount required for IRMP consultation was not required in full. The budget for FireLink charges has overspent by £78k due to a combination of increasing contract costs during the year, and an accrual for indexation costs advised by DCLG plus the purchase of additional equipment over and above the contract.Some of these costs have been met by increased New Burdens grant. The budget for telephone costs has underspent by £41k, as a result of careful budget management, the introduction of new mobile phones with lower costs and an increasing emphasis on other communication technologies.

2.26 Other Expenses: (annual budget £589k). The provisional outturn underspend is £296k and is because the risk based budgeting contingency has not been spent within the year. It was created for budget holders to call on if their budgets are adversely affected by events which are outside of their control. There have not been any applications to use this contingency this year, creating the underspend of £296k. This contingency has reduced to £50k in 2014/15.

Third Party Payments and Support Services

2.27 Legal Services : (annual legal fees budget £113k). The provisional outturn underspend is £18k. This budget is always difficult to estimate as the demand for legal services varies from year to year.

2.28 Treasury Services: (annual budget £175k). The provisional outturn underspend is £29k and around £16k of this has arisen following the transfer of fire pension administration to Leicestershire County Council at a lower cost. The remaining savings come from reduced charges for the other services provided by Nottinghamshire County Council.

Income

2.29 Recovered Costs: - There were receipts in the year of £49k above budget, mainly relating to the Tri-Service system project, with related expenditure showing in other categories.

2.30 Sales Income: (annual budget -£12k). receipts for the sale of solar energy generated exceeded the budget by around £25k.

2.31 Secondment Income: The provisional outturn surplus is £34k and is for income for seconded staff– the related costs are within the pay budget.

2.32 Government Grants: (annual budget -£479k). The provisional outturn surplus is £129k. This has arisen from two grants: the FireLink grant received was

£44k higher than budgeted and the reasons for this are explained above under "Communications and Computing". In addition, a grant of £85k was received for Council Tax Transition. This was not known at budget time and has been carried forward as an earmarked reserve to be used in future to support any deficits on the Collection Fund.

2.33 Other Grants, Reimbursements and Contributions: (annual budget -£612k excluding reserves contributions). The provisional outturn surplus is £158k.Recovered costs relating to insurance claims amounted to £46k in the year –this is a difficult budget to accurately predict. Car leasing contributions amounted to £40k more than the budget set as more officers leased cars during the year for higher sums. The surplus on secondment income was £34k, with the related costs shown within the pay budget. Local Authority and partnership income was £32k above the budget and mainly related to costs recharged as part of the Tri-Service system project.

Capital Financing

2.34 Capital Financing: (annual budget £2,345k excluding revenue contributions to capital). The provisional outturn underspend is £36k,which comprises an overspend of £51k on the Minimum Revenue Provision charge and an underspend on loan interest paid which have arisen because budget assumptions about capital expenditure and loans were slightly different to actuals.

2.35 Voluntary Revenue Provision: (not budgeted). A charge of £1.0m has been made as outlined in paragraphs2.2 and 2.5 above.

2.36 Revenue Contributions to Capital: (budgeted at £2,317k). Actual contributions were £1,736k, a surplus of £581k – this was to finance the amount of capital expenditure in the year which was not financed by capital grant (see paragraph 2.43).

Earmarked Reserves

2.37 The Prince's Trust activity was budgeted to contribute a surplus of £70k to earmarked reserves but, due to funding changes in the year, made a deficit of £151k. The variances relating to this budget are spread over a number of budget headings and, with the exception of the budgeted earmarked reserve contribution, are individually too low to have been mentioned in the report above.

2.38 A new earmarked reserveof £219k was created for the remaining backlog maintenance approved by the Finance and Resources Committee in January 2014, and the Pensions / Ill Health reserve was increased by £50k as there is likely to be an overspend against the revenue budget over the next three years. In addition, two grants were received in the year which have been carried forward as earmarked reserves for spending in future years – a Council Tax Transition grant of £85k and a Local Transparency grant of £3k

2.39 Aside from the transactions outlined in paragraph 2.37, other net transfers to and from earmarked reserves totalled -£139k.

RESERVES

2.40 At 31 March 2013, General Reserves stood at £7.764m and earmarked reserves totalled £4.564m. The provisional revenue outturn overspend of £1.554m will decrease General Reserves and give a new total of £6.210m as at 31 March 2014.

2.41 During the year, net changes were made to earmarked reserves of -£759k.This comprised new reserves totalling £444k, reserves no longer required and written back to the revenue budget totalling £171k and use of reserves amounting to £1,032k giving a provisional balance as at 31 March 2014 of £3.804m

CAPITAL BUDGET

2.42 The approved capital programme for 2013/14 totalled £5.197m. Slippage brought forward from 2012/13 totalled £3.142mgiving a total capital programme of £8.339m for the year. The provisional outturn is £3.327m, which is anunderspend of £5.012m against the total programme.

2.43 It is not unusual for slippage to occur within Capital Programmes as capital schemes will often span more than one financial year and are often delayed for reasons outside the Fire Authority's control. The Fire Authority are therefore to be asked to approve the slippage of the 2013/2014 underspend into 2014/2015.

2.44 A capital grant of £1.087m was received from DCLG during the year and this has been used to partially finance the capital programme. A further £504k of a separate capital grant from DCLG has been used to finance expenditure on the Tri-Service Control project. The remaining capital expenditure of £1,736mhas been financed by a revenue contribution.

2.45 The revenue contribution to finance the capital programme was budgeted to be £2.317m and was to be funded by a contribution from the general reserve. The capital programme underspend however, has resulted in the full amount of revenue contribution not being required. The impact of this on the revenue budget is explained in paragraph 2.5. No borrowing has been taken in the year and the decision has been made not to lease any of the assets purchased in the year because all 2013/14 capital expenditure will be financed out-right, with no on-going revenue impact.

2.46 Capital receipts totalling £2.033m were received in the year - £33k in respect of the sale of vehicles, and £2.0mfor Dunkirk Fire Station. These receipts will be held in the Usable Capital Receipts Reserve and carried forward to 2014/2015 to finance capital programme slippage.

2.47 A summary of variances is shown in the following table with detailed explanations in the following paragraphs.

	Total Capital Programme 2013/14	Provisional Actual 2013/14	Provisional Variance 2013/14
	£000's	£000's	£000's
Transport	2,662	1,056	(1,606)
Property	4,567	1,300	(3,267)
IT & Communications	1,110	971	(139)
Total	**8,339**	**3,327**	**(5,012)**

Transport

2.48 An Aerial Ladder Platform appliance and a Water / Foam Unit were completed in the year, with a Flood Response Unit still in build at the year end. Work commenced in the year on specifications for three other special appliances, and the slippage to be carried forward will contribute towards the costs of these.

2.49 A number of light vehicles were purchased in the year in line with the replacement programme. Aside from this has been a deliberate hold on spending on light vehicles, pending the further budget reductions required over the next two to three years which may impact on the size of the light fleet.

Property

2.50 Two key refurbishment projects were largely completed in the year namely the conversion of Edwinstowe Fire Station to be a wholetime station and the refurbishment of the Control room and surrounding area in preparation for the new Tri-Service system.

2.51 The project to rebuild Retford Fire Station commenced in the year and will continue next year with the slippage to be carried forward funding the remaining works.

2.52 The main reason for the underspend in this area of the programme is the delay in purchasing the land required to build a new fire station to replace the current Central Fire Station. This delay has occurred for reasons outside of the Authority's control and will now affect the timing of the building project.

Information and Communications Technology

2.53 In addition to the usual replacement programme for equipment, two key ICT projects made significant progress in the year: the replacement HR system, which went live just after the year end and the Tri-Service system which is due to go live in 2014/15.

2.54 The ICT infrastructure was enhanced during the year, with the purchase of a new Wide Area Network and Remote Storage as well as improvements to the Microsoft infrastructure.

DEBTS WRITTEN OFF IN 2013/14

2.55 During the 2013/2014 financial year, there were no debts written off.

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 implications

5. EQUALITIES IMPLICATIONS

An Equality Impact Assessment has not been undertaken because this report summarises only the financial impact of activities undertaken in 2013/14. Equality impacts arising from new policies implemented in the year will have been identified in other reports.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

There are no Risk Management Implications that arise specifically from this report however the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. Throughout the year, finance department staff work collaboratively with budget holders towards keeping expenditure within budget and improving financial performance and reporting to Finance and Resources Committee at regular intervals.

9. RECOMMENDATIONS

9.1 That Members note the contents of this report.

9.2 That Members approve the total capital slippage of £5.012m to be carried forward to 2014/2015.

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

None

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

John Buckley
CHIEF FIRE OFFICER

This page is intentionally left blank

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.

CONTACT OFFICER

Name : Neil Timms
Strategic Director of Finance and Resources

Tel : (0115) 967 0880

Email : neil.timms@notts-fire.gov.uk

Media Enquiries Contact : Bridget Aherne
(0115) 967 0880 bridget.aherne@notts-fire.gov.uk

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

Other References:

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.

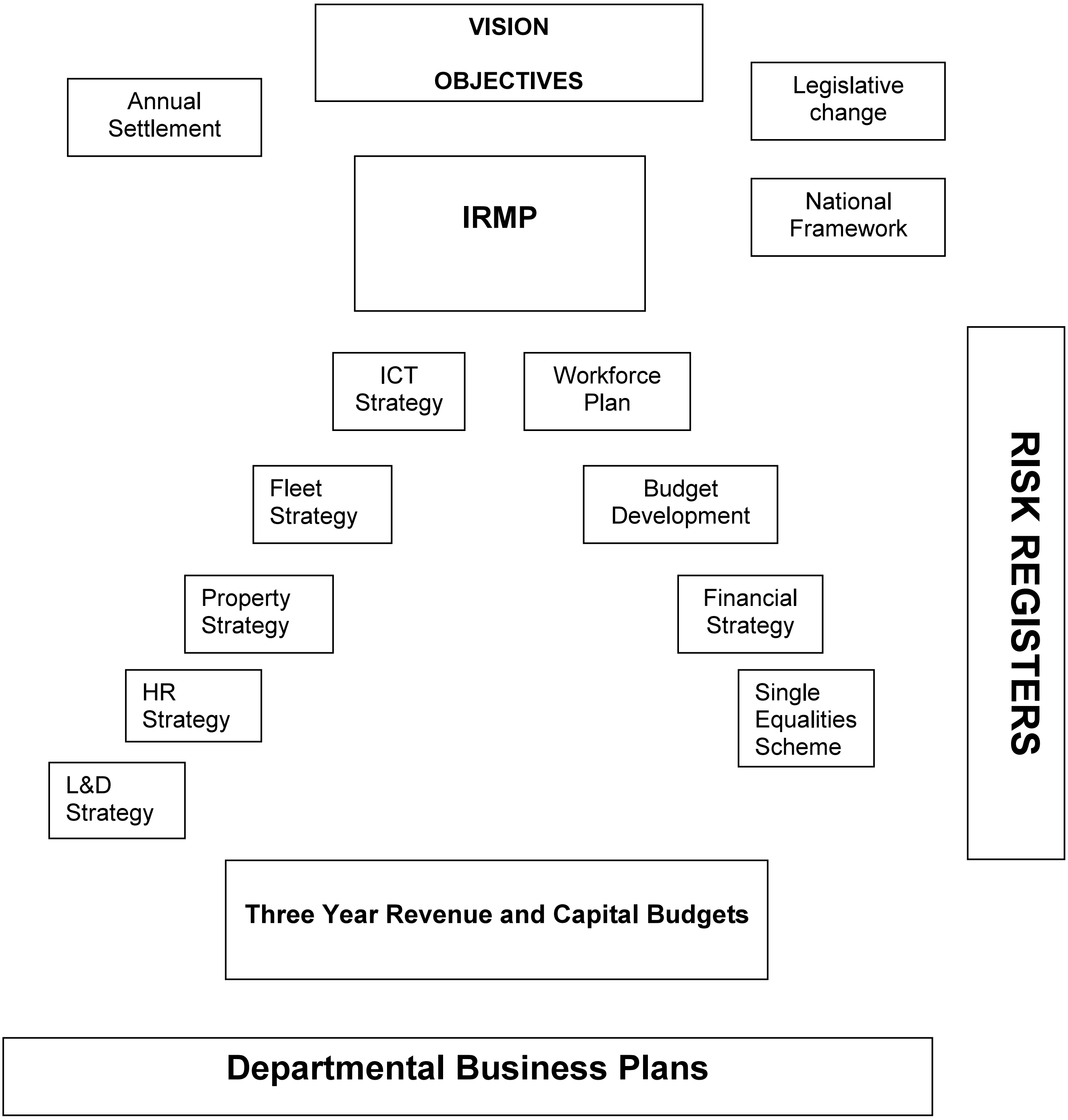
4.2 The funding priorities of the Authority relate entirely to those set out in the IRMP and relate to the six service priorities set out therein. These are:

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**

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 £000s	Revised Budget 2013/2014 £000s	Budget Requirement 2014/15 £000s	Budget Requirement 2015/16 £000s	Budget Requirement 2016/17 £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

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank