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NOTTINGHAMSHIRE & CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY - FINANCE AND RESOURCES COMMITTEE

Date: Friday, 17 January 2014 **Time:** 10.00 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**

ANY COUNCILLOR WHO IS UNABLE TO ATTEND THE MEETING AND WISHES TO SUBMIT APOLOGIES SHOULD DO SO VIA THE PERONAL 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.

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NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM
FIRE AND RESCUE AUTHORITY

FINANCE AND RESOURCES COMMITTEE

MINUTES of the meeting held on **11 OCTOBER 2013** at Fire and Rescue Service Headquarters, Bestwood Lodge, Arnold, Nottingham from 10.02 am to 10.28 am.

Membership

	Councillor Malcolm Wood	(Chair)
	Councillor Chris Barnfather	
^	Councillor John Clarke	
^	Councillor Jon Collins	
	Councillor Brian Grocock	(as substitute for Councillor Jon Collins)
	Councillor Darrell Pulk	(as substitute for Councillor John Clarke)
^	Councillor Gordon Wheeler	

Members absent are marked **^**

Officers in Attendance

Neil Timms	Strategic Director of Finance and Resources
Peter Hurford	Treasurer to the Nottinghamshire and City of Nottingham Fire and Rescue Authority
Carol Jackson	Constitutional Service Officer, Nottingham City Council

9 APOLOGIES FOR ABSENCE

Councillor John Clarke
Councillor Jon Collins
Councillor Gordon Wheeler

10 DECLARATIONS OF INTERESTS

None.

11 MINUTES

The Committee confirmed the minutes of the meeting held on 12 July 2013 as a correct record and they were signed by the Chair.

12 CAPITAL BUDGET MONITORING REPORT TO 31 AUGUST 2013

The Strategic Director of Finance and Resources, presented the report of the Chief Fire Officer, reporting progress to Members on the Capital Programme in 2013/14 to the end of August 2013, analysing significant variances against the original programme.

The capital budget monitoring statement is showing an underspend to date of £7,347,000 against a budget for the year of £8,339,000. Overall capital expenditure is likely to reach £6,190,000 by the end of the year but the outturn will be continually reviewed and reported throughout the year.

RESOLVED to note the report.

13 REVENUE BUDGET MONITORING TO 31 AUGUST 2013

The Strategic Director of Finance and Resources, presented the report of the Chief Fire Officer, reporting progress to members on the financial performance of the Service in the year 2013/14 to the end of August 2013 analysing significant variances against the original programme.

The revenue budget monitoring statement for August 2013 is showing an underspend to date of £610,000 against a budget for the year of £43,899,000. The projected outturn variance for the year is an underspend of £1,220,000.

Part of the underspend relates to a Department for Communities and Local Government grant of £85,000 for council tax transition which was not known about at the time the budgets were set. The Strategic Director of Finance and Resources requested that Members approve the transfer of the grant to an earmarked reserve at year end, to be used to fund any future budget shortfall created by a reduction in the tax-base caused by council tax reform.

RESOLVED

(1) to approve the transfer of £85,000 to an earmarked reserve at year end to be used to fund any future budget shortfall created by a reduction in the tax-base caused by council tax reform;

(2) to note the report.

14 PRUDENTIAL CODE MONITORING REPORT TO 31 AUGUST 2013

The Treasurer to the Fire Authority presented his report, informing members of the prudential indicators for capital accounting and treasury management for the period March 2013 up to 31 August 2013.

RESOLVED to note the report.

15 SCRUTINY OF BUDGETS

The Strategic Director of Finance and Resources, presented the report of the Chief Fire Officer reporting on the work undertaken by the Chair of the Committee alongside officers of Nottingham Fire and Rescue Service to review existing base budgets and identify initial budget savings. The Chair met with budget holders on 23 and 24 September. The budget holders explained what their budgets were used for and what kind of factors influenced their spending. A total of £609,000 new savings in 2014/15 were identified, i.e. 5.5 % of the total non-pay base budget.

The Chair advised the meeting that it had been a very productive day with officers being extremely co-operative.

The Councillors present thanked the Chair for his involvement and officers for their input.

RESOLVED to note the progress made to date in reviewing the base budget.

16 VIREMENT REQUEST FOR REPAIR WORKS TO SERVICE DEVELOPMENT CENTRE FIRE HOUSE

Neil Timms, Strategic Director of Finance and Resources, presented the report of the Chief Fire Officer seeking the approval of Members to a virement to enable repair works to be carried out at the Service Development Centre, specifically to the fire house. The cost of the works is estimated to be £98,554.

RESOLVED to ratify the decision of the Chair of the Committee in approving the expenditure and that the costs be met from the Capital reserve.

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

BUDGET PROPOSALS FOR 2014/2015 TO 2016/2017 AND OPTIONS FOR COUNCIL TAX

Report of the Chief Fire Officer

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To allow Members to consider the options for the recommendation of a balanced revenue budget over the next three years to the Fire Authority for acceptance. Implications for Council Tax are also considered.

CONTACT OFFICER

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1. BACKGROUND

1.1 The Finance and Resources Committee is charged with considering the financial position of the Authority and proposing revenue and capital budgets to the Fire Authority for approval. The Fire Authority will also decide upon levels of Council Tax for the coming year and will consider the recommendations of the Finance and Resources Committee in doing so.

1.2 In late December, the government announced the provisional grant settlement for 2014/2015 and for 2015/2016 which gives some certainty to budget planning those years. It is difficult to plan with any precision for later years. However, estimates have been made given the best information that is available at present.

2. REPORT

Capital Budget proposals 2014/2015 to 2016/2017

2.1 The Authority maintains a sustainable Capital Programme that has been planned out over an extended period. This programme seeks to replace appliances and vehicles when they are approaching the end of their useful life, maintains a rolling programme of ICT replacements and a property programme that will both ensure that property remains fit for purpose, is appropriately located and can be contained within the internal capacity of the organisation to complete.

The proposed Capital Programme for 2014/2015 to 2016/17 is as follows:

	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**

	2014/2015 £000's	2015/2016 £000's	2016/2017 £000's
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
Mobile Computing	0	0	0
Business Expansion	25,000	25,000	25,000
Replacement Equipment	85,000	85,000	85,000
Business Process Automation	0	0	0
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**

2.2 Rescue pump renewals follow the usual practice of replacing four pumping appliances each year on a rolling basis to ensure that no appliance older than 12 years is in the fleet. The usual requirement would be for this budget to be over £1m in each year however the reduction in pumping appliances which has taken place over the past year or so is beginning to reflect in the replacement programme. The equipment budget reflects the equipment carried almost as part of the vehicle such as ladders, hose reels and pumps.

2.3 There is no proposal within this programme to extend or replace any vehicles in the special fleet however the light vehicle fleet which encompasses all non-HGV type vehicles from pool cars to station vans is showing some acceleration over the three year period. This is as a result of a detailed review that was carried out in 2011/2012 and follows the general cyclical nature of this replacement programme rather than any notable increase in the size of the fleet.

2.4 The cutting equipment currently in use will have been in service for about 10 years by 2015/2016. Whilst spares are anticipated to still be available there remains an issue of technical obsolescence which will need to be considered. This budget provides for the possibility of this equipment being replaced although this is by no means certain at this time.

2.5 Breathing apparatus remains a key piece of equipment for the emergency response and the equipment currently used has been in service for many years. There are various initiatives and technological advances in the field of respiratory protection which may require enhancements such as telemetry to be introduced. This budget will enable research to begin which will result in procurement in 2016/2017.

2.6 The replacement of radios proposal relates to the intrinsically safe radios that are used on the incident ground. Current sets have been in use for many years and are becoming technically obsolete and difficult to maintain. This equipment is again important for both operational efficiency and fire-fighter safety.

2.7 It has been suggested to regional partners that these procurements might be best achieved in partnership to bring about a gradual harmonisation of equipment across the region.

2.8 The property programme remains focussed on the rebuild or refurbishment of a fire station per annum on average. It is not possible to both start and complete a building project within a single financial year and therefore a number of projects have been considered and feasibility studies carried out. The actual stations selected for rebuild or refurbishment will depend on other factors and actual project proposals will be brought back to this committee. This budget simply sets aside the resources to continue with the Authority's sustainable capital programme which will ensure that all property assets remain fit for purpose over time.

2.9 The ICT programme covers a number of replacement items and provision for the general expansion of ICT usage across the organisation. There are however three larger items which require some further explanation.

2.10 Although included here as a capital item it is debateable whether the purchase of Microsoft enterprise licensing is a capital or revenue purchase. It certainly could be regarded as either but it is likely that this would be funded from revenue contributions, which makes any distinction somewhat academic. It is always difficult in any business to ensure that all of the proprietary software applications in use are properly licensed as these are generally purchased on a machine-by-machine basis. Machines, however, are repaired, modified, passed on and replaced and it becomes increasingly difficult to keep track of individual applications. The movement to the latest versions of this software creates an opportunity to do this differently and purchase an enterprise wide licence which will cover all of the products used within Nottinghamshire Fire & Rescue Service (NFRS). Initial estimates show that this will probably be cheaper than trying to upgrade individual licences and also has the advantage that there will no longer be any requirement to keep track of individual usage.

2.11 The telephone system at headquarters requires replacement. It is currently serviceable but it is important that it remains so as it provides the main means of contact from the public for both emergency and non-emergency calls. The current unit is beyond upgrading and requires complete replacement which hopefully will enable NFRS to move towards more modern (and considerably cheaper) methods of communication such as VOIP (voice over the internet).

2.12 The existing NFRS Storage Area Network (SAN) solution is ageing; the hardware technology dates back to November 2007 and the third-party software application that controls the replication have proved to be unreliable. In parallel, the NFRS backup solution is unreliable and vendor support is poor with unrealistic fix times. The main backup server again dates from around 2007 and although that runs the latest version of the software, the system requires a lot of technical intervention by ICT to keep the system running. This creates a significant risk exposure which needs to be managed by the purchase of new facilities.

2.13 The payroll system for the Authority is currently provided by Nottinghamshire County Council and this has been a very successful arrangement since the Authority was formed in 1998. The County Council have recently changed their payroll system to SAP which is an enterprise resource management system incorporating finance, HR and Payroll. The Fire Authority's payrolls have been successfully transferred to the SAP system but unfortunately the process of accurately interfacing payroll data into the authority's Agresso financial system is proving very difficult. There are also issues around the lack of any real interfaces between the Authority's new HR system and SAP payroll which creates a requirement or double data entry and scope for error. It has been decided therefore that the Authority would be better served by acquiring a new payroll system. Discussions are taking place with regional partners with a view to collaborating on this project to provide a single payroll solution.

2.14 Members will be aware that the Authority's financial system is a joint procurement with both Leicestershire and Derbyshire. This has worked very well after a few teething problems and the benefits of a modern system and the resilience that is provided by having two other organisations on the same system are beginning to come through. Part of our commitment to this joint working is that we follow the same upgrade pathway as other partners and it has been decided that the time to move to the next version has arrived. We are now two versions behind the latest version and the suppliers have given notice that they will shortly withdraw support for the version that is in use. This does not expose the Authority to any immediate risk but it will require an upgrade in 2015/2016 if the joint arrangement is to continue.

Revenue Budgets 2014/2015 to 2016/2017

2.15 The Authority had been faced with significant budget reduction targets over recent years and the forthcoming years 2014/2015 to 2016/2017 are no exception. As part of a longer term financial plan the Authority continues to rise to the challenge of seeking out budget reductions and has recently gone through a significant review of non-pay base budgets under the supervision of the Director of Finance and the Chair of the Finance and Resources Committee. This process has been very useful and budget managers engaged positively with this process which resulted in base budget reductions of over £600,000.

2.16 The key to responding to the challenge of reducing funding central government has been careful planning, sensible use of balances and the adoption of longer term financial strategies which not only seek to address immediate problems, but also to maintain a stable financial platform which will enable the Service to continue to develop within this reducing resource envelope.

2.17 The Authority has very clear objectives and underlying values which are set out in the Corporate Plan and these budget proposals have been prepared on the basis that there should be no deviation from those underlying principles and that the Authority should press ahead with the medium term plan previously agreed.

2.18 As part of this plan the Authority, at its meeting in February 2013, set outline budgets for 2014/2015 and 2015/2016. These figures were set before the base budget review had been undertaken and before any detailed work had been carried out on these budgets. Members will also recall that a deficit of the order of £1.4m was predicted for 2014/2015 which needed to be resolved in the 2014/2015 budgeting process.

2.19 The predicted budget requirement for 2014/2015 was £44,272,309 and the following table focusses on the changes to that figure to get as close to the available funding as possible.

	2014/2015 £m	**2015/2016 £m**	**2016/2017 £m**
Requirement Identified in 2012/2013 budget	**44,272**	**43,038**	**43,224**
Changes in 2014/15 process			
Corrections and adjustments	54	-6	0
Changed Requirements	2	-8	3
Budget Growth	675	147	34
Inflation (including pay)	201	428	435
Pay Increments	82	69	42
Adjustments to Contingency	-235	38	-14
Effect of previous decisions	13	10	12

	2014/2015 £m	2015/2016 £m	2016/2017 £m
Revenue Impact of Capital Financing	-64	216	128
Targeted Savings	-1,966	-603	-15
Use of Reserves	-65	0	0
Single Year Requirements	69	-105	-30
Total Changes	-1,234	186	595
Budget Requirement	43,038	43,224	43,819

2.20 The corrections and adjustments figures relate to the recalculation of previous budget estimates in the light of better information being available since these estimates were made in early 2012 or where items should have been included in the estimates but were excluded in error.

2.21 The changed requirements heading reflects items that were included in the budget but where the basis for the inclusion has now changed. There are eight single items in this heading, all under £10,000 and a mixture of both reductions and increases.

2.22 Growth is clearly an area in which Members will be interested as this represents areas of the budget which are increasing beyond the 2013 estimates. These areas are therefore set out in detail in the table below:

Additional Requirements				
Heading	**2014 2015 £000's**	**2015 2016 £000's**	**2016 2017 £000's**	**Reason**
Transport Maintenance	4	3	2	Agreed contract increases
Bring Budget into line with expenditure	49	0	0	Where actual performance shows that budgets are wrong
Insurances	17	0	0	General Inflation
Double Counted Budget Savings	-8	0	0	An item identified at review which had already been deleted
Consultancy fees	0	5	0	HR Retenders – specialist advice
Reduction in External Funding	26	0	0	Withdrawal of partners in provision of I.R Officer
Trading Company	-6	0	0	Increased charges
Ill Health Retirement	0	0	21	Small increase in expectations
CPD entitlements	27	0	0	Staff qualifying for CPD increasing

Additional Requirements	Additional Require-ments	Additional Require-ments	Additional Require-ments	Additional Requirements
Additional Bank Holiday	19	63	-126	Coping with variations in the dates of Bank holidays
Increase in LGPS contributions	0	56	1	Increase following actuarial valuation
Job Evaluation	20	20	20	Contingency sum to provide for JE increases.
Increased NI rates	0	0	116	Removal of contracted out status
NI on overtime	90	0	0	Higher rate NI payable
New AM Rota	30	0	0	increased availability enhancement
Base shortfall on pension contributions	36	0	0	Recalculation of Superannuation contributions
Prince's Trust	85	0	0	Sharp reduction in income
RDS Pension provision	150	0	0	Admission of RDS to the Fire-fighters Pension Scheme
Service Technician Post	24	0	0	Error in 2013/2014 budget. Post not included
Apprentice Scheme	52	0	0	Provision for 4 apprentices
Compartment Fire Training	50	0	0	Cost of remote training
Occ Health Assistant	10	0	0	Asbestos medical requirement.
Total	**675**	**147**	**34**	

2.23 Inflation broadly divides into two areas, the largest of which is pay inflation which has been assumed to run at 1% for each of the following three years. The allocation of inflation is shown in the following table:

Inflation				
Heading	**2014 2015 £000's**	**2015 2016 £000's**	**2016 2017 £000's**	**Comments**
Pay Award Provision	335	308	299	Pay award assumption of 1%

Inflation				
Heading	**2014 2015 £000's**	**2015 2016 £000's**	**2016 2017 £000's**	**Comments**
Pensions	0	60	16	
Premises Costs	6	34	46	
Fuel	0	0	35	Budget sufficient until 2016
Other Non-pay	23	27	40	
Increased charges to Trading Company	-1	-1	-1	
Other Income	-1	0	0	
Reversal of previous inflation assumptions	-161	0	0	Over provision in 2013/2014
Total	**201**	**428**	**435**	

2.24 Pay increments are contractual increases in pay as a result of staff moving up the pay scales annually. This is a particular issue due to the increasing amount of turnover which is initially bringing in new staff on lower incremental points.

2.25 Adjustments to contingency reflect the changes to the general contingency which has been reassessed in the light of experience.

2.26 The effects of previous decisions largely relates to a series of low value adjustments to take account of decisions such as paying for a Council Tax leaflet, increasing the number of Princes Trust teams etc.

2.27 The Revenue Impact of Capital Financing is the actual cost charged to the Revenue Account of both Minimum Revenue Provision and interest charges. Decisions to finance some capital from grant and/or revenue have created a saving in this budget during 2014/2015 but this returns to expected levels in subsequent years. These figures could themselves change if grant bids are successful.

2.28 The figures for targeted savings break down in the following table:

Budget Savings			
Heading	**2014/2015 £**	**2015/2016 £**	**2016/2017 £**
NFRS property used instead of external venues	-12	0	0
Procurement Savings	-8	-8	-10
Budget Holder Initiatives	-26	-11	0

Budget Savings			
Heading	**2014/2015 £**	**2015/2016 £**	**2016/2017 £**
Base Budget Review	-557	0	0
Align Budgets with actuals	-99	-7	0
Station Based Catering Agreement	-4	0	0
Reduction in casual mileage rates	-19	0	0
Fire Report Charges	-4	0	0
External Funding	-56	0	0
Closure of Arnold RDS	-93	0	0
Change in Bank Holidays	0	0	-6
Review of subsistence	-7	0	0
Voluntary Redundancies (Phase 2)	-107	-135	0
Control Budgets	-8	0	0
2nd Pump at West Bridgford	-379	0	0
Movements from 1992 to 2006 Pension schemes	0	-3	0
Enhanced Crewing	0	-303	0
Trading Company Dividend	-15	0	0
Reduce Wholetime Pay Contingency	-148	0	0
Reductions in RDS pay budget	-200	0	0
Deletions of vacant posts	-121	0	0
Vacancy Rate – Wholetime 4 posts	0	-136	0
New Section 31 Grant	-103	0	0
Total	**-1966**	**-603**	**-16**

2.29 The figure for the use of reserves reflects the, as yet, unresolved shortfall in the 2013/2014 revenue budget which will be dealt with as part of this process.

2.30 Single year requirements usually relate to issues such as replacement equipment which constitutes £50k of this figure. These items usually reverse out in subsequent years hence the credits in 2015/2016 and 2016/2017.

Financing the Budget

2.31 The Authority primarily receives income from Revenue Support Grant, Business Rates and Council Tax. The government announced the provisional settlement on 18 December 2013 and this is being used for planning purposes as the final settlement is not expected until the end of January 2014. Experience shows that there is likely to be little change from the provisional figures.

2.32 In making predictions about budget financing some assumptions have been made. These are:

i) **That business rates collected by the billing authorities will be broadly in line with the assumptions made in the provisional settlement.**
This is unknown but the assumptions in the provisional settlement seem to be broadly in line with the figures declared by the billing authorities last year when 2% inflation is added.

ii) **That the taxbase will increase by 1% across the County and City**

This again is unknown until 31 January 2014 but early indications are that this assumption will hold up.

iii) **That the actual settlement is the same as the provisional.**

This is almost a given in that there is hardly ever a change in these figures unless there has been a major error.

iv) **That there are no substantial surpluses or deficits on the collection accounts.**

This is probably the most risky area in that billing authorities will not declare their position until the very last minute and the issue of Council Tax arrears is not only very sensitive the actual amounts declared as uncollectable will vary from one authority to another. It has been policy at NFRS not to take account of these figures when budgeting but instead to deal with any variances through the general reserve.

2.33 As ever the government have only announced provisional figures for 2014/2015 and 2015/2016 even though good practice means that NFRS need to make estimates for a three year period. The figures used below therefore use estimates for 2016/2017.

	2014/2015 £	**2015/2016 £**	**2016/2017 £**
Revenue Support Grant	11,905,862	9,817,083	
Business Rates Assumption	3,068,060	3,152,740	
Top Up Grant	6,355,632	6,531,053	
Council Tax Freeze Grant Previous years	577,222	577,029	
Freeze Grant 2013/2014	235,811	235,811	
Adjustment	25,470	0	
Total Grant Yield	**22,168,057**	**20,313,716**	**19,482,735**

2.34 In the Autumn Statement the Chancellor of the Exchequer announced that increases in Business Rates were to be capped at 2% instead of following the statutory position of increasing by RPI. The Secretary of State has since announced that Local Government will be given a Section 31 grant. This grant has been taken into account in the calculation of the budget requirement.

2.35 The Secretary of State has also announced that Council Tax Freeze grant will be available in 2014/2015 to those authorities that agree to freeze council tax. The following table then brings together all of these figures and presents the position that the authority would be in if there was no change to the level of council tax.

	2014/2015 £	**2015/2016 £**	**2016/2017 £**
Total Grant Yield	22,168,057	20,313,716	19,482,735
Budget Requirement	43,038,368	43,224,054	43,819,439
Balance to be met locally	20,870,311	22,910,338	24,336,704
Council Tax Yield*	20,120,608	20,321,814	20,525,032
Budget Shortfall	**749,703**	**2,588,524**	**3,811,672**
Deficit			
Council Tax Freeze Grant	237,000	237,000	237,000
Remaining Budget Shortfall	**512,703**	**2,351,524**	**3,574,672**

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

2.36 In earlier statements the government had stated that any authority wishing to increase Council Tax by more than 2% would need to hold a referendum. This appears to create a ceiling that Authorities can use to determine whether to increase Council Tax or not in 2014/2015. There has been no announcement regarding limits for 2015/2016 or 2016/2017 and so the assumption being made is that would be the same. There has also been no announcement regarding possible freeze grants in 2015/2016 or 2016/2017 and therefore no assumptions have been made.

2.37 In last year's budget process the situation in 2015/2016 whilst largely unknown was predicted to be serious in terms of shortfalls and actions required to address the issue. The position for 2014/2015 remains difficult although it will be possible to fund the shortfall with balances due to budget plans in 2015/2016 being enough to address the fundamental problems. The task facing this committee is whether to recommend an increase in the level of Band D Council Tax or to recommend the acceptance of the council tax freeze grant.

2.38 A further complication has arisen however in respect of the referendum limit in that within the supporting papers to the settlement the Minister did not rule out lowering this from the previously announced level of 2%. This will not be announced until January 2014.

2.39 For the purposes of this paper however the assumption has to remain that the referendum limit will be 2% and therefore the only realistic option for raising council tax is 1.95%. The reason that 2% is not selected is that there are various technical adjustments that are made that can cause a 2% rise to actually register as something slightly greater and therefore trigger a referendum.

2.40 A simple replication of the above table but assuming a 1.95% rise in council Tax in each year is as follows:

	2014/2015 £	**2015/2016 £**	**2016/2017 £**
Total Grant Yield	22,168,057	20,313,716	19,482,735
Budget Requirement	43,038,368	43,224,054	43,819,439
Balance to be met locally	20,870,311	22,910,338	24,336,704
Council Tax Yield *	20,513,262	21,123,723	21,750,232
Budget Shortfall	**357,049**	**1,786,615**	**2,586,472**
Band D Council Tax	**71.05**	**72.44**	**73.85**
Rise Per annum	**1.36**	**1.39**	**1.41**

2.41 This relatively small rise, costing less than 3p per week, can make a significant difference to the financial position of the service but it will still mean that some significant budget reductions and changes to service delivery will be required in 2015/2016.

2.42 There are obvious advantages to getting any council tax increase permanently into base budget and not relying on central government for continued funding of freeze grants. Government has recently attempted to avoid the “cliff edge” of withdrawing freeze grants but it always remains a possibility that this could be withdrawn.

Potential Effect on Balances

2.43 Both options for Council Tax increases will have some effect on balances and there remains an opportunity for balances to be used to mitigate the short term effects of budget shortfalls. The Authority currently enjoys a substantial level of balances generated in part by the early implementation of budget reductions by management.

2.44 The following table shows the effect on balances of each of the options

	Freeze Grant and 0%			1.95% no freeze grant		
	2014/ 2015	2015/ 2016	2016/ 2017	2014/ 2015	2015/ 2016	2016/ 2017
Total Funding	42,525	40,872	40,244	42,681	41,438	41,233
Budget Requirement	43,038	43,224	43,819	43,038	43,224	43,819
Surplus	0	0	0	0	0	0
Deficit	513	2,352	3,575	357	1,786	2,586
Opening Balance	7,764	7,186	4,769	7,764	7,342	5,491
Contributions from balances	513	2,352	3575	357	1,786	2,586
Ongoing contribution	65	65	65	65	65	65
Closing Balance	7,186	4,769	1.194	7,342	5,491	2,840

2.45 As reported previously to Members it is important to consider that balances can only ever provide a short term solution to budget problems as underlying shortfalls within the base budget will ultimately require permanent solutions. Unlike previous years there are no options which result in balances increasing. In fact both options would take balances below those required according to the risk assessment. The difference however is that the option of raising council tax would keep balance £1.6m higher than the freeze grant option.

2.46 The above table demonstrates that it is possible to deal with the budget shortfall in 2014/2015 by using balances to cushion the effect of future budget reductions. However the underlying problem with the base is beginning to escalate to levels which cannot be contained by balances and so action will be required.

Budget Options

2.47 The gravity of the decisions required to solve the emergent problems for 2015/2016 and 2016/2017 will be beyond the scope of this Committee with the limited intelligence that is available with regard to risk options and budget options. The decision required at this time is whether to opt to raise Council Tax by up to 1.95% or whether to take the grant that is on offer and not raise Council Tax in 2014/2015.

2.48 It is proposed therefore that Members should make a decision on a recommendation to make to the Fire Authority concerning the level of Council Tax for 2014/2015 but in the knowledge that the Chief Fire Officer and his team will need to bring back to the Authority, proposals to deal with the issues that will arise in 2015/2016 and beyond.

2.49 These proposals will need to form part of the thinking behind the current IRMP process in order to ensure that proper consultations take place with stakeholders.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are many human resources implications within the underlying savings relating to restructuring proposals.

5. EQUALITIES IMPLICATIONS

An Equality Impact Assessment (EIA) has not been undertaken because this report relates to a series of recommendations which will be consulted upon. It is anticipated that a full EIA will be carried out on the report that goes to the Fire Authority in February 2014.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

The Authority must set a balanced budget for 2014/2015 but may acknowledge potential budget shortfalls for future years.

8. RISK MANAGEMENT IMPLICATIONS

8.1 Risks associated with budget setting are always significant. Budgets are by their very nature estimates of future activity and these estimates can sometimes be incorrect. Changes involving contraction of activities may not be made on the envisaged timescales, public consultation may vary policy and external issues such as national pay awards may not align with the assumptions.

8.2 Council tax base figures used for this report are only estimates at present and the grant settlement details are only provisional. It is possible that both or either of these could change.

8.3 There can be no control over external issues however the Authority has sufficient reserves to cope with any in year changes which alter these budget assumptions significantly.

9. RECOMMENDATIONS

It is recommended that:

9.1 Members use the above paper as a basis for making recommendations to the Fire Authority in respect of:-

- Capital and Revenue budgets for 2014/2015;
- outline Capital and Revenue Budgets for 2015/2016 and 2016/2017;
- whether the Authority should accept the freeze grant being offered for 2014/2015;
- whether there should be an increase in Council Tax for 2014/2015 and the level of such increase.

9.2 Members request the Chief Fire Officer prepare a range of options which can be consulted upon to bring budgets into balance for 2015/2016 and 2016/2017. These options to be included within the budget report to the full Fire Authority in February.

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

None.

Frank Swann
CHIEF FIRE OFFICER

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance & Resources Committee

Treasury Management Mid-year Review 2013/14

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To provide Members with an update on treasury management activity during the first half of the 2013/14 financial year.

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1. BACKGROUND

1.1 Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Fire Authority on 9 April 2010. The Code was updated in 2011.

1.3 The primary requirements of the Code are as follows:

1. the creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities;

2. the creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives;

3. receipt by the Fire Authority of an annual Treasury Management Strategy Statement for the year ahead, a mid-year review report and an annual report covering activities during the previous year;

4. delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

5. delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Finance and Resources Committee.

1.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- an economic update for the first six months of 2013/14;
- a review of the Treasury Management Strategy Statement;
- a review of the Authority's investment portfolio for 2013/14;
- a review of the Authority's borrowing strategy for 2013/14;
- a review of compliance with Treasury and Prudential Limits for 2013/14.

1.5 The Authority has appointed Capita Asset Services (formerly Sector Treasury Services) as its external treasury management adviser.

2. REPORT

2.1 **Economic Update**

During the first half of 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There were signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

2.2 The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further.

2.3 The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the Monetary Policy Committee provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid-2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

2.4 Tensions in the Eurozone eased over the second quarter, but the possibility of future problems remains. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

2.5 **Review of the Treasury Management Strategy**

The Treasury Management Strategy approved by the Authority sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The risk appetite of this Authority is low in order to give priority to security of its investments. Accordingly the following types of low risk investments may be made:

- deposits with the Debt Management Agency (Government);
- term 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.

2.6 The Authority will aim to limit its investment with any single counterparty to £2m although the strategy noted that this was sometimes difficult to achieve. No term deposits will be made for more than one year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Blue one year (only applies to nationalised or semi nationalised UK banks);
- Orange one year;
- Red six months;
- Green three months.

2.7 The Authority will avoid locking into longer term deals whilst investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

2.8 In terms of cash resources, the strategy is to maintain a bank overdraft facility of £200,000, to continue to use cash flow forecasting to predict cash surpluses and shortfalls so that these can be managed and to invest small bank account balances in the Business Premium Account on a daily basis.

2.9 In the first half of the year, there were no instances of the bank account being overdrawn, however on the 2 October the account was overdrawn by £2.2m due to the bank transferring the account balance into the deposit account overnight before a loan had been repaid. This was discussed with the bank at the time and it was agreed that no interest would be charged on the overdrawn amount and in future the bank would check with the Finance Team daily to confirm the amount to be transferred to the deposit account. All other aspects of the treasury management strategy outlined for 2013/14 remained in place as at the midpoint of the year.

2.10 **Review of the Investment Portfolio**

During the first half of the year, a total of 14 investments were made (excluding the overnight sweep to the Business Premium Account). The maximum value placed in any single investment was £2m and the longest duration was 364 days. Two investments were placed with other local authorities and the remainder were placed with banks and building societies meeting the credit rating criteria shown above. An analysis of investments as at 30 September 2013 revealed that the Authority had £16m invested with nine different institutions at an average interest rate of 0.57%. All of the £16m was placed with UK institutions (as defined by the Bank of England Prudential Regulation Authority).

2.11 Investment income earned up to 30 September 2013 totalled £64k. This is set against a budget for the year of £125k so the budget is on target at this stage.

2.12 Review of the Borrowing Strategy

The strategy for 2013/14 is to use a combination of revenue reserves, capital grant and internal funds to finance the majority of capital expenditure. Also, in 2010/11 £3m was borrowed from the PWLB and only £984k of this was used to fund capital expenditure at the time, leaving £2,016k available to fund future capital programmes.

2.13 The strategy also states that between £3m and £7m would need to be borrowed in the current year to replace a maturing PWLB loan and potentially the external loan. As at 30 September 2013, no new borrowing has been taken because there was no requirement to replace the external loan, and a capital receipt in respect of the sale of Dunkirk fire station was received in time to partially finance the repayment of the maturing PWLB loan. The decision on whether or not to borrow this year will be kept under review in the light of the capital programme forecast expenditure for the year, and interest rate predictions.

2.14 No rescheduling of debt has taken place to date, as the interest rate climate has not resulted in an advantageous environment for rescheduling.

2.15 The strategy included a prediction on interest rates: the bank rate was forecast to remain at 0.5% throughout this year, and so far it has. The PWLB 10 year fixed loan rate was forecast to increase to 2.6% in September 2013 but, at the time of writing this report, stood at 3.92%. As stated in paragraph 2.13 above, any decision on borrowing will need to take account of interest rate predictions amongst other factors.

2.16 Review of compliance with treasury and prudential limits

The following indicators were approved by Members for the 2013/14 financial year. As at 30 September, the actual performance was as shown in the final column of the table below.

Treasury or Prudential Indicator or Limit	**Approved for 2013/14**	**Actual as at 30/09/13**
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.5%	Not available until year end
Estimate of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D)	-£1.31	Not available until year end
Estimate of Total Capital Expenditure to be Incurred	£5,762,000	£5,151,000
Estimate of Capital Financing Requirement	£26,032,000	Not exceeded
Operational Boundary	£27,233,000	Not exceeded
Authorised Limit	£29,956,000	Not exceeded
Upper limit for fixed rate interest exposures	100%	100%

Upper limit for variable rate interest exposures	30%	0%
Loan Maturity:	Limits:	
Under 12 months	Upper 20% Lower 0%	1%
12 months to 5 years	Upper 30% Lower 0%	28%
5 years to 10 years	Upper 75% Lower 0%	19%
10 years to 20 years	Upper 100% Lower 0%	13%
Over 20 years	Upper 100% Lower 20%	39%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000	Not applicable

2.17 The table above shows that no indicators were breached in the first half of the year.

2.18 Capita Asset Services has advised its local authority clients that a number of UK-based bank notice accounts are available for authorities to invest in, with potentially higher interest rates than money market deposits are earning. Only one of these accounts has a minimum investment level appropriate for this Authority (i.e. £2m) and this is the Santander 95 day Notice Account. This account pays interest at Bank Rate plus 0.1%, so currently 0.6%, which is higher than the average return on current investments of 0.57% (see paragraph 2.10 above) and it is therefore worth considering as an investment vehicle.

2.19 As outlined in paragraph 2.6 above, investments are 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 would be problematic with the Santander account, as 95 days' notice must be given for a withdrawal to be made from the account, otherwise there is an interest penalty. Members are requested to approve the use of the Santander 95 day Notice Account, with Officers having the discretion to deposit £2m in the account without adhering strictly to the credit-worthiness policy, on the understanding that market intelligence about the bank will be monitored and funds withdrawn immediately if there is any indication of a substantially increased risk to the security of the deposit.

2.20 The Treasury Management strategy for 2013/14 set out the proposal for a training seminar for members of the Finance and Resources Committee. During the year, efforts have focused on arranging risk management training, so it is proposed that Members consider participating in a treasury management training seminar immediately following either the April 2014 or the July 2014 committee meeting, subject to the availability of the Authority's external advisers to deliver the seminar.

2.21 The Authority's Treasury Management Practices, which set out the manner in which the Authority will seek to achieve treasury management policies and objectives, have recently been reviewed and updated. They are attached as Appendix A for information and the remaining appendices (B to F) relate to the Treasury Management Practices..

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. EQUALITY IMPACT ASSESSMENT

An Equality Impact Assessment has not been undertaken because this report details a review of activities rather than a new policy.

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, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using creditworthiness indices will minimise this risk. This prudent approach will undoubtedly result in some interest rate loss but the principles of security and liquidity are paramount.

9. RECOMMENDATIONS

It is recommended that:

9.1 Members note the contents of this report;

9.2 Members approve the use of the Santander 95 day Notice Account with modified application of the credit-worthiness policy as outlined in paragraph 2.19;

9.3 Members agree to the provision of a treasury management training seminar following either one of the next two committee meetings, subject to the availability of the Authority's external advisers to deliver the seminar.

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

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Appendix A

TREASURY MANAGEMENT PRACTICES

Version 2.0

Prepared by:	Peter Underdown, Financial Management Trainee
Signed by:	Sue Maycock, Principal Accountant
Date:	19 December 2013

HISTORY OF AMENDMENTS TO THIS DOCUMENT

AMENDMENTS BY TREASURY MANAGEMENT CONSULTANTS

Dec 2004: major re-write of this template to take account of changes required by the Prudential Code

17.2.05: TMP 9 - references to Proceeds of Crime Act 2003 corrected to 2002.

8.12.06: update TMP 1.7.1 for 2006 English legislation and CIPFA Treasury Management Codes in 2004 and 2006

1.2.10: major amendments to incorporate changes from the revised 2009 CIPFA Treasury Management Code of Practice and Cross Sectoral Guidance Notes, Guidance Notes and Prudential Code

24.9.10 A Scottish TMP template was prepared separately from the English and Welsh template due to differences between these countries in investment principles etc.

25.1.12. Minor updating including changes due to the revised 2011 CIPFA TM Code and CLG and WAG investment guidance now being in final rather than draft form.

DERIVATIVES: the revised 2011 CIPFA Code of Practice on Treasury Management included references to organisations using derivatives / hedging instruments. The Localism Act 2011 appears to give local authorities legal power to use such instruments. As these are complex instruments which require a high level of expertise to understand and use, this development will require careful and detailed consideration before practical implementation of their use. For this reason, no references have been included for derivatives in this version of the Sector template for TMPs.

AMENDMENTS BY NFRS

November 2013: Full update to tailor practices to those of NFRS and incorporate elements of practice as described in existing NFRS documents. Changes tracked.

November 2013: Changes accepted (changes are detailed via tracking in Treasury Management Practices Capita Template Jan 2012 UPDATED.doc).

November 2013: Minor grammatical and format changes.

Contents

TMP1 Risk Management

The Fire Authority Treasurer will be responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk, will report annually to the Fire Authority on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This organisation will use the Sector/Capita creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector "Sector Suggested Credit Policy 2012-13" for a full explanation.

1. NFRS will use credit criteria in order to select creditworthy counterparties for placing investments with.

2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors.

3. Treasury Management Consultants (Sector/Capita) will provide regular updates of changes to all ratings relevant to NFRS.

4. The treasury manager will maintain up-to-date records of the Sector creditworthiness colour ratings of relevant institutions, along with information on acceptable maturity periods, type, group, sector and country of each institution.

5. Credit ratings for individual counterparties can change at any time. For the purposes of the Authority, approved counterparties are those with Yellow, Purple, Blue, Orange, Red or Green ratings. Such approved counterparties may be used to make investments with maturity periods appropriate for their colour rating, not exceeding 364 days.

6. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Sector 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.

7. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

    - the quality financial press;
    - market data;
    - information on government support for banks, and;
    - the credit ratings of that government support.

8. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

    - Upper limit for principle sums invested for periods longer than 364 days: £2m.

9. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £2m.
- Group limits where a number of institutions are under one ownership – maximum of £2m.
- The provider of the Authority's current bank account is the only exception to these limits.
- It is noted that imposing 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 will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee.

10. Country limits – a minimum sovereign rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by Officers should ratings change in accordance with this policy. Investments will not be made with counterparties that do not have a credit rating in their own right, with the exception of U.K. Government/Local Government bodies which do not carry credit ratings of their own.

11. The definition of **'high credit quality'** in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.

12. Full individual listing of counterparties and counterparty limits, and country limits, are held by the treasury management team, and will be made available to members as required.

*** Sector note: please note that "high credit rating" has been changed to "high credit quality" in line with the wording in the CLG and WAG guidance 2010 as both the CIPFA TM Code and the guidance make clear that sole reliance must no longer be placed on credit ratings to determine high credit quality. "Minimal procedural formalities" has been deleted from paragraph 10 above as this phrase is no longer used in the 2010 version of the investment guidance.*

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Authority's main bank accounts at the close of each working day, with remaining balances placed in an overnight deposit account with the Authority's main banking provider. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities
At the end of each financial day any unexpected surplus funds are transferred to the investment account (Business Premium Account) which is available from the Authority's main bank, Barclays Bank PLC. This transfer is

to be authorised by a member of the finance team, to ensure that it does not exceed the balance in the main account, and to ensure that no payments are made from the main account after the transfer.

b. Bank overdraft arrangements
A £200,000 overdraft at 2% over base rate has been agreed as part of the banking services contract. 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 overdraft is assessed on a group basis for the Authority's accounts.

c. Short-term borrowing facilities
The Authority may access, with appropriate approval, temporary loans through approved brokers on the London money market.

d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Large payments notice required
Notice is to be given to the treasury manager for all payments equal to or exceeding £10,000.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Refer to the Annual Treasury Management Statement in Appendix A for details of approved interest rate exposure limits, trigger points and other guidelines for managing changes to interest rate levels, and upper limits for fixed and variable interest rate exposure.

1.3.2 Policies concerning the use of instruments for interest rate management.

a. forward dealing
Consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing is more than six months forward then the approval of the Director of Finance and Resources is required.

b. callable deposits
The Authority will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Director of Finance and Resources.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

If relevant situations arise, the Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels, and appropriate methods will be detailed in the Treasury Management Strategy Statement.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Authority will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio;
d) to transfer from maturity to annuity loans to maintain gross debt below the Capital Financing Requirement in the short to medium term.

Rescheduling will be reported to Members at the earliest meeting following its action.

1.5.2. Projected Capital Investment Requirements

The responsible officer will delegate the preparation of a three year plan for capital expenditure for the Authority. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Authority will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on the council tax precept. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Authority will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Authority shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Authority. These are:

English Authorities: -

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03

- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary   10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004   8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004   8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Revised Guidance on Investments CLG 1.4.2010
- Localism Act 2011
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Authority is likely to get into a financially unviable position.
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct

- The Authority's Scheme of Financial Management, encompassing:
    - Statement of Financial Principles, including the Authority's Delegation Profiles.
    - The Authority's Financial Procedures, including the Authority's Standing Orders relating to Contracts.
    - The Authority's Financial Regulations.

1.6.2. Procedures for Evidencing the Authority's Powers/Authorities to Counterparties

The Authority's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

Required Information on Counterparties
Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Authority's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the Authority's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Authority, the Chief Fire Officer and the Leader of the Authority to respond to and manage appropriately political risks such as change of majority group, change of leadership of the Authority or of Councils within the Authority's operational boundaries, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Clerk to the Fire Authority; the duty of this officer is to ensure that the treasury management activities of the Authority are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Director of Finance and Resources; the duty of this officer is to ensure that the financial affairs of the Authority are conducted in a prudent manner and to make a report to the Authority if they have concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Authority will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Not allow staff to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Maintain records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1 Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Authority's Financial Procedures.

Procedures

- Banking through Barclays is carried out via the Barclays Internet Banking (BIB) system, with authorisation by chip and pin for approved finance officers.
- A list of all current procedure notes relating to current treasury management practices is contained in Appendix B.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Agresso system.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Senior Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Senior Accountant for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The treasury management records include maturity dates which are monitored regularly.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution (see 1.5.1.6.) that the Authority invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Authority's bank holds a list of Authority officials who are authorised signatories for treasury management transactions.
- Initiation and authorisation of banking transactions are completed by separate officers, as required by the BIB system.
- The treasury management records cannot be accessed by colleagues outside of the finance team.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out weekly on a manual basis and monthly within the Agresso system.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the treasury management team.
- Periodic interest payments of PWLB and other long term loans are monitored by the treasury manager. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates are calculated monthly using information from the treasury management team.

1.7.2. Emergency and Contingency Planning Arrangements

Disaster Recovery Plan

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server daily to enable files to be accessed from remote sites.

In the event that Fire Authority HQ is unavailable, Finance staff are to relocate to another site and carry out transactions through the Authority's main banking provider either in person or by telephone. This will ensure a cash balance is maintained and payments can be made promptly to allow the Service's activities to continue.

1.7.3. Insurance Cover Details

Fidelity Insurance
The Authority has 'Fidelity' insurance cover with AIG Europe Ltd. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £2m for any one event with an excess of £5,000 for any one event

Professional Indemnity Insurance
The Authority has an Officials Indemnity Insurance policy, but this should not be relevant to the treasury management function, since there are no external customers.

Business Interruption
The Authority also has a 'Business Interruption' cover as part of its property insurance with Tokyo Marine Europe.

1.8 Market Risk Management
The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs, Etc.)
The Authority's list of specified investment types does not include any investments whose principle sum may fluctuate. Consequently the Authority has no exposure to such risks.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

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

- Deposits with the Debt Management Office
- Term 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

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Authority has a number of approaches to evaluating treasury management decisions: -

a. reviews with our treasury management consultants
b. annual review after the end of the year as reported to Full Fire Authority.
c. half yearly and quarterly monitoring reports to Finance and Resources Committee / Full Fire Authority
d. comparative reviews
e. strategic, scrutiny and efficiency value for money reviews

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every year to review the performance of the investment and debt portfolios.

2.1.2 Annual Review after the end of the financial year

An Annual Treasury Report is submitted to the Authority each year after the close of the financial year which reviews the performance of the investing and borrowing portfolios. This report contains the following: -

a. total debt and investments at the beginning and close of the financial year and average interest rates
b. borrowing strategy for the year compared to actual strategy
c. investment strategy for the year compared to actual strategy
d. explanations for variance between original strategies and actual
e. debt rescheduling done in the year
f. actual borrowing and investment rates available through the year
g. comparison of return on investments to the investment benchmark
h. compliance with Prudential and Treasury Indicators
i. other

2.1.3 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- Capita Benchmarking Club

2.2 Policy Concerning Methods for Testing Value for money in Treasury Management

2.2.1 Banking services

The Authority's banking arrangements are to be considered for competitive tender every 3 years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.2.2 Money-broking services

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and quality of services.

2.2.3 Consultants'/advisers' services

This Authority's policy is not to appoint full-time professional treasury management consultants.

2.2.4 Policy on External Managers (Other than relating to Superannuation Funds)

The Authority's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury section has access to a computerised accounting system (Agresso) in which basic information on all investment and loan transactions are recorded, in addition to manual spread sheet-based records containing full details. The following records will be retained: -

- Daily cash balance forecasts
- PWLB rates supplied daily by Sector (records of other rates are not kept, but acquired when needed)
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Authority will:

a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.

b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained. 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.

c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping

d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.

e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Authority will:

a) Consider the on-going revenue liabilities created, and the implications for the organisation's future plans and budgets.
b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

3.1.3.3 In respect of investment decisions, the Authority will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy. The latest version of the AIS/TMSS is contained in Appendix A.

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act (2003), and within this limit the Authority has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Any intended changes to products or instruments to be used will require amending the TMP first and acquiring approval for that change.

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Fire Authority

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual strategy.

(ii) Finance & Resources Committee

- Approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Principal Accountant

- Reviewing the treasury management policy and procedures and making recommendations to the Finance & Resources Committee.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing & Accounting Entry	Negotiation and approval of deal. Receipt and checking of broker's confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation Production of transfer note. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

5.3 Treasury Management Organisation Chart

Chief Financial
Officer: Director of
Finance and
Resources
I
Head of Finance:
Principal
Accountant
I
Treasury Manager:
Senior Accountant
I
Treasury
Management
Officer: Senior
Accountancy
Assistant

5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Authority is the Fire Authority Treasurer (S151 Officer). This person will carry out the following duties: -

a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
b) Submitting regular treasury management policy reports.
c) Submitting budgets and budget variations.
d) Receiving and reviewing management information reports.
e) Reviewing the performance of the treasury management function.
f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
g) Ensuring the adequacy of internal audit, and liaising with external audit.
h) Recommending the appointment of external service providers.

i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Officer Treasury Management Team or the Accountancy Assistants Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment

transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations

m) It is also the responsibility of the responsible officer to ensure that the Authority complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.1. Treasury Manager: Senior Accountant

The responsibilities of this post will be: -

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) supervising treasury management staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending opportunities for improved practices

5.4.2. The Head of the Paid Service – the Chief Fire Officer

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports regularly to the full Fire Authority on treasury policy, activity and performance.

5.4.3. The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.4. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Authorisation of borrowing and lending transactions

Authorisation is required for new borrowing and lending transactions carried out by the treasury management team.

a. Borrowing: authorised by the Director of Finance and Resources.
b. Lending: authorised by the Principal Accountant.

5.6 Absence Cover Arrangements

In the event of the absence of:	**Cover arrangements:**
Senior Accountancy Assistant	The Senior Accountant to cover, and the Principal Accountant to cover the Senior Accountant.

Senior Accountant	The Principal Accountant to cover.
Both the Senior Accountant and the Senior Accountancy Assistant	The Principal Accountant to cover the Senior Accountancy Assistant, and the Director of Finance and Resources to cover the Senior Accountant.

5.7 Dealing Limits

There are no dealing limits for individual posts.

5.8 List of Approved Brokers

See TMP 11.1.2.

5.9 Policy on Recording of Conversations

It is this Authority's policy to rotate business between brokers.

5.10 Policy on Recording of Conversations

It is not this Authority's policy to record brokers' conversations

5.11 Direct Dealing Practices

The Authority will consider dealing direct with counterparties if it is appropriate and the Authority believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. Review of the organisation's approved clauses, treasury management policy statement and practices.
   b. Strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

b) Mid-year review of the TMSS and treasury management activities, and quarterly reviews of compliance with treasury performance indicators.

c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the full Fire Authority for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Authority may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers
   k) any extraordinary treasury issue
   l) the MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement, included within the TMSS

At the same time as the Authority receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Authority's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality *(this has been changed from high credit rating – per CLG guidance, as sole reliance is no longer to be placed on using credit ratings)* to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments the Authority will use
d) Whether they will be used by the in house team, external managers or both (if applicable)
e) The Authority's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
f) Which credit rating agencies the Authority will use
g) How the Authority will deal with changes in ratings, rating watches and rating outlooks
h) Limits for individual counterparties and group limits
i) Country limits
j) Levels of cash balances
k) Interest rate outlook
l) Budget for investment earnings
m) Use of a cash fund manager (if applicable)
n) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement, included within the TMSS

This statement will set out how the Authority will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators, included within the Prudential Code Report and the TMSS

1. The Authority approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Fire Authority.

6.6 Mid-year review

The Authority will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report

d) regular monitoring
e) monitoring of treasury management indicators for local authorities.

6.7 Quarterly review

The Authority will review its compliance with treasury performance indicators on a quarterly basis, and report this to the Finance and Resources Committee.

6.8 Annual Review Report on Treasury Management Strategy

An annual report will be presented to the full Fire Authority at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

a) transactions executed and their revenue (current) effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations
f) monitoring of treasury management indicators

6.9 Publication of Treasury Management Reports

All reports to the Fire Authority or sub-committees of the Fire Authority are made available for public inspection.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Authority has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Authority's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Director of Finance and Resources will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income.

The Principal Accountant will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- **Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type**
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the Agresso financial system
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Corporate Management Board, whilst a quarterly budget monitoring report goes to the Finance and Resources Committee. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position. Details of treasury management activities are included within this report, if applicable.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Authority can access daily bank statements via the BIB online system. All amounts on the statement are checked to source data from Payroll, Creditors etc.

Manual bank reconciliation is undertaken on a weekly basis by the Treasury Management Officer, and a system-based bank reconciliation is carried out monthly

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

Details of invoices over £10k are passed to the treasury management team to inform cash flow forecasts. Advanced notice of expenditure over £10k is also provided where possible when orders are placed. Details are passed to the treasury team on a daily basis to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Authority will without unreasonable delay be passed to the Senior Finance Assistant to deposit in the Authority's banking accounts. The Senior Finance Assistant will notify the Treasury Management Officer of any significant sums banked so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Authority has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Authority will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is Director of Finance and Resources.

f) in order to ensure compliance is appropriately managed, this Authority will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Director of Finance and Resources and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Authority does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fsa.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Authority will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk).

All transactions will be carried out by BACS for making deposits or repaying loans.

TMP 10 Training and Qualifications

The Authority recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Authority
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Authority operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Treasury Manager (Senior Accountant) to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff that from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Treasury Manager (Senior Accountant) will maintain records on all staff and the training they receive.

10.3 Approved Qualifications for Treasury Staff

It is desirable for treasury management staff to hold the Association of Accounting Technicians professional qualification as a minimum standard.

10.4 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Authority will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is Barclays Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
c) The branch address is:
Barclays
2 High St
Nottingham
NG1 2EN
Tel: - 08457 555 555
d) Services are provided on a rolling contract.
e) Cost of service is variable depending on schedule of tariffs and volumes
f) Payments due quarterly.

11.1.2 Consultants'/Advisers' Services

Treasury Consultancy Services

The Authority will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.
The performance of consultants will be continually reviewed by the treasury management team.

a) Name of supplier of service is Sector Treasury Services Limited. Their address is 40 Dukes Place, London, EC3A 7NH. Tel: 0871 664 6800.
b) Regulatory status: investment adviser authorised by the FSA.

c) Contract commenced 01/11/11 and runs for 3 years.

Leasing Consultancy Services

Services commenced on 13/05/13, and are provided as an addendum to the Treasury Consultancy Services contract.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.3 Credit Rating Agency

The Authority receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2.

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Authority is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

   Treasury Management Policy Statement
   Treasury Management Strategy Statement
   Annual Investment Strategy
   Minimum Revenue provision policy statement
   Annual Treasury Review Report
   Treasury Management monitoring reports (e.g. half yearly, quarterly)

   Annual accounts and financial instruments disclosure notes
   Annual budget
   3 Year Capital Plan

   Minutes of full Fire Authority and sub-committee meetings

Appendix B

List of treasury management procedures and records as at 17 December 2013

Procedures

1. T:\Finance\Financial Procedures\Cash Flow

Records

1. Main Cashflow Spreadsheet: T:\Finance\TREASURY MANAGEMENT\Cashf14. Contains:
   a. Monthly cash flow forecasts projecting four years into the future.
   b. Daily cash flow forecasts for the current financial year.
   c. Record of issued and presented cheques.
   d. Record of historical and outstanding loans.
   e. Projections of precept payments for the current financial year.
   f. Projections of large payments, based on advice received from other departments.
2. Details of outstanding invoices over £10k: T:\Finance\TREASURY MANAGEMENT\OVER10K 2005 onwards.
3. Details of loans held with the PWLB: T:\Finance\TREASURY MANAGEMENT\PWLB.
4. Sector credit rating list with colour and term ratings (regularly updated): T:\Finance\TREASURY MANAGEMENT\Copy of credit rating list – base list (excel) 061213.
5. Standard settlement instructions: T:\Finance\TREASURY MANAGEMENT\STANDARD SETTLEMENT INSTRUCTIONS
6. Borrowing authorisation document: T:\Finance\TREASURY MANAGEMENT\Borrowing Authorisation blank
7. Revenue Support Grant and NNDR Schedule of Payments

Appendix C

Annual Treasury Management Strategy Statement 2013/14

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT STRATEGY 2013/14

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 22 February 2013

Purpose of Report:
To inform Members of the Authority's Treasury Management Strategy for 2013/14.
To seek approval of the Authority's Minimum Revenue Provision policy for 2013/14.

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1. BACKGROUND

1.1 The Local Government Act 2003 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 borrowing, for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 Treasury management is defined as "the management of investments and cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The Authority adopted the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2009 (the Code) on 9 April 2010 (the Code was updated in 2011). It is a requirement of the Code that the Authority creates and maintains:

A treasury management policy statement, which states the policies, objectives and approach to risk management of its treasury management activities. This statement is given in Appendix A.
Suitable treasury management practices, setting out how the Authority will seek to achieve those policies and objectives and how activities will be controlled and managed.

1.4 A report on the Prudential Code for Capital Accounting is also on this agenda. This report sets out the prudential indicators for 2013/14, which are designed to ensure that the Authority's capital investment plans are affordable, prudent and sustainable and are in accordance with CIPFA's Prudential Code. This Treasury Management Strategy report is complementary to that Prudential Code report and the proposed prudential and treasury limits for 2013/14 are included in both reports for completeness.

1.5 This report also sets out the Authority's Minimum Revenue Provision policy for 2013/14 for approval by Members in paragraph 2.40.

1.6 The Authority has appointed Sector Treasury Services as its external treasury management adviser. Sector has provided the Authority with its view on anticipated interest rates for the forthcoming year.

2. REPORT

TREASURY MANAGEMENT STRATEGY FOR 2012/13

2.1 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.

2.2 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.

2.3 The suggested strategy for 2013/14 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, Sector Treasury Services.

2.4 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

2.5 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

2.6 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

2.7 The Eurozone debt crisis has continued to affect the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930.

2.8 The Eurozone sovereign debt crisis has abated somewhat following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout. Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and there is no guarantee that the situation will not worsen in the future.

2.9 The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact.

2.10 This economic outlook has some key treasury management implications:

- Given the weak outlook for economic growth, the prospects for any changes in Bank Rate before 2015 seem limited.
- 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 in other major western countries.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.

2.11 Sector Treasury Services has provided a forecast on the bank interest rate, which draws on current City forecasts:

Sector Bank Rate Forecasts	
As at 31 March 2013	0.50%
As at 31 March 2014	0.50%
As at 30 September 2014	0.50%
As at 31 March 2015	0.75%

MANAGEMENT OF CASH RESOURCES

2.12 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.

2.13 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.

2.14 A 3 year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3 month forecast is updated regularly and this process reveals when cash surpluses are likely to arise.

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

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

BORROWING STRATEGY

2.17 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 2013/14 report which is elsewhere on this agenda.

2.18 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 2013/14 this figure is estimated at £26,032,000, 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.

2.19 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.

2.20 The loan of £4m referred to in paragraph 2.19 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.

2.21 Sector's view on future PWLB interest rates is:

	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Mar 15	Mar 16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.75%
5 yr PWLB	1.50%	1.50%	1.60%	1.60%	1.70%	2.20%	2.90%
10 yr PWLB	2.50%	2.50%	2.60%	2.60%	2.70%	3.20%	3.90%
25 yr PWLB	3.80%	3.80%	3.80%	3.80%	3.90%	4.30%	5.00%
50 yr PWLB	4.00%	4.00%	4.00%	4.00%	4.10%	4.50%	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.

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

A combination of revenue reserves, capital grant and internal funds will be used to finance the majority of capital expenditure in 2013/14 and 2014/15.
Two PWLB loans mature in the short term (September 2013 and September 2014). The first loan will be repaid with a combination of a capital receipt from the expected sale of Dunkirk fire station and cash released from the annual minimum revenue provision charge. The second loan will need to be replaced with new borrowing. The LOBO loan referred to in paragraph 2.20 may be replaced with new borrowing if the lender exercises the option to revise the interest rate and new borrowing can be taken at a lower rate than that offered.
The two maturing PWLB loans have a total value of £5m (which is £9m including the LOBO loan) and it is estimated that new borrowing in the period 2013/14 to 2014/15 will be in the region of £3m (or £7m if the LOBO loan is replaced).
Sector's view is that PWLB rates will remain fairly constant throughout 2013/14 with a small rise in the final quarter, but are likely to rise in 2014/15 and again in 2015/16. It may therefore be advantageous to take out new loans next year before rates increase, 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 2.25 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.
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.
Consideration will also be given to taking annuity loans rather than maturity loans for new borrowing as this will ensure that over the medium term debt will reduce alongside Capital Financing Requirement (CFR) projections. This will help the Authority to meet the new Prudential indicator which states that gross debt should not exceed the CFR other than in the short term.

2.23 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.

2.24 The Authority's gross debt position is projected to be £25.5m by the end of 2012/13, but investments of approximately £10m are expected to be in place at 31 March 2013, giving a net debt position of around £16m. Some of these investments will be used over the year to finance capital expenditure from revenue reserves, which will narrow the gap between gross and net debt. Currently, investment interest rates are substantially lower than debt interest rates so using reserves rather than borrowing to finance capital expenditure will give better value for money in the short term. It must be pointed out though, that 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.

2.25 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.

2.26 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 2013/14 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
- switching from maturity to annuity loans to maintain gross debt below the Capital Financing Requirement in the short / medium term

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

INVESTMENT STRATEGY

2.27 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.

2.28 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 Sector Treasury 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 Sector'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

2.29 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. 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.

2.30 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector'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.

2.31 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.

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

2.33 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
- Term Deposits with uncapped English and Welsh local authority bodies
- Triple-A rated Money Market Funds
- UK Treasury Bills

2.34 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.

2.35 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.

2.36 All credit ratings will be monitored via a weekly update from Sector. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Sector 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.

2.37 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 2013/14

2.38 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 new 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.

2.39 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.

2.40 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 2013/14 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 2013/14 will be calculated on the basis of the Asset Life method.

TRAINING OF OFFICERS AND MEMBERS

2.41 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 it is therefore proposed that the Authority arrange a treasury management training seminar during 2013/14 for Members of the Finance and Resources Committee.

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. EQUALITY IMPACT ASSESSMENT

There are no equalities issues arising directly from this report.

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, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using creditworthiness indices will minimise this risk. This prudent approach will undoubtedly result in some interest rate loss but the principles of security and liquidity are paramount.

9. RECOMMENDATIONS

It is recommended that:

9.1 Members note the Treasury Management Strategy 2013/14 as set out in this report.

9.2 Members approve the Minimum Revenue Provision policy 2013/14.

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

None.

PETER HURFORD
TREASURER TO THE FIRE AUTHORITY

Appendix D

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

PRUDENTIAL AND TREASURY INDICATORS FOR 2013/14

Estimate of Ratio of Financing Costs to Net Revenue Stream	5.5%
Estimate of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D)	-£1.31
Estimate of Total Capital Expenditure to be Incurred	£5,762,000
Estimate of Capital Financing Requirement	£26,032,000
Operational Boundary	£27,233,000
Authorised Limit	£29,956,000
Upper limit for fixed rate interest exposures	100%
Upper limit for variable rate interest exposures	30%
Loan Maturity:	Limits:
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 30% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 0%
Over 20 years	Upper 100% Lower 30%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000

APPROVED COUNTRIES FOR INVESTMENTS – FITCH RATINGS

AAA	AA+	AA
Australia	Hong Kong	Abu Dhabi (UAE)
Canada		Belgium
Denmark		
Finland		
France		
Germany		
Luxembourg		
Netherlands		
Norway		
Singapore		
Sweden		
Switzerland		
U.K.		
U.S.A.		

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

APPROVAL OF TEMPORARY VIREMENT

Report of the Chief Fire Officer

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To seek the approval of Members to the virement of budget to enable some elements of backlog maintenance to be recovered.

CONTACT OFFICER

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1. BACKGROUND

1.1 Members will be aware that the Director of Finance and Resources has delegated powers under financial regulations to authorise all virements within virement groups but only limited authority to authorise virements between virement groups of up to £25,000. A virement group is a convenient way of grouping budgets together such that all employee costs are within the employees virement group and all elements of premises costs are within the premises virement group and so forth.

1.2 What is being proposed in this report is that a virement of £420k is made between the employees virement group and the premises virement group for which the approval of the Finance and Resources Committee is required.

2. REPORT

2.1 The budget for reactive maintenance (this includes minor new works) is currently predicting an over spend; this is detailed in the Revenue Monitoring report. As a result of this only repairs classified as emergency, urgent and essential are being carried out. All other repair categories, minor new works or replacements are being added to the backlog maintenance schedule.

2.2 It is clear that significant improvements have been made in the condition of the estate since the introduction of the Multi Activity Contract (MAC) and the improved planned maintenance procedures; however there is still an on-going issue with backlog maintenance. This backlog is being steadily increasing due partly to the age of some of our building stock and the challenging budget available for repair, replacement and planned maintenance.

2.3 This raises the issue of backlog maintenance itself and to what extent the Authority should seek to reduce this when other areas of the budget are under spending. The fundamental point about backlog maintenance of course is that it will always require to be carried out and the longer it is left the more expensive it may become. It would seem to be appropriate to address this issue now when some funds are available rather than wait until next year when they will be more stretched.

2.4 Underspends at the year-end naturally roll up into general balances and there are always discussions about the level of balances to be held and how to remove any surplus balances. Best practice would not support any use of balances to simply defray revenue expenditure in a permanent way, such as employing staff or supporting anything with a long term commitment. This is not true however of the use of balances or under spendings to carry out "one off" initiatives designed to generate revenue savings in the future.

2.5 It is proposed therefore to make a virement from the employees budget which is currently showing an underspend of the order of £480k to the building maintenance budget to enable the backlog works to be carried out.

2.6 Where appropriate elements of the backlog works will be carried out through the MAC, in particular the smaller mechanical and electrical works where the incumbent contractor has the capacity to complete the works within the tight deadline before year-end. It is estimated that circa £115k worth of the backlog works could be carried out and paid in the current financial year through the MAC.

2.7 The remainder of the backlog works would be subject to competitive tendering as this will include some larger and time dependent works. The process required for the tendering, tender assessment, award of contract and the execution of the physical work would most likely take us to the end of the current financial year. The balance of £305k would need to be rolled over as an earmarked reserve to the next financial year to allow sufficient time to complete and pay for these works.

3. FINANCIAL IMPLICATIONS

The financial implications are set out 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. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising directly from this report.

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

The risk management implications are set out within the body of the report.

9. RECOMMENDATIONS

It is recommended that Members approve the virement of £420k from the employees virement group to the premise virement group to enable the above works to be carried out partly in the current financial year and early into the next financial year.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED

DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

CAPITAL BUDGET MONITORING REPORT TO 30 NOVEMBER 2013

Report of the Chief Fire Officer

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To report to Members on Capital Programme progress in the year 2013/14 to the end of November 2013. This report analyses significant variances against the original programme.

CONTACT OFFICER	
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1. BACKGROUND

Budget monitoring is a key aspect of financial management for the Fire & Rescue Authority. Regular reporting of spending against both the revenue and capital budgets is a check that spending is within available resources and, if necessary, allows for financial resources to be re-assigned to meet changing priorities. The capital monitoring statement is shown as Appendix A to this report.

2. REPORT

SUMMARY

2.1 The capital budget monitoring statement is showing an underspend to date of £6,406k, against the budget for the year of £8,339k. The budget for the year includes slippage of £3,142k brought forward from 2012/13, which was approved by Members of the Fire Authority on 28 June 2013. Overall, capital expenditure is likely to reach £5,151k by the end of the year but the outturn will be continually reviewed and reported throughout the year.

2.2 The Authority has received a capital grant of £1,088k this year; this will be used to finance an element of the capital programme. In addition, revenue contributions to finance capital have been budgeted for, amounting to £2,000k. This will keep the need to borrow to finance the programmeto a minimum, thereby reducing revenue costs in future years. The Authority has received a capital receipt of £2,000k from Nottingham City Council and this represents the Authority’s share of the proceeds of selling Dunkirk Fire Station. The capital receipt has been used to repay a loan which matured in September.

2.3 If the forecast capital expenditure of £5,151k is not achieved this year, it is likely that the Revenue Contributions to Capital Outlay (RCCO) of £2.0m budgeted for will not be required in 2013/14.The Authority therefore has three options to deal with it:

i) allow the underspend to accumulate and add this to general reserves;
ii) deal with any underspend by creating a Capital Reserve;
iii) make a voluntary payment of Minimum Revenue Provision (MRP).

General Reserves are already higher than the risk assessment would suggest is necessary, and Government is becoming increasingly critical of Authorities holding large reserves. Whilst the Authority need to hold a reasonable amount of reserves it is inevitable in a medium term financial plan to reduce costs that reserves will continue to rise as budget reductions are fed through into the system. Creating a capital reserve is possible but in accounting terms this is a bit untidy as it would necessitate an initial transfer to general reserve and a subsequent transfer to the capital reserve. Importantly however, neither of these options does anything to assist with revenue budget problems going forward. A voluntary contribution to MRP on the other hand has a number of advantages:

i) there is a small relationship between MRP and revenue budgets going forward;
ii) MRP is a cumulative reserve and so at any time it is possible to "have a holiday" providing that cumulatively there is still enough MRP provided;
iii) the level of useable reserves does not rise.

On this basis it is suggested that a contribution of up to £1m is made to MRP from a combination of general underspends and unused RCCO and Members are asked to approve this proposal.

SIGNIFICANT VARIANCES

TRANSPORT:

2.4. After evaluating chassis manufacturer options for new Rescue Pumps and obtaining quotations, orders were placed to secure four Euro 5 engine chassis before the need to go to Euro 6 and incur the additional costs that Euro 6 engine vehicles will bring. Work to review the equipment inventory and refreshing the Rescue Pump Technical Specification Requirement was undertaken as planned and the Welsh Pumping Appliance Framework has been utilised to procure the new appliances required. A decision to use the Welsh framework over The Consortium – Fire&Rescue framework was made to save on the management fee applied to that framework. Officers are currently involved with a Derbyshire FRS project to put in place framework agreements without management fees. As a result, work to put in place another multi-year contract for Rescue Pump appliances due for replacement in financial year 2015/16 and onwards has been delayed to take advantage of the cost saving benefits.

2.5. The new Aerial Ladder Platform has been built and is scheduled to undergo dynamic testing just before Christmas subject to weather conditions. Final delivery of the vehicle to the Service should now be in early January with crew training to commence thereafter.

2.6 The recent reduction in the number of front line pumping appliances has necessitated the adjustment of the replacement programme. All vehicle replacement programmes have been reviewed again and where feasible vehicle life increased to reduce the frequency of capital expenditure.

2.7 The Special Appliances budget for 2013/14 is £2,038k; in addition £180k was slipped from 2012/13. The Water/Foam Unit appliance build has been completed and the vehicle is due to undergo dynamic testing sometime in January with final delivery to the Service expected to be early February.

2.8 On completion and evaluation of a mini-tender exercise the contract award has been made for the bodywork element of a new Flood Response Unit with vehicle completion estimated to be May 2014.

2.9 Work to draw up specifications for a new Incident Command Unit appliance along with that for a replacement Breathing Apparatus Unit and Hazardous Materials & Environmental Protection Unit has now commenced as planned. The latter two appliances will re-use other existing vehicle chassis to reduce expenditure on replacing those Special appliances.

2.10 Light vehicle replacement for 2013/14 has been examined carefully and reduced where possible on the basis of increased vehicle life assumptions. As yet the re-structure has not thrown up any surplus vehicles to enable fleet reduction. Although some previously planned procurement of new light vehicles has taken place further work is to be carried out to identify if the light vehicle fleet can be reduced to make cost savings.

PROPERTY:

2.11 The Property programme for the year is currently showing an underspend to date of £3,891k. The main reason for the underspend is the measured slowdown of the capital programme following the final outcomes of the Fire Cover Review (FCR). Capital planning has now started for future projects across the Service's property portfolio and this process will address the programme schedule through feasibility studies of individual fire stations. The planning and implementation of the two new fire station projects (Retford and Central) will see the capital expenditure increase to the levels in the capital budget as these two projects reach their construction phases (see below).

The New Retford Fire Station Project. The temporary fire station sitebecame operational when the station staff moved into this accommodationon 17 September 2013. The works contractor completed the removal of asbestos and other internal elements of the building at the end of November and started the main demolition of the old fire station at the beginning of December. The demolition phase of the project will be completed before Christmas and work on the construction of the new station will start in the first week of the new year. Final completion of the new Retford Fire Station is anticipated by September 2014.The estimated project expenditure in financial year 2013/14 is anticipated to be £778k and a further £1.72m in 2014/15. The slippage for 2013/2014 of £648k will be slipped into 2014/2015.The balance of the project expenditure in the form of retentions will become due 2015/16. The total project budget is still estimated to be in the region of £2.64m as stated in the last capital monitoring report.

2.12 The new Central Fire Station Project. Negotiations for the acquisition of land on London Road for the planned relocation of Central Fire Station are largely complete as this is linked into the sale of Central Fire Station.The Heads of Terms, including the firm asking price for the land sale/purchase, are still to be agreed by the City Council (the vendors). The land purchase is anticipated to be complete in the new financial year at a price of £600k compared with the initial estimate of £500k previously reported. The immediate problem is that delays in the issue of Heads of Terms by the vendor will inevitably knock on to the build schedule of the new station and therefore the date by which Central station can be vacated. The slippage of £2.05m for 2013/2014 will again be slipped into 2014/2015. The budget estimate for the project (excluding the land purchase) is yet to be confirmed as this will be reliant on the final operational requirements of the new station and the requirements of the City Council's Emergency Planning Team. The plan is for the City Council's Emergency Planning Team to co-locate with Nottinghamshire Fire & Rescue Service (NFRS) at the proposed new fire station and the financial arrangements related to this sharing of accommodation are yet to be agreed.

2.13 Edwinstowe Fire Station Conversion Project. The conversion works are now complete and the station is operating as a whole-time fire station. The overall project cost is expected to be within the£790k stated in previouscapital finance reports.

2.14 Sustainable energy project. This project was largely completed in 2011/12.The final project costs are within the project budget andthe retentions and outstanding fees are circa £15k to £25k,due in 2013/14.

INFORMATION & COMMUNICATIONS TECHNOLOGY:

2.15 The Information and Communications Technology budget is under spending by £783k to date against the annual budget of £1,110k. Some projects were delayed in 2012/13 and have been slipped into 2013/14 – these include the projects for Business Process Automation and the Human Resources replacement system. The project to upgrade to Microsoft Office 2010 was completed in 2011/12, but £93k was brought forward from last year's programme to pay for licences which started in 2013/14.

2.16 Following an assessment of the impact of both the Tri-Service Control project and the organisational re-structure a detailed specification is being prepared for the Business Process Automation project. This project is now expected to commence late in 2013/14 and the balance of this project will be slipped into 2014-2015. The estimated slippage required is £295k.

2.17 Phase one of the HR system project and phase two (Procurement) have been completed. The Tender has been awarded and Phase 3 (implementation) has now commenced, with completion expected early in 2014/15.

2.18 The Microsoft Infrastructure Upgrade project is currently being implemented and includes the upgrade of the NFRS Wide Area Network and the roll-out of Windows 7 laptops. It is anticipated that both projects will be completed by the end of 2013/14.

2.19 Earlier phases of the Mobile Computing project have been completed and appropriate hardware trials are currently in progress. Once the trials are completed a decision will be taken about rolling the project out.

2.20 The CFRMIS budget of £47k is for the Operational Intelligence project which involves the electronic collection of operational data and transfer into the CFRMIS system. It is proposed that the funds are rolled forward into the 2014/15 budget because it has been necessary to extend the pilot before a decision to implement this method of information capture is made. The reason for the extension of the pilot is because the Tri-Service Control project may or may not include a data capture solution and this decision is expected early this year. There has also been a change of project staff following the service-wide restructure and it was important for new staff to gain an understanding of the current position before progressing to completion. This assessment has now been made and improvements to project management are in hand. A new cost-free software upgrade is also under review and this has influenced the decision to extend the pilot.

2.21 The ICT capital programme is forecast to underspend by £320k in the current year and the Head of ICT has indicated that one project which is in the ICT capital programme for 2014/15 could be accelerated and completed this year. This is the purchase of a Microsoft Volume Enterprise License Agreement covering all Microsoft software applications and server licensing for a 3 year period at an estimated cost of £200k. Members are asked to approve the acceleration of this project to the current year.

3. FINANCIAL IMPLICATIONS

The forecasted level of capital expenditure for this year is set out within the body of the report. Decisions on the financing of capital expenditure will be taken towards the end of the year, and will be in the context of actual levels of capital expenditure and the overall financial position of the Authority.

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 Equality Impact Assessment has not been undertaken because this report is not associated with a policy, function or service. Its purpose is to explain variances to the approved budget, which reflects existing policies.

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

FINANCIAL RISK

8.1 Budget monitoring and the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. The process of budget monitoring is a key risk management control measure as are the management actions which are stimulated by such reporting.

Specific risks inherent within this report are:

- overspending on any given project;
- overspending against the whole capital programme;
- significant underspends.

8.2 The property programme is where the highest risk of overspends against individual projects will lie, due to unforeseen problems encountered when building works start. To counteract this it is possible to slip other projects forward to ensure that the programme in any one year is affordable.

8.3 The ICT budget only presents a high risk of overspending where there are major projects in progress e.g. the replacement HR System. It is essential therefore to engage high quality project managers to mitigate this risk. There is also a concern that the ICT Department may not have the capacity to deliver against the £1,110k programme due to the high level of commitment required for the Tri-Service Control project. The business plans of the ICT Department reflect the level of project work taking place and are monitored regularly. If it becomes clear that projects will have to be delayed due to capacity problems, this will be reported and managed.

8.4 Close liaison between finance staff and budget holders will seek to monitor, evaluate and report on the financial risk of overspends and underspends.

CORPORATE RISK

8.5 The risk of not completing a given Capital Project either on time, or at all, and the impact that may have on the organisation and its corporate objectives.

8.6 An examination of the Capital Programme shows that there are a number of projects which are key to the achievement of corporate objectives. That is not to imply that other projects are not important in supporting those objectives.

8.7 These key projects are:

- Retford Fire Station refurbishment;
- relocation of Central Fire Station;
- replacement Aerial Ladder Appliance;
- replacement IT equipment;
- HR System replacement

8.8 Although the project to replace Central Fire Station is in its early stages, with land being sought, there is no corporate risk at present due to the overall underspending on the Capital Programme and the potential to slip budget for the project into 2014/2015.

8.9 The replacement of the Aerial Ladder Platform appliance is slightly delayed, but not posing a corporate risk at present.

8.10 Replacement of IT equipment carries a low risk as there is little work involved in this beyond the preparation and installation of replacement equipment. There is therefore little or no technical risk as all hardware is for known and tested applications.

8.11 The replacement HR system is not due to be fully installed and in use for several months and the organisation is able to continue to use the existing HR system to meet its key objectives in the meantime, although a new system will undoubtedly result in significant improvement to processes and management reporting.

8.12 The Tri-Service Control project is not covered within the capital programme, as the purchase of the system is being managed by Derbyshire Fire and Rescue Service on behalf of the three Services. For information, it is confirmed that the project is on track with the contract awarded and the implementation phase started. The Authority has received a capital grant of £1,800k to fund its share of the total project.

9. RECOMMENDATIONS

It is recommended that:

9.1 Members are requested to approve a voluntary Minimum Revenue Provision contribution of <u>up to</u> £1m from a combination of general underspends and unused RCCO, as outlined in paragraph 2.3;

9.2 the capital programme is forecasted to underspend in 2013/2014 by almost £2.8m in total. Members are requested to approve the acceleration of the purchase of a Microsoft Volume Enterprise License Agreement covering all Microsoft software applications and server licensing for a 3 year period at an estimated cost of £200k. This will be financed from the existing budgeted capital financing charges;

9.3 Members note the content of this report.

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

None.

Frank Swann
CHIEF FIRE OFFICER

Capital Budget Monitoring Report as at 30 November 2013 — Appendix A

	2013/14 Approved Budget	2012/13 Slippage	2013/14 Revised Budget	Actual to Date	Variance to Date (Under) / Over	Estimated Outturn	Estimated Outturn Variance	2014/15 Provisional Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
TRANSPORT								
Rescue Pump replacement programme								1,263
Special Appliances	2,038	180	2,218	836	-1,382	2,333	-115	
Small vehicle replacement programme	445		445	95	-349	445		351
	2,482	**180**	**2,662**	**931**	**-1,732**	**2,777**	**-115**	**1,614**
PROPERTY								
Station Improvements								
Edwinstowe Fire Station Conversion Project		424	424	361	-63	465	41	
Blidworth Fire Station		25	25	-5	-30	20	-5	
Central Fire Station - Land Purchase		466	466	39	-427	146	-320	
Retford Fire Station		1,426	1,426	270	-1,156	778	-648	
Station Refurbishment								2,310
Tuxford Fire Station								
Carlton Fire Station								
Refurbishment of Control Room and Incident Support Room				216				
Sustainable Technology Project Phase 1 - 2011		26	26	11	-15	25	-1	
Purchase of Land for New Fire Station	2,200		2,200		-2,200	150	-2,050	
Service Development Centre Shower Block								
	2,200	**2,367**	**4,567**	**892**	**-3,891**	**1,584**	**-2,983**	**2,310**
I.T. & COMMUNICATIONS								
Business Continuity & Disaster Recovery	30	11	41	12	-29	41		30
Business Process Automation	150	195	345		-345	50	295	
Mobile Computing		20	20	8	-12	20		
HR System Upgrade	150	228	378	51	-327	378		
Microsoft Infrastructure Upgrade		93	93	68	-25	111	-18	
Office 2010 Windows 7 Upgrade								
Business Expansion	25		25	15	-10	15	10	25
Replacement Equipment	85	1	86	98	12	100	-14	85
CFRMIS Ops Intel Database		47	47		-47		47	
Tri Servcie Contral Project	75		75	11		75		
Information Systems Development				10				100
	515	**595**	**1,110**	**274**	**-783**	**790**	**320**	**240**
Grand Total	**5,197**	**3,142**	**8,339**	**2,096**	**-6,406**	**5,151**	**-2,777**	**4,164**
To Be Financed By :								
Sale of Dunkirk				-2,000		-2,000		
Sale of Principal Officers Cars								
Sale of Rescue Pumps				-33	-33			
Revenue Contribution	-2,000		-2,000		2,000	-2,000		0
Capital Grant	-1,088		-1,088	-1,088		-1,088		-1,088
Total	**-3,088**	**0**	**-3,088**	**-1,121**	**1,967**	-5,088	**0**	-1,088

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

REVENUE BUDGET MONITORING TO 30 NOVEMBER 2013

Report of the Chief Fire Officer

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To report to Members on the financial performance of the Service in the year 2013/14 to the end of November 2013. This report analyses significant variances against the original budget.

CONTACT OFFICER

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1. BACKGROUND

Budget monitoring is a key aspect of financial management for the Fire and Rescue Authority. Regular reporting of spending against both the revenue and capital budgets to Members is a check that spending is within available resources and, if necessary, allows for financial resources to be re-assigned to meet changing priorities.

2. REPORT

SUMMARY

2.1 The revenue budget monitoring statement forNovember 2013 is showing an underspendto date of £863k against a budget for the year of £43,899k. The projected outturn variance for the year is an underspend of £821k.

2.2 The underspend to date of £863k and the projected underspend of £821k comprise several key variances which are explained in the following paragraphs.

2.3 The full Revenue Budget Monitoring Statement is given as Appendix A to this report.

2.4 The 2013/14 budget assumes that a contribution of £2,065k will be made from general reserves to support the budget. This transfer from reserves will be made at the end of the financial year and is disregarded for the purposes of providing Members with a picture of performance against the revenue budget. The £2,065k comprises £2,000k to fund a revenue contribution to capital expenditure and £65k to fund the shortfall between the budget requirement and the resources available to finance the budget.

2.5 Key issues to note are: expenditure within wholetimepay to maintain crewing now stands at £502k to the end of October (paid one month in arrears).

2.6 The cost of the industrial action of the firefighters is not shown in the budget monitoring report, the net cost as at the 13 December is £66k, the outturns do not reflect any of this cost, as it is not known at this stage how long the industrial action will continue. An update on this will be reported at the next committee.

SIGNIFICANT VARIANCES

2.7 **WHOLETIME PAY**: (Annual Budget £23,382k).The wholetime establishmenthas been slightly below strength during the period reported, against an establishment of 540.A cohort of 15 trainee firefighters started in September 2013 andin addition 3 retained firefighters are to be transferred to the wholetime duty system.In relation to front line fire and rescue services, the self-rostering system ensures that deficiencies are covered as far as possible, with voluntary overtime used to deal with the shortfall.The crewing of the West

Bridgford second appliance is contributing to a net overspend to date of £184k this has now ceased.**The forecast outturn overspend on wholetimepay is £86k.**

2.8 **RETAINED PAY:** (Annual Budget £2,777k).The retained pay budget continues to underspend, despite the number of mobilisations being higher for April toNovembercompared to the same period last year (2132 2013 / 2186 2012).The underspend to date is £179k. The projected outturn includes the pay award but is based on assumptions about future expenditure and will be revised as the year progresses.**The forecast outturn underspend on retained pay is £366k.**

2.9 **ADMINISTRATIVE AND SUPPORT STAFF PAY:** (Annual Budget £5,667k). There are currently 17 vacancies in the establishment, which are causing the budget to underspend to dateby £268k. It is assumed that most of these vacancies will be filled during the year andthe agreed pay award has been taken into account in the projected outturn. **The forecast outturn underspend on administrative and supportpay is £293k.**

2.10 **CONTROL PAY:** (Annual Budget £1,043k). The Control budget is based on an establishment of 26, however the actual establishment for November is 27, which has resulted in an overspend to date of £55k. This over-establishment will be resolved in January 2014, when one employee is expected to leave under the voluntary redundancy scheme. The reason for retaining this employee until then is to deal with the additional workload arising from the Tri-Service Control project. The outturn figure is based on the actual establishment and includes the pay award.**The forecast outturn overspend on control staff is £44k.**

2.11 **INDIRECT EMPLOYEE EXPENSES**: (Annual Budget £507k). Recruitment advertising and relocation fees is underspendingto date by £12k and the forecast underspend is £10k.The Training budgets are currently underspending to date by £6k, although this underspend will be corrected as the year progresses.**The forecast outturn underspend on indirect employeeexpenses is £16k.**

2.12 **PENSIONS**: (Annual Budget £775k).The pension's budget is under spending by £3k.**The forecast outturn onpensions is expected overspend by £5k.**

2.13 **REPAIRS AND MAINTENANCE:(**Annual Budget£500k)**.** The Repairs and Maintenance budget is overspending to date by £56k, any work that is requested for the reminder of the year will be reviewed by the budget holder. At this stage a further £25k will be expected to be spent by the end of the year for routine repairs. In addition the £98k for the repairs to the training tower at the training centre is showing in the outturn overspend, this work was agreed by committee and will be financed at the year end from the Capital Reserve.**The forecast outturn overspends on repairs and maintenance costs is £25k.**

2.14 **ENERGY COSTS:** (Annual Budget £373k). The under spending to date onenergy costs is £50k this is due the timing of the billing.**The forecast outturn overspend onenergy costsis £19k.**

2.15 **DIRECT TRANSPORT COSTS**: (Annual budget £1,082k.)Fuel is overspending to date by £28k, although some of this expenditure is represented by fuel tank balances to be used over the next month. The risk-based budget contingency will be used to cover any overspend caused by excessive price inflation so the outturn is assumed to be able to be contained within the overall budget. Fuel stocks are to be transferred to the stock account and charged to revenue as they are issued for the future. This will prevent this cyclical under/over spend occurring. **The forecast outturn underspendon direct transport costs is £7k.**

2.16 **CAR ALLOWANCES**:(Annual budget £420k).Despite budgetary savings having been implemented for 2013/14, car allowances continue to underspend as they did in 2012/13.This budget has been reviewed during the 2014/15 budget process and savings have been identified. **Theforecast outturn underspend on car allowances is £52k**.

2.17 **OTHER TRANSPORT**: (Annual budget £422k). The Authority's motorinsurance has been re-tendered and, due to the worsened claims history and current insurance market conditions,the insurance premium has increased by £59k beyond the level budgeted for. The Finance Lease Extensions & Terminations - forecast outturn underspend £41k - this budget is difficult to forecast as it is affected by the timings of appliance procurement, but based on the current level of expenditure to date it is assumed that there will be an underspend at year end.**The forecast outturn overspend on other transport is £19k**.

2.18 **EQUIPMENT**: (Annual budget £953k).The organisation restructure has resulted in significant changes to how community safety activity is structured and delivered. It will take some time for new responsibilities to be taken up and for projects to get underway, and there is already an underspend to date of £128k.**The forecast outturn underspend on equipment is £49k.**

2.19 **COMMUNICATIONS AND COMPUTING**: (Annual Budget £1,714k). The contracts for computer software maintenance and non-contracted services have been either reviewed or renegotiated for 2013/14 and this is expected to result in an estimated outturn underspend of £63k .**The forecast outturn underspend on communications and computing is £63k.**

2.20 **SERVICES**: (Annual Budget £495k). Marketing & Publicity - forecast outturn underspend of £20k is due to changed requirements following increased use of technology and reductions in spending. External Audit Fees - forecast outturn underspend £5k is for the sumthat was held back as a contingency in case the audit process incurred any additional costs. We now know that this is not the case. Professional fees - forecast outturn underspend £5k which was set aside to procure consultants to assist with re-tendering the Service's health cash-back scheme. This is no longer required as the tender will be done in-house. CRB Checks - forecast outturn underspend £5k due to change in regulations which means that a lower quantity of checks need to be carried out. **The forecast outturn underspend on services is £29k.**

2.21 **MISCELLANEOUS EXPENSES**: (Annual Budget £656k). The risk based budget of £296k was set aside for any expenditure that was unforeseen and not budgeted for, this budget has not been used this year to date .**The forecast outturn underspend on miscellaneous expenses is £275k.**

2.22 **CAPITAL FINANCING COSTS**: (Annual budget £4,357k) Minimum Revenue Provision - forecast outturn overspend of £51k. At budget time it was assumed that some of the capital expenditure would besubject to the minimum revenue provision charge, however the final capital expenditure that was subject to MRP was higher than anticipated. **The forecast outturn overspendon capital financingcostsis £44k.**

2.23 **INCOME**: (Annual budget £3,298k). The forecast shortfall of £152k relates to the Prince's Trust which is expected to suffer a shortfall in income in the region of £200k this year. This situation has arisen mainly because the funding per student received from the education sector has been significantly reduced part way through the year, and withdrawn completely by the Authority's current funding partner with effect from January 2014. An alternative funding partner has been identified and contract negotiations are in progress. This issue will be the subject of a full report to Members early next year.The Government Grant forecast underspend of £103k relates to £18k for the FEU conference which is offset by expenditure elsewhere, and a DCLG grant of £85k for Council Tax Transition which was not known at budget time. In addition the authority has received insurance settlementstotalling £45k. **The forecast outturn surplus ofincome is £52k.**

3. FINANCIAL IMPLICATIONS

The financial implications are set out 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 Equality Impact Assessment hasnot been undertaken because this report is not associated with a policy, function or service. Its purpose is to explain variances to the approved budget, which reflects existing policies.

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

Budget monitoring and the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. The process of budget monitoring is a key risk management control measure as are the management actions which are stimulated by such reporting. Throughout the year, finance department staff work collaboratively with budget holders towards keeping expenditure within budget and improving financial performance.

9. RECOMMENDATIONS

It is recommended that Members note the contents of this report.

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

None.

Frank Swann
CHIEF FIRE OFFICER

Revenue Budget Monitoring to 30 November 2013 — Appendix A

	Annual Budget £000	Budget Profile at Nov £000	Actual to Nov £000	Variance to Nov (Under) / Overspent £000	Forecast Outturn £000	Forecast Outturn Variance £000	Forecast Outturn Variance %
Employees							
Wholetime	23,382	15,602	15,679	77	23,468	86	0%
Retained	2,777	1,619	1,440	(179)	2,411	(366)	-13%
Non-Uniformed	5,667	3,789	3,521	(268)	5,374	(293)	-5%
Control	1,043	692	747	55	1,087	44	4%
Allowances	42	31	31	0	46	4	10%
Indirect Employee Expenses	507	365	333	(32)	491	(16)	-3%
Pension	775	569	566	(3)	780	5	1%
Total Employees	**34,193**	**22,667**	**22,317**	**(350)**	**33,657**	**(536)**	**-2%**
Premises							
Repairs/Alterations/Maintenance	500	453	509	56	525	25	5%
Energy Costs	373	249	199	(50)	392	19	5%
Rent/Rates/Water	813	595	600	5	834	21	3%
Other Premises Costs	380	285	218	(67)	385	5	1%
Total Premises	**2,066**	**1,582**	**1,526**	**(56)**	**2,136**	**70**	**3%**
Transport							
Direct Transport Costs	1,082	721	771	50	1,089	7	1%
Car Allowances	420	280	239	(41)	368	(52)	-12%
Other Transport	422	282	404	122	441	19	5%
Total Transport	**1,924**	**1,283**	**1,414**	**131**	**1,898**	**(26)**	**-1%**
Supplies & Services							
Equipment	953	649	515	(134)	904	(49)	-5%
Clothing Uniform/Printing/Stationery/Catering	497	336	283	(53)	517	20	4%
Services	495	329	309	(20)	466	(29)	-6%
Communications and Computing	1,714	1,142	977	(165)	1,651	(63)	-4%
Miscellaneous Expenses	656	439	268	(171)	381	(275)	-42%
Recharge Expenditure - Company/Trading Accounts	24	12	11	(1)	24	0	0%
Total Supplies & Services	**4,339**	**2,907**	**2,363**	**(544)**	**3,943**	**(396)**	**-9%**
Support Services							
Treasury & Committee Services	218	109	61	(48)	219	1	0%
Legal Services	100	66	38	(28)	70	(30)	-30%
Total Support Services	**318**	**175**	**99**	**(76)**	**289**	**(29)**	**-9%**
Capital Financing Costs							
Interest Payments	1,059	580	571	(9)	1,052	(7)	-1%
Debt Management Expenses	3,298	11	0	(11)	3,349	51	2%
Total Capital Financing Costs	**4,357**	**591**	**571**	**(20)**	**4,401**	**44**	**1%**
Income							
Government Grants	(222)	(147)	(325)	(178)	(325)	(103)	46%
Other Grants/Reimbursements/Contributions	(2,337)	(209)	(325)	(116)	(2,382)	(45)	2%
Customer and Client Receipts	(614)	(415)	(97)	318	(414)	200	-33%
Interest	(125)	(83)	(55)	28	(125)	0	0%
Total Income	**(3,298)**	**(854)**	**(802)**	**52**	**(3,246)**	**52**	**-2%**
Net Expenditure	**43,899**	**28,351**	**27,488**	**(863)**	**43,078**	**(821)**	**-2%**

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

PRUDENTIAL CODE MONITORING REPORT TO 30 NOVEMBER 2013

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To inform Members of performance for the period March 2013 up to 30 November 2013 relating to the prudential indicators for capital accounting and treasury management. This period covers the last month of the 2012/13 financial year and the first eight months of the 2013/14 financial year.

CONTACT OFFICER

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1. BACKGROUND

1.1 The Local Government Act 2003 set out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code, which CIPFA updated in 2011.

1.2 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The Prudential Code sets out a number of indicators which authorities must use to support decision making. These are not designed to be comparative performance indicators.

1.3 The Fire Authority approved these prudential indicators for 2013/14 at its meeting on 22 February 2013.

1.4 The Prudential Code requires that local authorities report performance against prudential targets to Members.

2. REPORT

Prudential Indicators

2.1 Some of the prudential indicators set cannot easily be measured during the year and will be reported on in the Treasury Management Annual Report for 2013/14 after the end of the financial year. These indicators are:

- ratio of financing costs to net revenue stream 2013/14 (affordability);
- incremental impact of capital investment decisions on Council Tax 2013/14 (affordability);
- total capital expenditure 2013/14;
- Capital Financing Requirement as at 31 March 2014.

2.2 In terms of borrowing, the indicator "gross borrowing and the capital financing requirement (CFR)" (a prudence indicator) requires that gross external borrowing does not, except in the short term, exceed the CFR. The CFR at 1 April 2013 is £25.004m and estimated to be £26.032m by the year end. During the period 1 April 2013 to 30 November 2013 the gross indebtedness of the Authority, calculated at the start of each month, did not exceed £25.539m including any requirements for temporary overdrafts. As at 30 November 2013, the gross debt of the Authority was £22.539m, which is below the estimated CFR for the end of the year.

2.3 The Authority set an operational boundary for 2013/14 of £27,233m and an authorised limit of £29,956m. Although these limits are year end targets, the

Authority is required to demonstrate that it has not exceeded them at any time during the financial year. Again, the maximum indebtedness of the Authority during the period, as shown in the paragraph above, is within the limits set.

The graph given as Appendix B illustrates the levels of borrowing during the period up to the end of November 2013.

Treasury Management Indicators

2.4 An interest earnings budget of £125k was set for 2013/14 and as at 30 November 2013 £55k had been received (after deducting interest relating to the 2012/13 financial year which was accrued for). It is expected that the budget target will be achieved by the year end, as there is interest earned on investments, which has not yet been received.

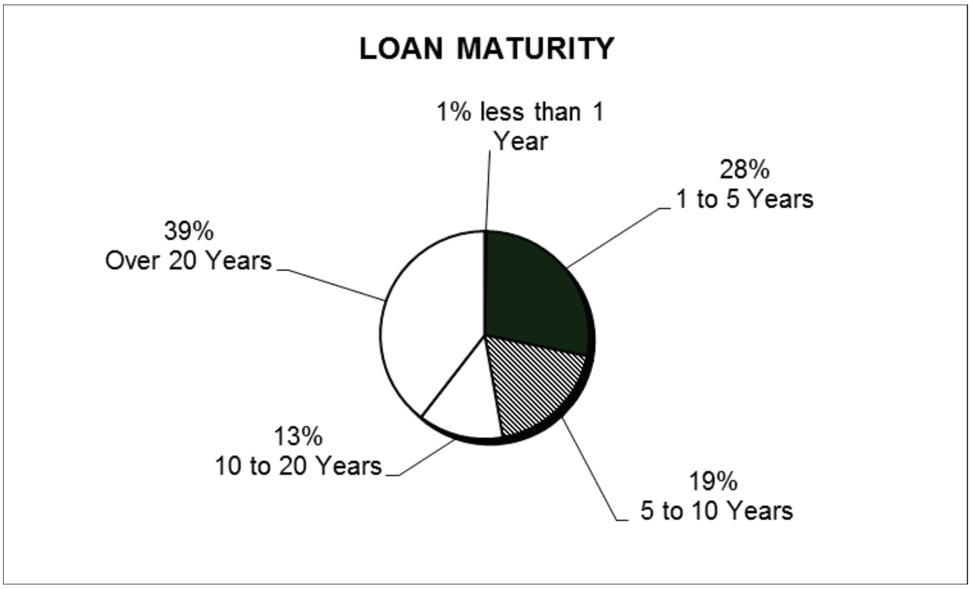
2.5 The treasury management target relating to interest rate exposure is that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 30 November 2013, 100% of lending was at fixed interest rates.

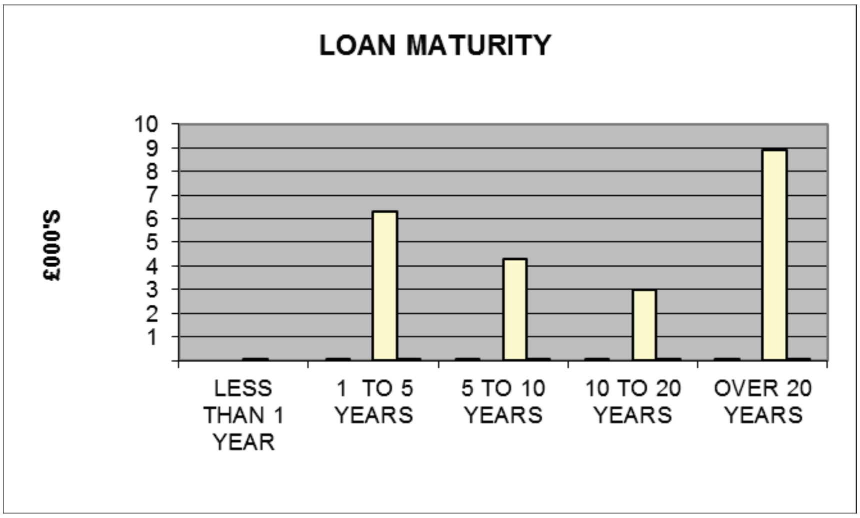
2.6 The treasury management target in respect of cash management is that the Authority's bank overdraft should not exceed £500,000. During the three month period up to 30 November 2013 the account was overdrawn on one occasion - 2 October. This was due to Barclays Bank carrying out an internal investment overnight in error. After discussion with the bank, there was no interest charge enforced for the Authority. A graph of cash balances for the period up to 30 November 2013 is shown on Appendix A.

Treasury management limits relating to loan maturity are shown below:

Loan Maturity		
	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%

Actual performance against these targets in the period to 30 November 2013 is shown in the following graphs and demonstrates that the limits have not been breached.





2.7 The upper limit for sums invested for longer than 364 days is £2m. During the period to 30 November 2013, no sums were invested for longer than 364 days.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full within this report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An Equality Impact Assessment has not been undertaken because this report gives detail of performance against the approved Treasury Management Strategy and Prudential Code. These are financial policies and do not directly impact on employees or members of the public.

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 directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

The Prudential Code is a framework which sets out to quantify and minimise financial risk arising from the financing of capital, the investment of surplus funds and the maintenance of operating cash balances for the Authority. The favourable performance against the prudential targets demonstrates that these areas of operation are being managed effectively.

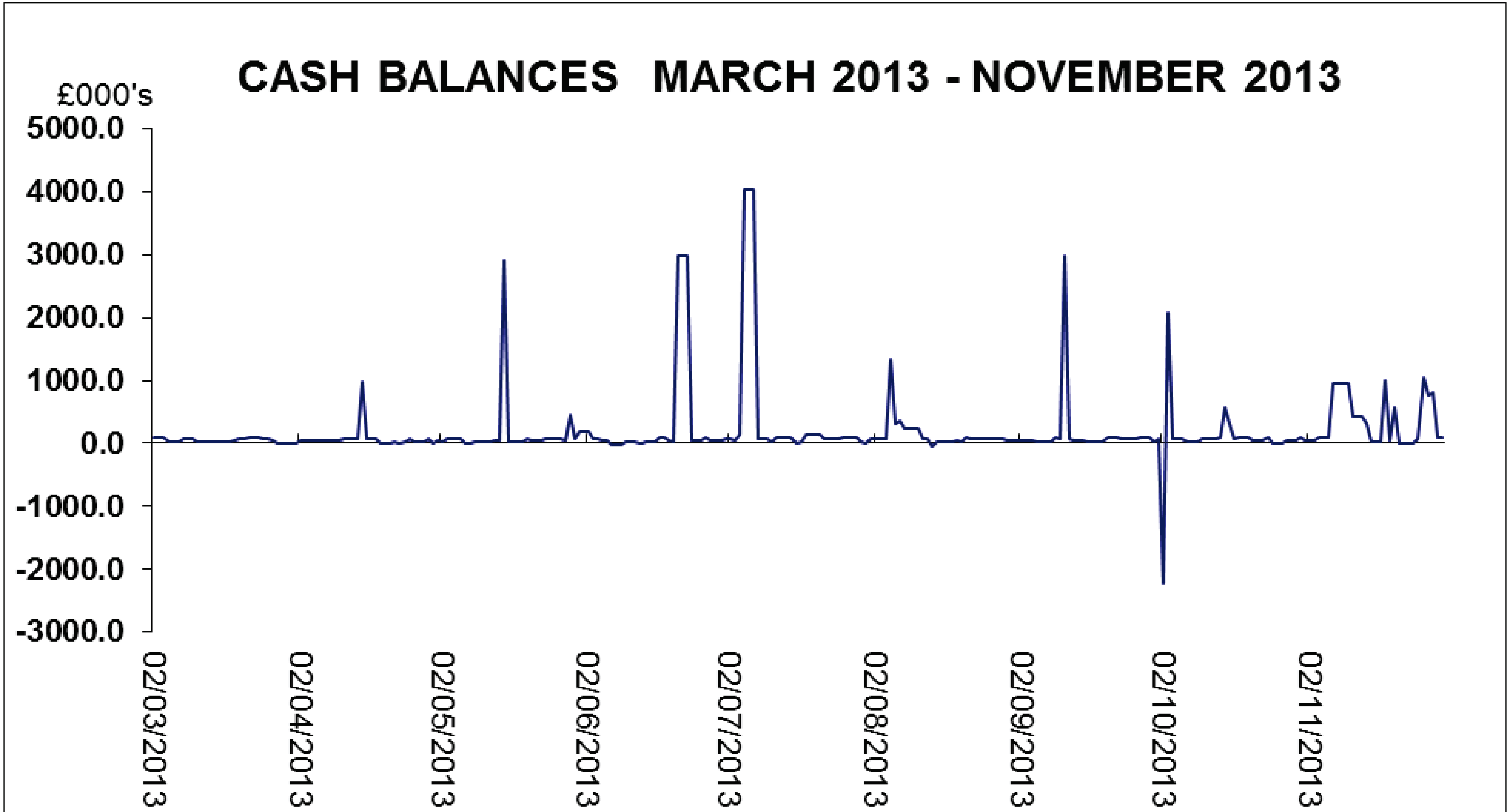
9. RECOMMENDATIONS

It is recommended that Members note the contents of this report.

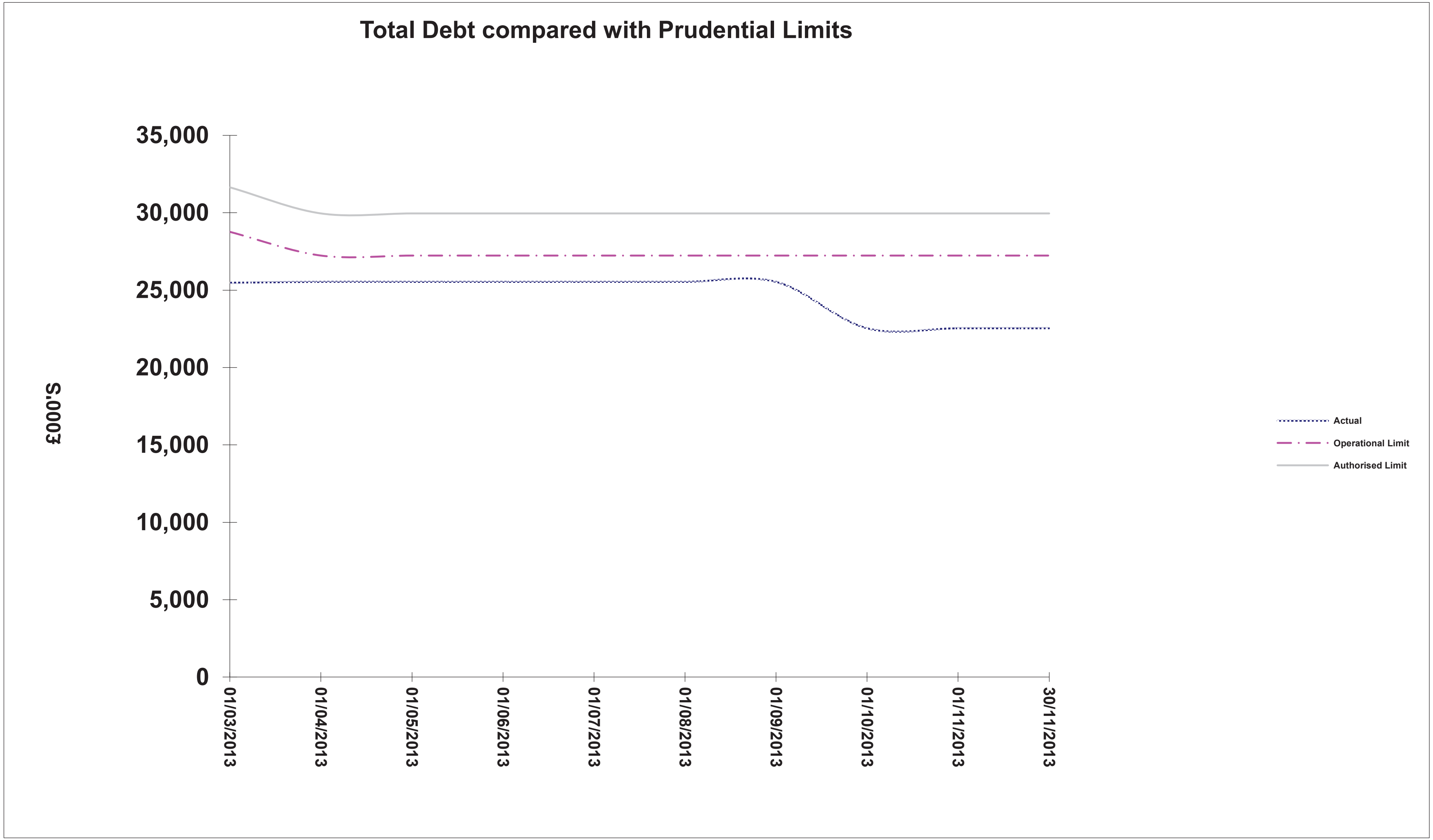
10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY


CASH BALANCES MARCH 2013 - NOVEMBER 2013
£000's
5000.0
4000.0
3000.0
2000.0
1000.0
0.0
-1000.0
-2000.0
-3000.0
02/03/2013
02/04/2013
02/05/2013
02/06/2013
02/07/2013
02/08/2013
02/09/2013
02/10/2013
02/11/2013

Appendix B


Total Debt compared with Prudential Limits
£000'S
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
01/03/2013
01/04/2013
01/05/2013
01/06/2013
01/07/2013
01/08/2013
01/09/2013
01/10/2013
01/11/2013
30/11/2013
Actual
Operational Limit
Authorised Limit

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance & Resources Committee

Corporate Risk Management

Report of the Chief Fire Officer

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To present Members with updated Strategic and Corporate Risk Registers and associated commentary.

CONTACT OFFICER

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1. BACKGROUND

1.1 Members of the Finance and Resources Committee requested at the 12 July 2013 meeting that they receive a report twice a year that provides evidence of the Authority's risk management activity, including up-to-date versions of the Strategic and Corporate Risk Registers and a list of the top ten corporate risks.

1.2 Members also agreed at the 12 July 2013 committee to receive risk management training, and this has been arranged to commence at the rising of the meeting at which this paper is to be considered.

1.3 The reporting of risk management activity to Members via the Finance and Resources Committee forms part of the Authority's planned and systemic approach to the management of risk. The purpose of this is both to aid strategic decision making and provide assurance.

2. REPORT

2.1 The Strategic Risk Register, which is used to ensure that the Authority has the flexibility to respond to factors that may affect long-term strategic vision or aims, has been updated and debated by Corporate Management Board (CMB). The Strategic Risk Register is attached at Appendix A.

2.2 The amendments to the strategic risk register, together with the rationale for the changes are:

- the impacts from EU: admittance of new Member States – the potential financial impact of this is now considered to be a low risk and has been removed from the Strategic Risk Register (low levels of risk do not warrant management attention and are unlikely to influence strategic direction);

- Human Resources – this risk was quite specific and operational in its nature, rather than giving rise to an impact on strategic direction or objective-setting. It is already covered in the Corporate Risk Register and it is therefore not included in the Strategic Risk Register;

- the wider public sector – this describes the counterparty risk that public bodies with which the Authority may be engaged in partnership working become unable to fulfil their partnership obligations, thus threatening service delivery. This risk also provides an indication that even without a change in government policy, organisations may find that they are unable to respond rapidly enough to changes in their operating environment.

2.3 The Corporate Risk Register, which identifies significant operational risks that require the attention of, or monitoring by CMB, has been updated following consultation with the risk owners; consultation with Service Managers, allowing an opportunity for significant departmental risks to be escalated; and debated at CMB.

2.4 To summarise, the key changes to the Corporate Risk Register were:

- Health, Safety, Welfare and Environment – it was agreed that the procedure which provides the operational intelligence required to protect life and property, was due to be reviewed. The Corporate Services Support Department has been charged by the Corporate Management Board with reviewing this process to ensure that it is fit for purpose, and this work will be planned for next year.

- Workforce Issues – this risk was split into two different risks to reflect that industrial relations has become an acute issue with the current industrial action and needs to be considered separately, whilst organisational sustainability remains a longer-term threat. The potential for a loss of corporate memory has been highlighted as part of the voluntary redundancy process and should be considered by managers putting forward business cases for making posts redundant. The recent strike action has demonstrated that due to factors outside of the Service's control, there is a reducing pool of non-uniformed operational staff to provide adequate cover and therefore it was identified that there was a need to revisit the contingency plans that are in place for such an eventuality as the previous assumptions regarding staff availability were no longer accurate (this work was undertaken shortly following the presentation of the Corporate Risk Register). Although the immediate problem is being addressed, there is a need to consider whether or not contingency crews should be maintained in the longer term as a way of managing future risks – this will be considered when the current industrial action has ceased. The likelihood of this risk occurring has potentially increased as the continuing financial constraints mean that difficult decisions may need to be made at national and local levels. Workforce Issues is now included under the Resilience corporate objective. The recent Fire Brigades Union ballot for Action Short of Strike has prompted managers to consider the potential impacts.

- Use of vehicles on Authority business – the further controls identified as necessary in the previous risk register have now been implemented. Despite this, the residual risk has been assessed as remaining unacceptably high and it is now important that the Road Risk Group considers the Service's response to recommendations made by the insurers in their fleet and driver review. The Service has opportunities to progress work in this area with the CFOA regional health and safety and research work in conjunction with Nottingham Trent University. Agreement between the ACO, Finance and Resources and the Assistant Chief Fire Officer has resulted in the ownership of this risk changing.

- Availability of assets – due to the description of the risk referring, in the main, to assets managed by the Finance and Resources directorate (such as property and vehicles), ownership of this risk has transferred to the ACO, Finance and Resources.

- Major, multi-agency incident – the lack of interoperability between the communications systems used by the various emergency services was identified as something that could affect operational response, and has in the past resulted in reputational damage. The Service has opportunities to engage in training as part of the Joint Emergency Services Interoperability Programme (JESIP), although it was noted that the effectiveness of this could be impacted by a lack of attendance from other blue-light services. The national project to replace the current contract for emergency services' mobile communications is being closely monitored – the existing contract ends in 2016.

- Preventable deaths – recognition was given to the contribution that Fire Investigation makes in identifying whether there had been a failure to intervene, or where an intervention was not effective. The Service is also developing a critical incident review process to investigate 'near miss' scenarios and the effectiveness of risk reduction measures are to be reported to the Service Managers Forum.

- Major projects – this generic risk has been removed from the Corporate Risk Register. The Business Risk Manager and Service Project Manager will meet as part of the Corporate Risk Register review process and discuss whether there are specific projects where the level of risk warrants attention and/or action at Corporate Management Board.

2.5 The last report to this Committee identified the top 10 risks on the Corporate Risk Register. As the purpose of this report is to alert Members to the most significant risks facing the Authority in the day-to-day delivery of its services, this report highlights those risks that have a 'high' or 'very high' risk score following the implementation of control measures (shown in parentheses):

- workforce issues (20);
- use of vehicles on Authority business (15);
- major, multi-agency incident (12);
- legal compliance (10);
- preventable deaths (10);
- health, safety, welfare and environment (10);
- budget performance (9);
- workforce sustainability (9);
- availability of assets (9).

These are the key risks to which CMB should be allocating additional management effort and resource as they currently have the greatest potential of stopping the Authority from achieving its strategic aims and objectives.

2.6 For information, the Authority's current risk management strategy statement may be found at Appendix C.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

An initial Equality Impact Assessment has been completed and there are no equality implications arising directly from this report.

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 directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

The failure of the Authority to effectively manage the risks to which it is exposed in itself poses a risk. Risk management is a key element of the corporate governance framework and it is imperative that progress is made in adopting a strategy and policy, embedding risk management in the business culture of the Authority and in reporting to Members and providing assurance on this matter.

9. RECOMMENDATIONS

It is recommended that Members:

9.1 note and endorse the Strategic Risk Register;
9.2 note and endorse the Corporate Risk Register;
9.3 note the most significant risks facing the Authority.

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

None.

Frank Swann
CHIEF FIRE OFFICER

Appendix A

Strategic Risk Register

Strategic Risk	Action	Potential Impact
Change in UK government	Keep informed of political intentions at a national level to establish whether a future government may change the emphasis of fire and rescue service activity, i.e. localism, greater national resilience roles, shifts in the balance of prevention/response/enforcement. Monitor possibility of any national decisions following Knight review.	High
Change in local balance of power	Keep informed of political intentions at local level to ascertain possible future intentions in terms of budget setting and significant shifts in local priorities.	Medium
Interest rates: currently low	Consider implications as part of annual Treasury Management Strategy with reference to BoE forward guidance. May choose to undertake capital projects on basis of low borrowing rates, but remain aware of potential future refinancing costs when interest rates rise.	Medium
Inflation	Monitor economic situation and forecasting data as any significant or sustained rise in the inflation rate may put pressure on interest rates and on cost base.	High
Recession/growth and the burden of taxation	Recession and associated decreases in tax receipts, in particular local retained NDR could be susceptible to more rapid variation .Develop means of effectively utilising increased funding once sustained growth is achieved in order to minimise future risk of recession Treasury management to shield investments' exposure to institutions which are not well prepared to cope with future economic downturn.	High
Increased levels of poverty	Question assumptions in IRMP with regard to the identification of vulnerable groups.	High

Strategic Risk	Action	Potential Impact
Stakeholder expectations increased in periods of strong funding	Focus corporate objectives on statutory responsibilities. Consider potential impact of future funding restrictions prior to committing to work not covered by statute and have an exit strategy planned. Manage public expectation to a level that is consistently attainable, rather than to short-term levels of funding.	High
National or local demographics, migration and age profiles	Ensure that corporate objectives and long-term planning prepares the Service for serving an ageing population, not just a future elderly population. Question how the Service can attract and retain good quality employees in a situation of decreasing supply. Be aware that cultural migration has the potential to influence the cultural balance of a whole community. Individual cultures should not be viewed in isolation.	High
Social media	Be aware that social media invites interaction, and may place pressure on political and management decisions. Ensure consistency of message across all media platforms.	High
Technology: Delivery of services Management of delivery Back-office support	Look to use technology to do better things, not simply the same things better. Take a balanced view – be aware of the capabilities of new technologies, but ensure that the use of technology is driven by the corporate objectives and not the other way around.	Medium
Weather extremes	Assess whether the corporate objectives provide sufficient flexibility in terms of people, equipment and finance to respond to extreme weather events. Consider the influence of NFRS on planning, with reference to flooding risk in particular.	High
Green technologies	Increasingly mandated through legislation, or encouraged by taxation policy and social pressure, the corporate objectives should reflect, or be developed in the context of the increasing importance of green technologies. Security of supply may become an issue.	High

Strategic Risk	Action	Potential Impact
Statutory obligations: • What you deliver • How you deliver it	Ensure clarity over which elements of current service provision are underpinned by statute and what is delivered under 'moral obligation'. Acknowledge that any elements of the current service delivered under moral obligation and not likely to become a statutory obligation constitute a low priority and may have to cease. Remain informed, across all professions, of variations in legislative requirements.	Medium
Competition law: Deregulation of sector	Consider how the Service would respond to partial or total deregulation of fire service provision, for example, an increase in the number of private fire and rescue services serving large commercial organisations, or the contracting out of non-statutory or specialist functions.	High
Employment law	Be alert to changes in societal norms and expectations that may result in the need to more clearly reflect equalities, diversity and human rights in corporate objectives.	High
Legal precedents	Maintain an awareness of live litigation that relates to operational activity or organisational management and act as appropriate on any outcomes.	Medium
The wider public sector	Consider implications of a local government or frontline public body encountering financial stress, particularly where shared services exist, and cross-border arrangements.	High

Appendix B
Corporate Risk Register

Risk Title	Risk Description	L	S	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
Corporate Objective: Diversity and Workforce										
Health, Safety, Welfare and Environment	The risk arising from the hazards associated with the Service's activities which may cause injury, ill-health or death to employees and/or non-employees and could result in both criminal and civil sanctions, reputational damage and negative effects on service delivery and employee morale	4	5	20 VH	The availability of 'competent persons' to advise the Service of its duties and necessary risk controls which are then translated in to safe systems of work	2	5	10 H	Review of 7.2D procedure by Corporate Services Support planned to ensure it is fit for the purpose of providing operational intelligence – to be reported back to Service Managers' Forum	ACFO Corporate Support
Workforce sustainability	Inability to maintain sufficient or adequate workforce to meet service requirements. Issues around competency of staff, loss of corporate memory and single points of failure or critical persons in specific roles	3	4	12 VH	HR function with advisory capacity and suite of policies. Workforce planning, providing overview of workforce. L&D function, operational training against role maps and PDR process to identify training needs. Maintenance of competence policy	3	3	9 H		ACFO Corporate Support

Risk Title	Risk Description	L	S	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
The use of vehicle on Authority business	The risk of accidents or other events arising from vehicle defects or by the driving of employees	4	5	20 VH	Road Risk Group Transport function to manage vehicle assets Driver training by L&D function Insurance cover to mitigate financial losses Driving safety policy Generic blue-light risk assessment Generic non-emergency driving risk assessment External review completed by insurers	3	5	15 VH	Road Risk Group to consider outcomes arising from insurer review Engagement with Nottingham Trent University research group	ACO Finance & Resources
Corporate Objective: Response										
Operational equipment	Inadequacy of operational equipment or personal protective equipment	3	4	12 VH	Appropriate specification and selection of equipment, process for commissioning and procuring equipment Robust maintenance procedures in place	2	3	6 M		ACO Finance & Resources
Mobilising	Loss of mobilising capability Risks around replacement of Airwave system (ESMCP) – financial details not yet known	3	5	15 VH	Secondary and tertiary mobilising arrangements in place. Maintenance contract in place for current system. New mobilising system includes cover arrangements Engagement with relevant CFOA and ESMCP groups	2	3	6 M	National ESMC project to be monitored.	ACO Finance & Resources

Risk Title	Risk Description	L	S	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
Corporate Objective: Resilience										
Availability of assets	The risk that the Service will lose widespread access to key assets – this may include premises, equipment, ICT systems and data or employees	3	5	15 VH	Business continuity management plan and process in place Asset maintenance plans supported by Redkite asset management system Planned replacement and upgrade programmes Defect reporting in place Competent operational managers	3	3	9 H		ACO Finance & Resources
Major, multi-agency incident	The risk that the Service will fail to work effectively in such an incident	4	4	16 VH	Multi-agency exercises to practice response Partnership working on the development of protocols	4	3	12 H	Joint training resulting from Joint Emergency Services Interoperability Programme in respect of major incident operations and communications to be delivered next year.	DCFO
Workforce issues	Increasing potential for poor industrial relations arising from local decision making due to financial constraints and national political/macro-economic factors resulting in a loss of morale or workforce availability	5	5	25 VH	Formal negotiation and consultation channels with representative bodies through industrial relations officer. Contingency plans for strike action have been amended in the light of reducing availability of non-union employees to provide cover	4	5	20 VH	The use of contingency crews in the longer term to be considered by CMB when the current industrial action has ended. The potential impact of the “Yes” ballot for Action Short of Strike is currently being considered by managers	DCFO

Risk Title	Risk Description	L	S	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
Corporate Objective: Prevention										
Preventable deaths	The risk that a person will die in a fire or other incident, where the Service failed to put in place an intervention which would have reduced the risk, or where an intervention was ineffective	4	5	20 VH	Operational response Work with partner agencies to identify and target high risk individuals with community safety interventions Fire investigations can identify instances where interventions were not made, or were ineffective	2	5	10 H	Critical incident review process planned for 'near miss' situations. Evaluation Officer to present review of effectiveness of risk reduction measures to Service Managers' Forum	DCFO
Corporate Objective: Governance and Improvement										
Budget performance	The risk that revenue or capital budgets will significantly overspend or underspend	4	4	16 VH	Medium-term financial strategy. Annual review of budget planning assumptions. Finance staff work with budget managers to develop realistic budgets. Regular budget monitoring reported to CMB and F&R Committee	3	3	9 H		ACO Finance & Resources
Employee and Member conduct	Any or all of the following risks: the Service will suffer a major irregularity or fraud unethical behaviour or misconduct on the part of employees or members	3	4	12 VH	Finance and Business Risk Management function Effectiveness of financial internal controls assessed by internal audit function Scheme of financial management Counter-fraud policy Indemnity insurance (does not cover fraud)	2	3	6 M	Specific code of conduct for Employees to be developed by HR in 2015/16 business plan	ACO Finance & Resources

Risk Title	Risk Description	L	S	Risk Score	Existing Controls	L	S	Risk Score	Further Controls Required	Risk Owner
Legal compliance	The risk that the service will fail to comply with legal requirements	4	5	20 VH	Professional experts employed in areas such as HR, finance, procurement, health & safety Monitoring Officer Business Risk Manager helps to identify vulnerabilities Use of external lawyers to advise on compliance in areas not covered by in-house expertise	2	5	10 H		DCFO

Risk Scoring Matrix

Severity	1 Negligible	2 Minor	3 Moderate	4 Significant	5 Severe
5 Severe	Medium	High	Very High	Very High	Very High
4 Significant	Medium	High	Very High	Very High	Very High
3 Moderate	Medium	Medium	High	High	High
2 Minor	Low	Low	Medium	Medium	Medium
1 Negligible	Low	Low	Low	Low	Low

Likelihood

Appendix C

Corporate Risk Management Strategy Statement

Nottinghamshire Fire and Rescue Service is a risk aware organisation. It recognises that the structure and management of the 'business' gives rise to risks that need to be managed at the corporate level.

These 'corporate risks' are different to community risk, which is identified through IRMP and statutory duties, and informs the nature of the services to be delivered; and operational risk, such as the health and safety of employees when delivering those services.

The Service will seek to manage its corporate risks using proven, internationally-recognised techniques and standards and strives to achieve excellence in corporate risk management activity when assessed against both recognised standards and peer organisations. It will effect this excellence in corporate risk management through a Principal Officer 'Champion', the employment of a professionally qualified and experienced Business Risk Manager, and the engagement of Elected Members in an assurance role via the Finance and Resources Committee. Corporate Management Board shall have the overall responsibility for ensuring that the Service's corporate risks are effectively managed.

Individual corporate risk management responsibilities will be detailed in a corporate risk management policy, with tools and techniques for effecting corporate risk management made available via associated procedures and/or guidance documents.

The Service recognises that it is not always possible, nor desirable to completely eliminate risk, and that this may result in different levels of risk being acceptable for different work streams or elements of business activity. This appetite and tolerance for risk will be established through debate and consensus, and reports concerning performance against those appetites and tolerances will be scrutinised by management and Elected Members. Managers will be encouraged to embrace projects and work that involve well-managed risk as part of an overall low risk approach.