NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20

Joint Report of the Chief Fire Officer and Treasurer

Date: 23 September 2016

Purpose of Report:

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

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1. BACKGROUND

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

1.2 This Medium Term Financial Strategy provides an overarching view of the way in which the Authority's finances will be managed and it brings together various related financial strategies in one cohesive document. It also explains how the financial strategy supports the Authority's other key strategies and plans.

1.3 This updated iteration of the Medium Term Financial Strategy builds on the strategy approved by the Fire Authority in September 2015 and covers the four year period from 2016/17 through to 2019/20. In addition it includes two new appendices which meet requirements introduced by central government this year.

2. REPORT

2.1 The Medium Term Financial Strategy is attached in full to this covering report. It includes the following sections:

- Objectives of the Strategy
- Context of the Strategy
- Financial Management
- Funding Priorities and Service Improvement
- Impact of UK Economic Environment
- Medium Term Risks
- Components of the Strategy
- Collaborative Working
- The Regional Dimension
- Outlook for 2017/18, 2018/19 and Beyond

2.2 The Strategy also includes a number of appendices, which are:

- The Treasury Management Strategy 2016/17
- Prudential Code Indicators and Targets 2016/17
- Capital Programme 2016/17 to 2018/19
- Revenue Budget 2016/17 Cash Limited Subjective Analysis
- Flexible Use of Capital Receipts Strategy 2016/17
- Sustainability Plan 2016/17 to 2019/20

2.3. The Flexible Use of Capital Receipts Strategy 2016/17 (Appendix E of the Medium Term Financial Strategy) is a new appendix and meets the requirement for local authority bodies to have such a strategy in place for each of the years 2016/17, 2017/18 and 2018/19. This follows an announcement by the Chancellor of the Exchequer in the Spending Review 2015 that local authorities would be given powers to spend their capital receipts from the sale of assets on the revenue cost of reform projects which are designed to generate on-going savings. Although this power is a departure from the existing regulations governing the use of capital receipts, it is a temporary measure for the next three years and carries with it strict criteria covering eligibility, timing, reporting and transparency.

2.4. The guidance on this new flexibility was not issued by the government until after the Fire Authority had approved the capital and revenue budgets for 2016/17, and these budgets had already been prepared on the basis that capital receipts would be used either to finance new capital expenditure or to repay loans. The strategy for the current year is therefore not to use any capital receipts to fund the revenue costs of reform projects, however the Fire Authority can approve a change of strategy later in the year if it felt that this would be financially advantageous. The strategies for 2017/18 and 2018/19 will be included within the future budget reports for the relevant years.

2.5. The second new appendix to the Medium Term Financial Strategy is the Sustainability Plan 2016/17 to 2019/20. As previously reported to Members, the government has offered local authority bodies a four year finance settlement covering the period from 2016/17 to 2019/20 in return for the publication of a four year Efficiency Plan by 14th October 2016. The acceptance of this offer will provide the Authority with an element of certainty over future funding and this, in turn, will assist the Authority in planning for the future. Appendix F to this Strategy meets the requirements for an Efficiency Plan, as set out in a letter from the Home Office earlier this year. It has been called the Sustainability Plan because it links directly to the Sustainability Strategy for 2020 reported to the Fire Authority in February 2016.

2.6. The Sustainability Plan sets out an estimate of the amount of savings which will need to be achieved over the next three to four years, as reported to Members in the Budget paper earlier this year. It also explains the wider context within which this will be achieved and relates back to some of the key principles within the main financial strategy. Four broad areas within which savings will be sought are detailed in section 3 of Appendix F, with each area allocated an estimated savings target. The actual amount of savings achievable in each area will emerge from the budget process this year and next and also from the work being undertaken by the Shaping the Future Team, as well as from the results of consultation and decision-making by the Fire Authority. The four areas are:

- Seek collaborative opportunities to deliver cost savings and / or improved outcomes
- Drive efficiencies through effective procurement
- Maximising the Benefit and Value of our Assets
- Redesign of Service Delivery

2.7 It is a requirement that the Sustainability Plan is published on the Authority's website, and the letter sent from the Authority to the Home Office to communicate acceptance of the four year settlement offer must include a link to the published document. In future, an annual report on progress against the Sustainability Plan will be published as part of the Authority's annual Statement of Assurance.

2.8 It is proposed that the Authority approves this Medium Term Financial Strategy, which will be published on the Authority's website, and continue to review it annually.

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 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 reporting on matters relating to finance.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

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

8. RISK MANAGEMENT IMPLICATIONS

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

9. RECOMMENDATIONS

It is recommended that Members:

9.1 Approve the Medium Term Financial Strategy 2016/17 to 2019/20.

9.2 Consider acceptance of the government's offer of a four year financial settlement through the submission of the Sustainability Plan 2016/17 to 2019/20.

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

None.

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CHIEF FIRE OFFICER

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NOTTINGHAMSHIRE
Fire & Rescue Service

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY

2016/17 to 2019/20

CONTENTS

SECTION 1: OBJECTIVES OF THE STRATEGY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Capital Receipts will mainly be applied to the redemption of debt or the financing of additional capital assets subject to the Flexible Use of Capital Receipts Strategy (Appendix E).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Production of quarterly monitoring statements for both Capital and Revenue including project based performance as appropriate.
- Supporting information provided to all Council Taxpayers via the internet
- Treasury Management Strategy
- Prudential Code Monitoring Reports produced quarterly
- Flexible Use of Capital Receipts Strategy
- Sustainability Plan (Efficiency Plan)
- External Audit reports
- Risk based approach to the maintenance of Balances and Reserves
- Internal Audit reports reviewed by the Finance and Resources Committee
- Grant Claims etc. submitted on time.

SECTION 2: CONTEXT OF THE STRATEGY

2.1 The primary focus of the organisation is set out in a fundamental strategy document, the Integrated Risk Management Plan (IRMP). This plan sets out the business of the organisation over the period until 2019. This represents the Service delivery commitments to the general public and it is therefore essential that resources are effectively managed to achieve the outcomes set out in this plan.

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

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

SECTION 3: FINANCIAL MANAGEMENT

3.1 The External Auditors of the Authority have consistently issued unqualified audit reports and positive management letters to the Fire Authority in respect of their audit of accounts and their conclusion on the effective arrangements in place to achieve value for money.

3.2 The Authority’s external auditor is currently KPMG and this will continue up to and including the audit of accounts for 2017/18. Beyond this date, the contract will be subject to tender.

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

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

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

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

3.7 The post of Head of Finance is responsible for developing and maintaining the Medium Term Financial Strategy and this post reports directly to the Chief Fire Officer.

3.8 The Authority continues to have the support and advice of an independent Treasurer who will work closely with the Head of Finance to advise the Fire Authority on financial matters and provide an independent source of advice when required. The Treasurer plays a key role in financial strategy and this again strengthens the financial management role.

SECTION 4: FUNDING PRIORITIES AND SERVICE IMPROVEMENTS

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

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

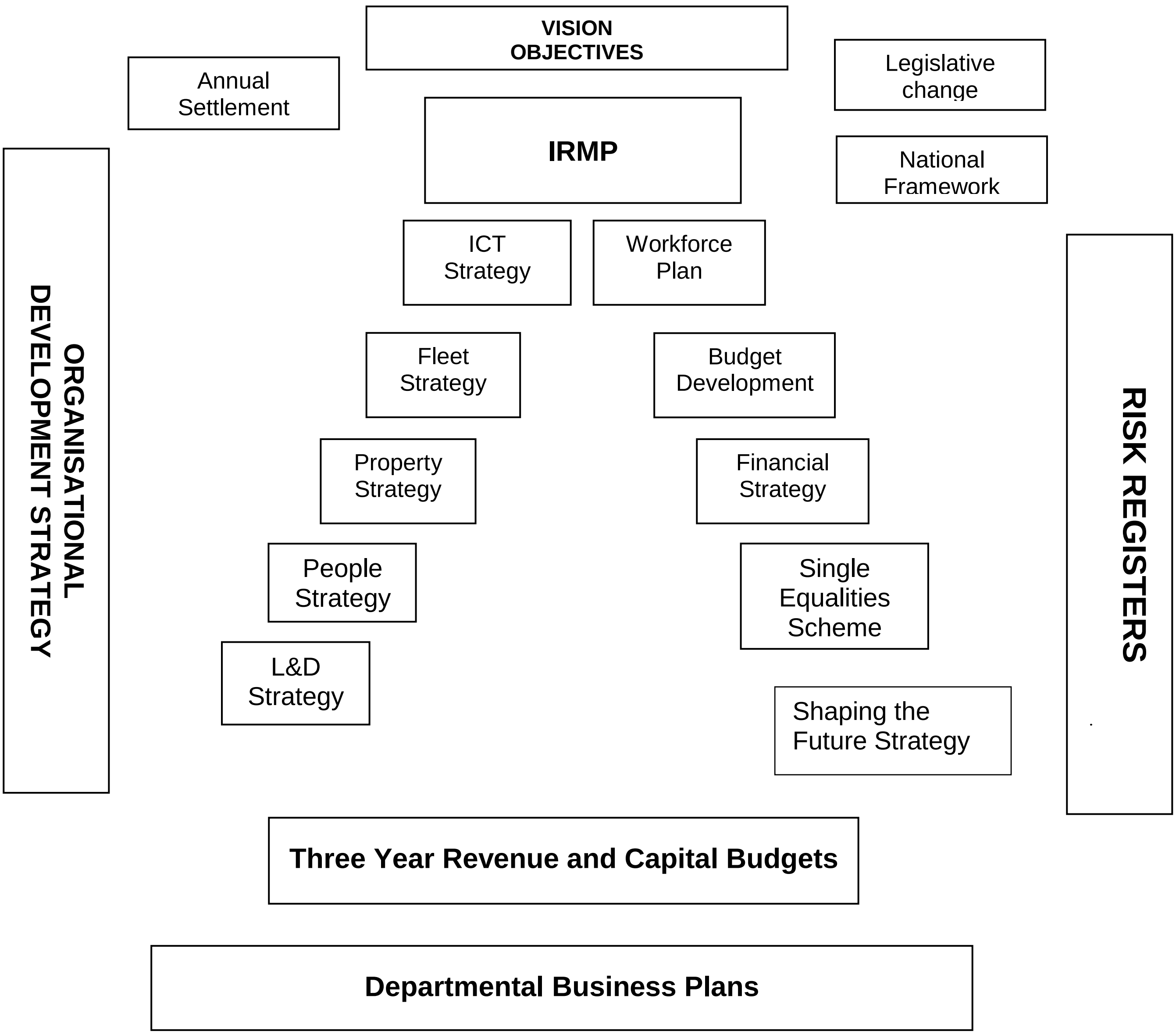
- To deliver a high quality service
- To maintain high standards of governance and financial stability
- To have an engaged and motivated workforce

4.3 This approach is mirrored through into the budget and resource planning processes. The detailed working underlying the Authority's budget proposals for 2016/2017 to 2018/19 shows a clear commitment by both officers and

Members to the delivery of these broad priorities and also resourcing the individual projects and activities which will ensure their delivery.

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

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



4.6 The development of departmental plans and strategies and the alignment of these with other plans, both departmental and corporate, is overseen by the Service's Executive Delivery Team.

4.7 The Executive Delivery Team comprises senior managers who, as a group, are empowered to make decisions on day to day business issues. This approach has allowed the Strategic Leadership Team to focus on issues which are more strategic in nature. Decisions are therefore made at a more appropriate level.

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

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

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

4.10 It is likely that there will need to be changes in the way services are delivered and requirements for staffing reductions to enable the budgets to be brought into balance. Indicative finance settlement figures for the next 3 years suggest that this may need to be the case.

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

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

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

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

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

4.16 It may be possible going forward to consider alternative investment strategies to maximise earnings potential but this would always be subject to the approval of the Finance and Resources Committee or full Fire Authority.

SECTION 5: IMPACT OF UK ECONOMIC ENVIRONMENT

5.1 A Medium Term Financial Strategy must take account of the current economic position in the UK and consider how its effects might be managed and/or mitigated.

5.2 The current economic position is positive in some respects, with low inflation, low unemployment and modest growth in Gross Domestic Product (GDP). However underlying these headline figures is a potential slowdown arising from the decision taken by the people of the UK to leave the European Union. At the time of writing (August 2016) there is insufficient data since the EU referendum result to assess whether or not the UK is heading into another recession. GDP growth in July and August slowed and UK consumer confidence has fallen. Inflation is now predicted to rise due to the fall in the value of sterling and the current low unemployment level may lead to pressure on wages – both of these issues could lead to budgetary pressures for the Service.

5.3 By far the most significant consideration for the Medium Term Financial Strategy is the state of public finances. The UK as a whole remains in deficit and central government is continuing with its austerity programme to turn this situation around, albeit within a slightly longer timescale than previously announced. The indicative finance settlement figures covering the period 2016/17 to 2019/20 show total reductions in external funding of 21% for the Service.

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

SECTION 6: MEDIUM TERM RISKS

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

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

6.3 *Loan Interest Rates.* As the Authority matures and outstanding debt becomes a more significant burden on the revenue budget there is naturally an increased exposure to movements of interest rates. Although the Authority has adopted a general policy of using fixed interest rate vehicles to minimise this risk in the longer term there is still an exposure from the loan charges on new capital being greater than anticipated. It may be prudent for the Authority to allocate any underspends arising from lower than expected interest costs (e.g. because borrowing has been deferred) to an "interest equalisation earmarked reserve" which can then be used to mitigate the impact of higher than budgeted charges.

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

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

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

6.7 The Authority will remain at risk of breaching its own prudential code targets for loan maturity if borrowing is deferred and internal cash resources are used to finance capital expenditure due to an adverse cost of carry (the difference between borrowing and investment interest rates). Such breaches will not pose a significant risk to the Authority and can be resolved when borrowing is eventually taken.

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

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

- That employers contributions for uniformed personnel will rise significantly.

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

6.9 In the first scenario, it is likely that employers' contributions to the local government pension scheme will continue to rise. However, recent consideration of this issue shows that this is unlikely to be significant unless the Authority's record of low rates of early and ill health retirements worsens.

6.10 Since the passing of annual pension liabilities for fire fighters to central government (now the Home Office), employers have been required to make a 21.7% of salary contribution to the scheme for those staff in the 1992 fire pension scheme. For the 2006 and 2015 fire pension schemes the contribution rates are 11.9% and 14.3% respectively. The Government Actuary Department is currently undertaking the triennial valuation of fire pension schemes and this may result in a change to employer contribution rates, although the cost cap mechanism will limit this to no more than 2% above the current rate.

6.11 Recent revisions to the Local Government Pension scheme (now a career average scheme) may also help to keep employer contributions steady or may even reduce them over time.

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

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

6.14 *Grant Funding*. The government has announced plans to eliminate revenue support grant by the end of this parliament and to move to a system of locally retained business rates. The implications for the fire sector are not entirely clear, but the government is currently consulting on the proposed business rates funding regime and has posed a question to the fire sector about an alternative model of specific fire grant to replace business rates funding. It is not yet known how a future funding model would take account of the specific needs of individual fire authorities.

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

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

- Any increase in claimants will need to be funded locally

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

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

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

6.18 The 8% ceiling is further threatened by the reducing size of the revenue budget, although so far capital financing costs have remained within this self-imposed limit.

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

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

SECTION 7: COMPONENTS OF THE MEDIUM TERM STRATEGY

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

7.2 *Revenue and Capital Budgets.* The process for the preparation of revenue and capital budgets is now mature but continues to develop each year to accommodate the changing financial environment. There is now positive involvement of business plan owners in the development of the budgets which have been drawn up side by side with business plans. This has continued to be developed still further in the preparation of the Revenue Budget from

2016/17 to 2018/2019 and there is now increased ownership around budget decisions. The Finance and Resources Committee has full involvement in the process and the Chair of the Finance and Resources Committee plays an active part in interviewing budget managers to fully understand the underlying detail within the budgets. The Finance and Resources Committee makes recommendations to the Fire Authority.

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

7.4 The Capital Programme is a three year programme of longer term projects which cross over the financial year end boundaries. This means that projects may overspend or underspend within a single year, and historically the position has been one of underspending. It is not acceptable that revenue funds are earmarked to finance the capital programme and then not used, particularly when savings have had to be found from elsewhere within the revenue budget. In order to alleviate this issue it has been accepted that there will be an element of "over programming" but that revenue to support the capital programme will take this into account.

7.5 *Council Tax.* As part of the budget setting for 2016/2017 to 2019/2020 the Authority agreed indicative budgets for 2016/2017, 2017/2018, 2018/2019 and 2019/2020 of £41,294,863, £42,156,011, £42,659,954 and £43,171,873 respectively. This required a rise in Council Tax for 2016/2017 of 1.95% to £73.85 at Band D.

7.6 *Fees and Charges.* The Authority is allowed to make charges for the provision of a range of services to the public and to commerce. It has however been the practice of the Authority to avoid making charges for services which the public have a reasonable expectation of receiving free of charge. In December 2015 the Fire Authority approved a revised scale of fees and charges covering the hire of rooms as well as Special Service Charges. An example of where a charge would be made is for the containment and clearance of debris, spillages, discharges or leaks from a vehicle or storage tank where the owner can be readily identified. Charges are made on the basis of recovering costs only i.e. with no profit element and no charges are made in situations where there is a risk to life or property, nor where vulnerable persons are involved. The amount of income which can be raised from these charges is relatively low.

7.7 *Treasury Strategy*. The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 26 February 2016. This strategy complies fully with the Chartered Institute of Public Finance and Accountancy code of practice on Treasury Management which the Authority has adopted. The strategy relies for its success on the appointment of financial advisors who enable the Authority to lend and borrow as prudently as possible. Efforts will continue to be made to ensure a sufficient spread of investment counterparties to minimise risk exposures.

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

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

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

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

7.12 Balances are maintained at an appropriate level by carrying out a risk assessment of financial risk exposures and calculating a value for balances. Accepting that the value of balances may fluctuate to deal with both emergent and changing risk the Authority has decided to target a minimum level of balances of £3.8m. At the end of 2016/17 the level of balances is £7.4m although there are planned reductions in balances going forward as they are used to cushion the transition to a tighter financial regime in future years.

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

7.14 *Value for Money*. The Authority continues to show its commitment to achieving Value for Money although the focus during recent years has been very much on achieving the significant budget reductions required to deal with grant reductions. Delivering services which provide good value for money is a nonetheless a key part of the financial strategy.

SECTION 8: COLLABORATIVE WORKING

8.1 The Authority remains committed to working with other organisations to achieve overall outcome objectives and partnerships and collaborations will be actively sought out where there are common objectives and efficiencies and / or improved outcomes can be achieved. The Policing and Crime Bill is currently subject to parliamentary process and, if it becomes law, will introduce a duty to collaborate applicable to the three emergency services. This, however, will not preclude collaboration with other types of organisation. Again the common thread of equality and inclusion will run through collaborative partnerships where the Service will seek to build trust and respect amongst disadvantaged groups both for the benefit of service delivery and recruitment.

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

SECTION 9: THE REGIONAL DIMENSION

9.1 The Authority remains committed to supporting joint and collaborative working with fire sector colleagues across the region and is now a partner in the Tri-Service Control mobilising system, as well as in other initiatives.

9.2 The Authority is also working closely with regional colleagues on the early stages of the national project to implement a new communications system.

SECTION 10: OUTLOOK FOR 2016/17, 2017/18 AND BEYOND

10.1 The Authority set a budget in February 2016 which for 2016/2017, is balanced by way of a contribution from reserves of £98k. The estimate for 2017/2018 is indicating a shortfall of the order of £1.9m. As this rolls forward, and if unaddressed, it becomes £2.4m by 2018/2019 and £2.5m by 2019/2020.

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

Year	£'s	% Increase
2016/2017	41,294,863	
2017/2018	42,156,011	2.1
2018/2019	42,659,954	1.2
2019/2020	43,171,873	1.2

10.3 Funding Streams, as indicated in the 2016/2017 finance settlement, are expected to reduce as follows:

	2016/2017 £	2017/2018 £	2018/2019 £	2019/2020 £
Revenue Support Grant	8,867,336	6,978,641	5,961,472	5,335,308
Business Rates Actual	3,449,016	3,462,187	3,564,324	3,678,247
Top Up Grant	6,531,053	6,659,508	6,855,969	7,075,098
Total Grant Yield	**18,847,405**	**17,100,336**	**16,381,765**	**16,088,653**

10.4 The figures in the table above were included in the government's finance settlement and are indicative figures for the years 2017/2018 and beyond. The government has made an offer to local authorities that settlement figures for the whole four period will be honoured if authorities confirm acceptance of this offer and publish an efficiency plan. This Authority's efficiency plan is called the Sustainability Plan 2016/17 to 2019/20 and is attached to this strategy as Appendix F.

10.5 If it is assumed that Council Tax yield will increase by between 1% and 1.5% in each of the years 2017/2018 to 2019/2020, and that a council tax increase of 1.95% is approved in each year, the budgetary shortfall is calculated as follows:

	2016/2017 £	2017/2018 £	2018/2019 £	2019/2020 £
Total Grant Yield	17,100,336	16,381,765	16,381,765	16,088,653
Budget Requirement	41,294,863	42,156,011	42,659,954	43,171,873
Balance to be met locally	22,447,458	25,055,675	26,278,189	27,083,221
Council Tax Yield*	22,349,132	23,069,729	23,837,676	24,631,596
Budget Deficit	**98,326**	**1,985,946**	**2,440,513**	**2,451,625**

*Assumes a rise in tax base and a 1.95% rise in Council Tax each year.

If council tax increases are not approved in each of the years 2017/2018, 2018/2019 and 2019/2020 then the forecast cumulative deficit by 2019/2020 increases to £3,839,631.

10.6 A new Chancellor of the Exchequer is now in government and his autumn statement may provide further indications of impacts on local authority funding as a result of the extending period of austerity and the result of the UK referendum on EU membership, which could affect the estimates included within this strategy.

10.7 When looking for budget reductions the overall spend profile of the Authority must be considered. It has previously been reported to Members that around 75% of the revenue budget is spent on pay, around 5% on capital financing costs and the remaining 20% on non-pay items. Since 2010/2011 savings of over £11m have already been made, with just under £7m of these from pay budgets.

10.8 In February 2016 the Fire Authority approved a Sustainability Strategy for 2020 which set out the requirement to balance the budget each year alongside possible areas of service delivery and ways of working which could be considered for re-design in order to achieve budgetary savings whilst still maintaining a high quality service for the community. Officers are now working on the various elements of this strategy, and this will lead to consultation and decision making by the Fire Authority in due course. It is likely that general reserves will be used to support the budget over the next three years whilst changes are implemented, in line with paragraph 1.2 (14) of this Medium Term Financial Strategy.

APPENDIX A

TREASURY MANAGEMENT STRATEGY FOR 2016/17

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

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

The suggested strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Capita Asset Services.

The strategy covers:

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

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

BALANCED BUDGET REQUIREMENT

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This includes a statutory requirement to make a prudent provision for an annual contribution from its revenue budget towards the reduction in its overall borrowing requirement. This charge is known as the Minimum Revenue Provision (MRP). 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;

- Any increases in running costs from new capital projects, and

- Any increases in the Minimum Revenue Provision are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

ECONOMIC BACKGROUND

The 2014 UK GDP growth rate of 2.9% was the strongest since 2006, and the 2015 growth rate is likely to be a leading rate amongst G7 countries. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% - 2.7% over the next three years. However, for this recovery to become more balanced and sustainable in the longer term, it needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure.

The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.3%. It was recognised that wage inflation needed to rise faster than general inflation in order to make the recovery sustainable, so it is encouraging that wage inflation has risen significantly above CPI inflation during 2015. This reversal of the squeeze on disposable incomes has led to stronger consumer demand, which in turn has supported growth.

The Bank of England's November Inflation Report was subdued in respect of the forecasts for CPI inflation, with CPI expected to barely get back up to the 2% target within the next two or three years from the current level of 0.3% (January 2016). The Bank of England said that inflation may temporarily turn negative in the spring. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult for economists to forecast when the Bank of England base rate will begin to increase. Current forecasts for an increase in the bank rate range from quarter 2 in 2016 to quarter 4 in 2016. Increases after that are likely to be at a slower pace, and to lower final levels that prevailed before 2008.

Economic forecasting remains difficult, with a number of internal and external factors influencing the UK position. Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- UK economic growth and increases in inflation are currently weaker than anticipated
- Weak growth or recession in the UK's main trading partners – the EU and the US
- A resurgence of the Eurozone sovereign debt crisis
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially in the Eurozone and Japan
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing flows to economic safe havens such as the UK

Upside risks include:

- Uncertainty around the UK exit from the EU
- UK inflation returning to significantly higher levels than in the wider EU and the US, causing an increase in the inflation premium inherent to gilt yields

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

Capita Asset Services Bank Rate Forecasts	
As at 31 March 2016	0.50%
As at 31 March 2017	0.75%
As at 31 March 2018	1.25%
As at 31 March 2019	1.75%

MANAGEMENT OF CASH RESOURCES

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

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

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

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

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

BORROWING STRATEGY

The prudential indicators for borrowing are set out in Appendix B. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2016/17 report which is elsewhere on this agenda.

The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2016/17 this figure is estimated at £29,190,000. This figure is comprised of capital expenditure incurred historically by the Authority that has yet to be financed by capital receipts, grants, or contributions from revenue including MRP charges, plus estimated capital expenditure and capital financing for 2015/16 and 2016/17.

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. In addition to this, the Authority may also consider loans from the UK's Municipal Bond Agency, which is currently in the process of being set up and is likely to be offering loans to local authorities in the near future.

The loan of £4m referred to in paragraph 2.20 is structured as a "Lender Option Borrower Option (LOBO)" loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long term debt at a lower rate depending on which is the most advantageous option for the Authority. As the interest rate was not changed on 7 March 2013, the next opportunity for a revision is 7 March 2018.

Over the next three years, it is anticipated that the Authority will need to borrow up to £13m to finance the capital programme and to replace up to £6.5m of maturing loans.

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

	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Mar 18	Mar 19
5 yr PWLB	1.80%	1.90%	2.00%	2.10%	2.20%	2.60%	3.00%
10 yr PWLB	2.40%	2.50%	2.60%	2.70%	2.80%	3.20%	3.50%
25 yr PWLB	3.20%	3.20%	3.30%	3.40%	3.50%	3.80%	3.90%
50 yr PWLB	3.00%	3.00%	3.10%	3.20%	3.30%	3.70%	3.80%

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

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

- A combination of capital receipts, internal funds and borrowing will be used to finance capital expenditure in 2016/17 and beyond.

- Four PWLB loans will mature in the medium term (£2m in 2016/17, £2m in 2017/18 and £1m and £1.5m in 2018/19). These will need to be replaced with new borrowing and it is estimated that new borrowing in the period 2016/17 to 2018/19 will be in the region of £13m.

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

- PWLB rates on loans of less than ten years duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority will also be taken into account when decisions are made regarding the duration of new borrowing. The Authority will strive to seek a balance between securing the most advantageous rate whilst ensuring that it is not unduly exposed to re-financing risk.

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

- PWLB Maturity loans will continue to be taken if the overall cost of such loans is less than the equivalent Annuity loans. If this strategy results in a short term breach of the Gross Borrowing and Capital Financing Requirement indicator, then the reasons for this will be explained to members of the Authority.

The Authority is currently maintaining an under-borrowed position. This means that the capital financing requirement has not been fully funded with loan debt; instead the cash supporting the Authority's reserves and balances is being used as a temporary measure. The use of cash balances in this way is known as "internal borrowing", and this strategy is prudent as investment returns are low and counterparty risk is relatively high. The Authority will aim to build cash levels up again in the future in order to ensure that reserves and balances are "cash-backed" to an appropriate level, however the timing of this will very much depend on the prevailing economic conditions and the Authority's ability to ensure the security of funds and demonstrate value for money in its investment returns.

Officers, in conjunction with treasury advisors, will continually monitor both the prevailing interest rates and 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an 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 are still lower than they will be in the next few years.

The Authority's gross debt position is projected to be £22.3m by the end of 2015/16, but investments of approximately £7.2m are expected to be in place at 31 March 2016, giving a net debt position of around £15.1m. Currently, investment interest rates are substantially lower than debt interest rates so the use of reserves rather than borrowing to finance capital expenditure over the past three years has resulted in better value for money in the short term (see paragraph 2.25 for more details). However, the Authority recognises that there will be requirement to borrow in the medium term when surplus reserves have been exhausted. Interest rates are forecasted to rise slowly over the next three years, and the Authority will monitor rate changes closely when determining when the time is right to borrow.

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

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

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

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

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

The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. As short term borrowing rates will be 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 2016/17 although this will be kept under review should circumstances change. Rescheduling will be considered for the following reasons:

- The generation of cash savings and / or discounted cash flow savings;

- Enhancing the balance of the portfolio by amending the maturity profile.

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

INVESTMENT STRATEGY

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

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

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

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

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

The methodology used by Capita to create creditworthiness ratings has been amended. This is due to the withdrawal by the credit ratings agencies of an uplift in ratings due to implied sovereign support for institutions. This process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In keeping with the agencies' new methodologies, the rating element of Capita's own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. Other key elements of Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay, have not been changed.

Whilst the Authority understands the changes that have taken place, and the reasons for them, it will continue to specify a minimum sovereign rating of AA by Fitch (or equivalent). This is in relation to the fact that the underlying domestic and, where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

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

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

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

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

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

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

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

- Deposits with the Debt Management Office (Government);

- Term deposits with Banks and Building Societies;

- Call deposits with Banks and Building Societies;

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

- Triple-A rated Money Market Funds;

- UK Treasury Bills;

- Certificates of Deposit (see paragraph 2.36).

Certificates of Deposit (CDs) are a new addition to the Authority's list of "specified" investment types. They are a low-risk investment offered by banks and building societies. Cash is paid to the financial institution in exchange for a rate of interest agreed for a fixed period in exchange for a "certificate". These certificates can be sold in a secondary market, but the Authority will not engage in this type of activity unless acting on advice received from their treasury advisors. The main advantage to CDs is that they are offered by institutions that would not usually accept term deposits from an Authority of this size. Their use will therefore open up opportunities to invest with a wider range of high-credit rated counterparties.

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

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

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

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

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

MINIMUM REVENUE PROVISION POLICY 2016/17

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

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

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

- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2016/17 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 2016/17 will be calculated on the basis of the Asset Life method.

The regulations also allow for Voluntary Revenue Provision (VRP) charges to be made. A VRP charge would be in addition to the MRP charge, and would have the effect of reducing MRP charges in future years, resulting in revenue budget savings. If the situation arises in the year whereby Officers feel that a VRP charge would be advantageous (e.g. if there are revenue budget underspends), then a recommendation will be made to Finance and Resources Committee to approve a VRP charge during the year.

TRAINING OF OFFICERS AND MEMBERS

Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes. Changes within the Finance Department have led to different staff members taking on some responsibilities for treasury management activities. In response to this, additional treasury management training will be delivered to relevant finance staff during the next few months.

It is also suggested that those tasked with treasury management scrutiny responsibilities also have access to suitable training and a treasury management training seminar was last held for Members of the Finance and Resources Committee in July 2014. The requirement for further Member training will be kept under review over the next year.

APPENDIX B

PRUDENTIAL INDICATORS AND TARGETS

PRUDENTIAL INDICATORS FOR AFFORDABILITY

Estimates of the Ratio of Financing Costs to Net Revenue Stream for 2015/16, 2016/17, 2017/18 and 2018/19, and Actual Ratio of Financing Costs for 2014/15

2014/15 Actual £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
Ratio of Financing Costs to Net Revenue Stream				
5.2%	4.5%	5.6%	6.8%	7.2%

On 24 October 2008 the Finance and Resources Committee considered a report on Sustainable Capital Plans. This report concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the ratio of financing costs to net revenue stream should not exceed 8%. The ratio has reduced from 2014/15 to 2015/16 primarily due to a decrease in the financing costs in 2015/16. The main reasons for this decrease are as follows:

- Interest charges were lower as a loan which matured in 2014/15 has not yet been replaced
- The 2014/15 financing costs included a voluntary revenue provision charge, and there will be no such charge in 2015/16
- Finance lease charges have reduced because the primary term of the last finance lease expired in March 2015. The only lease related charges incurred in 2015/16 relate to the extension of a lease for 4 fire appliances
- The minimum revenue provision charge has reduced in 2015/16.

The ratio increases between 2016/17 and 2018/19 as the net revenue stream reduces due to funding cuts and the financing costs steadily increase. However, the projected ratio is still well within the 8% limit.

Estimates of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D) for 2016/17, 2017/18 and 2018/19, and the Actual Incremental Impact on Council Tax for 2015/16

2015/16 Actual £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
Incremental Impact on Council Tax			
-£0.29	£0.55	£1.46	£0.46

The table above shows that the effect of the decreased financing costs in 2015/16 is a reduction in the incremental impact on council tax in that year. Beyond this, there are incremental increases in 2016/17 and 2017/18 as the minimum revenue provision charge steadily increases. The decrease in 2018/19 is due to a combination of a reduction in interest payments as two loans reach maturity, and a reduction in the minimum revenue provision charge as a number of shorter-life assets become fully financed.

PRUDENTIAL INDICATORS FOR PRUDENCE

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term gross debt will only be for capital purposes, this indicator requires that external debt does not, except in the short term, exceed the total of the capital financing requirement estimated up to the end of 2018/19. Performance against this indicator will be monitored throughout the year. For information, at 31 March 2015 (2014/15 financial year), the Capital Financing Requirement was £22,160k, Net Debt (total debt less investments) was £15,288k and Gross Debt was £20,408k. The estimate of the Capital Financing Requirement at the end of 2018/19 is £30,634k, thereby demonstrating that the indicator has not been breached. At the end of 2018/19, Gross Debt is expected to be in the region of £27.2m, with the Capital Financing Requirement estimated at £30.6m showing that this indicator should be achievable.

Treasury Management

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

PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT

Estimate of Total Capital Expenditure to be Incurred in 2015/16, 2016/17, 2017/18 and 2018/19, and Actual Capital Expenditure for 2014/15

2014/15 Actual £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
Capital Expenditure Total				
4,467	5,536	4,505	4,093	1,136
Capital Expenditure – Financed by Borrowing / Finance Lease				
-591	3,841	3,189	2,301	-857
Capital Expenditure – Financed by Revenue Contributions				
0	0	0	0	0
Capital Expenditure – Financed by Internal Funds				
1,344	1,103	1,301	1,577	1,778

Capital Expenditure – Financed by Capital Grant				
1,534	592	0	0	0
Capital Expenditure – Financed by Capital Receipt				
2,180	0	15	215	215

The estimates for 2016/17 to 2018/19 are submitted to the Fire Authority for approval elsewhere on this agenda. However, the totals shown in the above table includes assumed slippage in addition to new capital expenditure and are therefore higher than the estimates included in the Budget Report. The final capital expenditure for each year may be different from the figures shown above but overall should be similar. Various financing methods have been assumed for the future years but in reality, decisions relating to financing methods will be taken as part of options analyses which will consider the best long term options for the Authority. These options need to be assessed at the time of financing. “Internal funds” in the above table refers to the use of cash available within budgeted resources generated by the minimum revenue provision charge, which is a non-cash transaction. Unused cash from this source is assumed to be carried forward for use in future years. In 2014/15 and 2018/19 the amount to be financed by borrowing or leasing is shown as a negative figure. This means that our requirement to borrow is reduced by this amount in these years, and this occurs because a decision has been made to apply a level of financing from capital receipts, grants, and internal funds which is greater than the amount of capital expenditure incurred in those years. This approach has the benefit of reducing capital financing costs in future years.

Estimate of Capital Financing Requirement as at the end of 2015/16, 2016/17, 2017/18 and 2018/19, and Actual Capital Financing Requirement as at 31/03/15

2014/15 Actual £000s	2015/16 Estimate £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
Capital Financing Requirement				
22,160	26,001	29,190	31,491	30,634

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure, and represents the Authority’s underlying need to borrow for capital purposes. It will therefore be the aggregate of all capital expenditure, less any revenue contributions, capital grants or capital receipts. The above table shows that the Capital Financing Requirement increases between 2014/15 and 2018/19, which is largely due to the lack of capital grant or revenue contributions available to fund the capital programme, resulting in a requirement for borrowing.

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

Operational Boundary and Authorised Limit for External Debt

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

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

Cash flow forecasts have been prepared for 2016/17 to 2018/19 and indicate that there will be no difficulty in maintaining a positive current account balance on a month by month basis and therefore there is no proposal to seek an increase in the Authority's approved overdraft limit of £200,000. However, previous experience shows that these estimates can sometimes be wrong temporarily due to delays in income receipts and it has proved necessary in the past to negotiate temporary increases in this figure of up to £500,000. It is therefore proposed that this buffer of £500,000 should be included within both the operational boundary and the authorised limit.

	2016/17 £000s	**2017/18 £000s**	**2018/19 £000s**
Operational Boundary			
O.B. for borrowing	28,026	30,252	29,816
O.B. for other long term liabilities	0	0	0
Total - Operational Boundary for External Debt	28,026	30,252	29,816
Authorised Limit			
A.L. for borrowing	30,829	33,277	32,798
A.L. for other long term liabilities	0	0	0
Total - Authorised Limit for External Debt	30,829	33,277	32,798

Actual External Debt as at 31/03/15

	2014/15 £000s
Actual borrowing	20,408
Actual other long term liabilities	0
Total – Actual External Debt	20,408

INDICATORS FOR TREASURY MANAGEMENT

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

Gross and Net Debt

The actual amount of external long term borrowing as at 31/03/15 was £20,337k, with short term borrowing totalling £71k. There were no other long term liabilities at the same date. At the same date, the amount of investments was £5,120k, giving a net debt position of £15,288k as at 31/03/15.

The Treasury Management Strategy 2016/17 report, which is elsewhere on this agenda, outlines the proposal to borrow over the next three years to finance the capital programme and to replace maturing loans, and the decision about when to borrow will depend upon interest rate forecasts. For the purposes of setting indicators, assumptions have been made about when borrowing may take place – the reality of this will be determined by Officers in conjunction with the Authority's treasury advisers.

The proportion of net debt to gross debt can highlight where an Authority is borrowing in advance of need, as it shows the extent to which funds have been borrowed and then invested. Whilst the Authority is permitted to borrow in advance to finance the capital programme approved within the Medium Term Financial Strategy, where borrowing rates are higher than investment rates this creates a "cost of carry". Therefore when investment interest rates are low, as they currently are, this cost is reduced by keeping the proportion of net debt to gross debt as high as is practicable. For information, the proportion of net debt to gross debt as at 31 March 2015 was 75%, and it is forecast to be 72% at the end of the current financial year. It is proposed that the Authority sets the following limits for the proportion of net debt to gross debt:

	2016/17	2017/18	2018/19
Lower limit for proportion of net debt to gross debt	50%	50%	50%
Upper limit for proportion of net debt to gross debt	85%	85%	85%

Interest Rate Risk Exposure

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

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

The total value of lending is not expected to exceed £20m, which is likely to peak around July 2016 however it is difficult to assess what the likely investment profile might be as this depends upon capital expenditure timings as well as the level of pension top up grant received from the Government, and the timing of borrowing. The aim will be to reduce risk by investing funds in more than one institution at any given time. Members should note, however, that it is not feasible to set a maximum limit for investing with any one institution as the numbers of banks which meet our minimum credit rating criteria is now very few and even those on the list will not always accept our investments as the Authority is a “small player”. The Authority can also invest in Money Market Funds and certificates of deposit in line with the Treasury Management Strategy.

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

	Benchmark %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Interest Rate Exposures					
Upper Limit for fixed rate exposures	100%	100%	100%	100%	100%
Upper Limit for variable rate exposures	30%	30%	30%	30%	30%

Loan Maturity

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

It is recommended that the maturity structure limits remain unchanged for 2016/17. The Authority holds a loan of £4m which is structured as a “Lender Option Borrower Option” (LOBO) loan. This means that on 7 March 2013 and every five years thereafter, the lender may revise the interest rate. The Authority may choose to repay the loan without penalty if the amended rate is not advantageous. The rate was not changed on 7 March 2013, so the next opportunity for revision is 7 March 2018. Unless the Authority chooses to repay the loan early due to an unfavourable interest rate change, the loan will mature in 2078. The uncertainty around the maturity date of this loan has an impact on the calculation of the maturity structure of the Authority’s borrowing. If the loan were to mature in 2018, as is possible under the terms of the LOBO agreement, the limit for debt maturing between 12 months and 5 years will be breached. However, as the risk of the LOBO rate increasing during the medium term is low due to downward pressures on interest rates, the re-financing risk arising from the loan maturing within 5 years is low. Therefore a breach of this nature would be considered acceptable.

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

Principal Sums Invested for Periods Longer than 365 Days

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

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

APPENDIX C

The proposed Capital Programme for 2016/2017 to 2018/2019

Capital Programme Item	2016/17 Proposed	2017/18 Proposed	2018/19 Proposed
	£	£	£
Appliance Replacement (3-3-3)	907,435	908,155	908,905
Special Appliances	51,800	0	0
Appliance Equipment	25,650	0	0
Light Vehicle Replacement	173,346	353,538	407,380
Transport Total:	**1,158,231**	**1,261,693**	**1,316,285**
Special Appliances Equipment (Holmatro)	157,000	0	0
BA Sets	0	700,000	0
Equipment Total:	**157,000**	**700,000**	**0**
Feasibility Studies Station design	22,500		
Fire Station Project	325,000	2,350,000	75,000
Property Total:	**347,500**	**2,350,000**	**75,000**
ICT Capital Programme	140,000	140,000	140,000
Mobile Computing	20,000	20,000	0
Business Process Automation	95,450	0	0
ICT Total:	**255,450**	**160,000**	**140,000**
Agresso Upgrade	35,000	0	0
Tranman Software	11,000	0	0
IT Systems Total:	**46,000**	**0**	**0**
Total Capital Programme:	**1,964,181**	**4,471,693**	**1,531,285**

CASH LIMIT 2016/17 to 2018/19 **APPENDIX D**

		Original Budget 2015/2016 £000's	Revised Budget 2015/2016 £000's	Budget Requirement 2016/2017 £000's	Budget Requirement 2017/2018 £000's	Budget Requirement 2018/19 £000's
Employees						
	Direct Employee Expenses	31342	31416	31261	31883	32180
	Indirect Employee Expenses	521	521	446	446	446
	Pension	821	821	837	854	872
		32684	**32758**	**32544**	**33183**	**33498**
Premises-Related Expenditure						
	Repairs Alterations and Maintenance of Buildings	544	540	545	561	567
	Energy Costs	371	367	367	367	367
	Rents	95	95	76	66	66
	Rates	712	710	710	710	710
	Water	72	72	81	84	85
	Fixture and Fittings	1	1	1	1	1
	Cleaning and Domestic Supplies	300	322	322	322	322
	Grounds Maintenance Costs	26	26	26	28	28
	Premises Insurance	35	35	36	36	36
	Refuse Collection	37	37	38	39	40
		2193	**2205**	**2202**	**2214**	**2222**
Transport-Related Expenditure						
	Direct Transport Cost	1127	1127	1038	1064	1073
	Recharges	128	128	123	123	123
	Public Transport	17	17	27	27	27
	Transport Insurance	266	266	150	150	150
	Car Allowances	369	369	366	366	366
		1907	**1907**	**1704**	**1730**	**1739**
Supplies & Services						
	Equipment Furniture and Materials	683	660	683	675	675

		Original Budget 2015/2016 £000's	Revised Budget 2015/2016 £000's	Budget Requirement 2016/2017 £000's	Budget Requirement 2017/2018 £000's	Budget Requirement 2018/19 £000's
	Catering	44	45	59	44	44
	Clothes Uniforms and Laundry	264	268	346	369	392
	Printing Stationery and General Office Expenses	85	85	60	60	60
	Services	474	486	584	556	562
	Communications and Computing	1542	1547	1535	1515	1515
	Expenses	36	36	39	54	54
	Grants and Subscriptions	36	36	38	38	38
	Miscellaneous Expenses	272	272	235	236	237
		3436	**3435**	**3579**	**3547**	**3577**
Third Party Payments						
	Other Local Authorities	103	103	58	59	60
	Private Contractors	23	23	0	0	0
		126	**126**	**58**	**59**	**60**
Support Services						
	Finance	162	162	169	171	173
	Corporate Services	43	43	43	43	43
		205	**205**	**212**	**214**	**216**
Depreciation and Impairment Losses						
	Depreciation	0	0	0	0	0
	Amortisation of Intangible Fixed Assets	0	0	0	0	0
		0	**0**	**0**	**0**	**0**
Sales Fees & Charges						
	Customer and Client Receipts	-144	-144	-193	-195	-196
		-144	**-144**	**-193**	**-195**	**-196**
Other Income						
	Government Grants	-470	-555	-638	-520	-520

		Original Budget 2015/2016 £000's	Revised Budget 2015/2016 £000's	Budget Requirement 2016/2017 £000's	Budget Requirement 2017/2018 £000's	Budget Requirement 2018/19 £000's
	Other Grants/Reimbursements and Contributions	-303	-303	-490	-842	-843
	Interest	-76	-76	-76	-66	-66
		-849	**-934**	**-1204**	**-1428**	**-1429**
Capital Financing Costs						
	Interest Payments	952	952	1092	1254	1196
	Debt Management Expenses	1273	1273	1301	1578	1778
		2225	**2225**	**2393**	**2832**	**2974**
BUDGET		**41,783**	**41,783**	**41,295**	**42,156**	**42,660**

APPENDIX E

Flexible Use of Capital Receipts Strategy

Introduction

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their capital receipts from the sale of fixed assets on the revenue cost of reform projects. This gives local authorities the power to treat as capital expenditure, expenditure which is incurred in generating on-going revenue savings in the delivery of public services either by way of reducing the cost of or reducing demand for services in future years. This impact of cost or demand reduction can be realised by any public sector delivery partners but must be properly incurred by authorities for the financial years that begin on 1 April 2016, 1 April 2017 and 1 April 2018. Capital receipts used in this way must have been received in these same three years.

This new power and its guidance is issued under Section 15(1) of the Local Government Act 2003, which requires local authorities to have regard to guidance that the Secretary of State may specify.

Application

The guidance specifies that authorities may not borrow to finance the revenue costs of service reform, nor may they use capital receipts accumulated from prior years. The key criteria to be used when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate on-going savings to an authority's or several authorities' and / or to another public sector body's net service expenditure.

Accountability and Transparency

The guidance specifies that authorities must disclose the individual projects that will be funded or part funded through capital receipts flexibility to the full Fire Authority. This requirement can be satisfied as part of the annual budget setting process or through the Medium Term Financial Strategy. It is recommended that the disclosure of projects to be funded in this way should be made prior to the start of each financial year, however if the strategy is updated part way through the year it must be approved by the Fire Authority and notified to central government. A revised strategy must also include the impact on Prudential Indicators. Both the initial strategy and any revised strategy must be made available online to the public.

The strategy must list each project to be funded through capital receipts flexibility, with details of the expected savings and service transformation. With effect from the 2017/18 strategy details must be included of projects approved in previous years and progress against achievement of the benefits outlines in the original strategy.

Strategy for 2016/17

For the financial year 2016/17 there are no projects to be funded through capital receipts flexibility. The government's guidance on this was issued after the Fire Authority had approved the budget in February 2016 and this budget included plans to use future capital receipts either to finance future capital expenditure or to repay borrowings. If it is felt in the future that the use of capital receipts flexibility would be beneficial to the Authority then a revised strategy will be reported to the Fire Authority for approval. The strategy for 2017/18 will be included within the budget report to the Fire Authority.

APPENDIX F

SUSTAINABILITY PLAN 2016/17 TO 2019/20

1. Introduction

1.1 This Sustainability Plan sets out how Nottinghamshire Fire and Rescue Authority (the Authority) plans to reduce its cost base over the period from 2016/17 to 2019/20 in order to balance its revenue budget in the context of an expected reduction in external funding. This plan is designed to meet the Home Office requirement for Fire and Rescue Authorities to publish an Efficiency Plan in return for a four year funding settlement.

1.2 This Sustainability Plan is appended to the Medium Term Financial Strategy (MTFS) and should be read within the context of the strategy. In particular, this plan seeks to fulfil the core objective (see Section 1.1 of the MTFS) of "to support the continuance of the Authority's core services and strategies", and has been prepared in accordance with the principles set out in Section 1.2 of the MTFS.

1.3 The principal aim of the Authority is "Creating Safer Communities" and underpinning this aim are three principles, which are:

- to deliver high quality services,
- with an engaged and motivated workforce,
- within a framework of strong governance and financial stability.

The Authority will be creating and managing a programme of significant change, and will do so in line with its Shaping the Future Strategy with the aim of ensuring that the three principles outlined above underpin the delivery of objectives through to the year 2020. It is recognised that there are often significant barriers to change and the Authority aims to involve employees fully in the transformation process as a way of overcoming these barriers.

1.4 The amount by which the base revenue budget must reduce by 2019/20 is between £2.5m and £3.8m. This range is approximate and the cost reduction required could be more than £3.8m or less than £2.5m. The reason for this variation is that the calculation of the budget requirement in future years depends on a number of uncertain factors which will only crystallise into certainties as time progresses. Examples of these factors are:

- the level of pay awards over the four year period
- wider economic factors such as inflation and interest rates
- actuarial valuation of pension schemes and resulting employer contribution rates
- government fiscal policies such as National Insurance rates or new levies
- the impact of reforms to funding such as business rates retention, potential fire grant, the fair funding review, referendum limits, other grants
- council taxbase levels
- decisions on council tax by those charged with governance

Currently almost half of the revenue budget is supported by external funding as opposed to by council tax, and around three quarters of the revenue budget relates to employee pay. This means that the budget is particularly sensitive to changes in any factors relating to pay, pensions or external funding. It is noted that savings in the region of £11m have already been achieved over the last six years.

2. Timetable

2.1 The reduction in budgets required of up to £3.8m by 2019/20 will need to be achieved through cashable savings. Where efficiencies can be found which do not release cashable savings, the non-cashable benefits will be used to resource other priority areas. The table below sets out the timescale for achieving savings in each of the four years:

	By 1st April 2016	By 1st April 2017	By 1st April 2018	By 1st April 2019
	£m	£m	£m	£m
Amount of Budget Reduction Required per year	0.10*	1.99 to 2.43	0.45 to 0.92	0.01 to 0.50
Amount of Budget Reduction Required cumulative	0.10*	1.99 to 2.43	2.44 to 3.34	2.45 to 3.84

* reduction not yet achieved

2.2 Consultation with employees, representative bodies and the public will be undertaken where appropriate, with the results feeding into the change programme.

2.3 Where planned savings cannot be achieved in line with the above timetable e.g. due to the requirement for consultation, then the Authority's general reserves can be used to support the budget temporarily in line with principle no. 14 in Section 1.2 of the MTFS. The minimum level of reserves required to be held was risk-assessed in February 2016 and the amount of available reserves which could be used to support the budget is therefore £3.5m as at 1st April 2016.

3 Areas for Change: Sustainability Strategy 2020

3.1 Seek collaborative opportunities to deliver cost savings and / or improved outcomes – Savings target: £850k

3.1.1 Continue with existing collaborative arrangements and seek to increase the coverage of these where possible and practicable. Examples of existing collaboration arrangements are:

- The sharing of fire stations with the East Midlands Ambulance Service (EMAS). As at 1st April 2016 facilities at a number of fire stations were being used by EMAS employees and these arrangements are generating rental income.
- The sharing of premises with other partners e.g. the use of Fire Authority buildings by both the Police and St Johns Ambulance. These arrangements are also generating rental income.
- The First Responder scheme which supports EMAS is being undertaken by crews at two fire stations as at 1st April 2016 and is funded by EMAS. The Co-responding scheme has been in place for a number of years.
- The use of certain training facilities provided by regional fire and rescue services, which has avoided the need to build our own facilities.
- A finance and procurement system purchased and developed with two other fire and rescue services, which has achieved economies of scale.

- A mobilising system purchased and developed with two other fire and rescue services, which has achieved economies of scale, reduced staffing costs and has improved resilience.
- Certain aspects of fire investigation are carried out with regional resources, generating cost savings. The national Primary Key Authority concept for fire protection has generated efficiencies and this Authority carries out that role for Boots PLC.

3.1.2 Proactively seek new collaborative arrangements with Police, Health, other Fire and Local Authority partners, where these will achieve cost savings and / or improved outcomes

3.2 Procurement – Savings target: £350k

3.2.1 Continue to focus on effective procurement to drive down non-pay costs. This will involve the use of procurement frameworks for major purchases (a recent example of this is the Wide Area Network contract) and maintaining a strong governance framework which seeks to achieve best value through all procurement activity.

3.2.2 Continue to proactively seek collaborative procurement opportunities wherever possible to reduce costs. This will involve the exploration of opportunities by working with professional networks, and the use of benchmarking tools to identify innovative procurement initiatives.

3.3 Maximising the Benefit and Value of our Assets - Savings target: £150k

3.3.1 Continue to rationalise property assets with the aim of increasing collaboration, improving sustainability and reducing costs.

3.3.2 Develop a new fleet strategy with the aim of rationalising numbers of vehicles and ensuring that on-going fleet is fully utilised at a lower cost.

3.3.3 Continue to refurbish and reuse assets and equipment to extend their useful life where it is safe to do so, thereby reducing costs.

3.4 Redesign of Service Delivery - Savings target: £1,100k

3.4.1 Develop alternative crewing models and use of emerging technologies to maximise appliance availability.

3.4.2 Develop a mixed crewing model where feasible to maintain appliance availability and reduce costs.

3.4.3 Revision of current crewing collective agreement to release surplus capacity within the ridership.

3.4.4 Voluntary secondary contracts to support retained appliances at peak demand and to support the transformation process.

3.4.5 Focus on recruitment and retention of retained firefighters to maximise appliance availability.

4 Transparency and Reporting

4.1 Options will be presented to those charged with governance, for consideration and decision, taking account of consultation responses where appropriate.

4.2 Annual reports monitoring progress against this plan will be published within the Statement of Assurance.

4.3 Reports to those charged with governance, and minutes of meetings, will continue to be published so that interested parties can see how the Service is being transformed.

5 Conclusion

5.1 The period ahead will be one of immense change, which will require significant effort from employees and input from a range of stakeholders in order to achieve the Service's core aims and objectives whilst managing within a smaller budget.

5.2 The expectation is that the resulting organisation in 2020 will still deliver high quality services which will continue to address the risks identified in the Integrated Risk Management Plan and meet the needs of the community. Working practices within the Service will be modern and efficient and the cost base will be reduced to a sustainable level.