

BUCKINGHAMSHIRE AND MILTON KEYNES FIRE AUTHORITY
BUCKINGHAMSHIRE FIRE AND RESCUE SERVICE

Director of Legal & Governance, Graham Britten
Buckinghamshire Fire & Rescue Service
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Chief Fire Officer and Chief Executive
Mark Jones

To: The Members of the Executive Committee

26 January 2015

Dear Councillor

Your attendance is requested at a meeting of the **EXECUTIVE COMMITTEE of the BUCKINGHAMSHIRE AND MILTON KEYNES FIRE AUTHORITY** to be held in Meeting Room 1, Fire and Rescue Headquarters, Stocklake, Aylesbury, Bucks, HP20 1BD on **WEDNESDAY 4 FEBRUARY 2015 at 10.00 am** when the business set out overleaf will be transacted.

Yours faithfully

Graham Britten
Director of Legal and Governance

Chairman: Councillor Busby
Councillors: Dransfield, Gomm, Lambert, Morris, Reed, Schofield and Webb



MAKING YOU SAFER

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EXECUTIVE COMMITTEE

TERMS OF REFERENCE

1. To make all decisions on behalf of the Authority, except in so far as reserved to the full Authority by law or by these Terms of Reference.
2. To assess performance of the Authority against agreed organisational targets.
3. To determine matters relating to pay and remuneration where required by collective agreements or legislation.
4. To select on behalf of the Authority the Chief Fire Officer and Chief Executive, and deputy to the Chief Fire Officer and Chief Executive, or equivalent, taking advice from suitable advisers and to make recommendations to the Authority as to the terms of appointment or dismissal.
5. To consider and make decisions on behalf of the Authority in respect of the appointment of a statutory finance officer; a statutory monitoring officer; and any post to be contracted to "Gold Book" terms and conditions in whole or in part taking advice from the Chief Fire Officer and suitable advisers.
6. To act as the Employers' Side of a negotiating and consultation forum for all matters relating to the employment contracts of the Chief Fire Officer and Chief Executive, deputy to the Chief Fire Officer and Chief Executive, or equivalent; and where relevant, employees contracted to "Gold Book" terms and conditions in whole or in part.
7. To hear appeals if required to do so in accordance with the Authority's Policies.
8. To determine any human resources issues arising from the Authority's budget process and improvement programme.
9. To determine policies, codes or guidance:
 - (a) after considering recommendations from the Overview and Audit Committee in respect of:
 - (i) regulating working relationships between members and co-opted members of the Authority and the employees of the Authority; and
 - (ii) governing the conduct of employees of the Authority
 - (b) relating to grievance, disciplinary, conduct, capability, dismissals and appeals relating to employees contracted to "Gold Book" terms and conditions in whole or in part.
10. To form a Human Resources Sub-Committee as it deems appropriate.

AGENDA

Item No:

1. Apologies

2. Minutes

To approve, and the Chairman to sign as a correct record, the Minutes of the meeting of the Executive Committee held on 19 November 2014 Item 2 (Pages 5 - 10)

3. Disclosure of Interests

Members to declare any disclosable pecuniary interests they may have in any matter being considered which are not entered onto the authority's register, and officers to disclose any interests they may have in any contract to be considered.

4. Questions

To receive questions in accordance with standing order Standing Order SOA7

5. Treasury Management Statement 2015/6

To consider Item 5 (**Pages 11 - 26**)

6. The Prudential Code, Prudential Indicators and Minimum Revenue Provision

To consider Item 6 (**Pages 27 - 34**)

7. Medium Term Financial Plan

To consider Item 7 (**Pages 35 - 66**)

8. Exclusion of the Press and Public

To consider excluding the public and press representatives from the meeting by virtue of Paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972, as an appendix to the report contains information relating to an individual; and Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as an appendix to the report contains information relating to the financial or business affairs of a person; and on all these grounds it is considered the need to keep information exempt outweighs the public interest in disclosing the information:

Appendix 7: Senior Management Team Remuneration and Performance Review

9. Senior Management Team Remuneration and Performance Review

To consider Item 9 (**Pages 67 - 81**)

10. Date of the Next Meeting

To note that the next meeting of the Committee will be held on Wednesday 18 March 2015 at 10.00am

If you have any enquiries about this agenda please contact: Katie Nellist (Democratic Services Officer) – Tel: (01296) 744633 email: knellist@bucksfire.gov.uk

Minutes of the meeting of the EXECUTIVE COMMITTEE of the BUCKINGHAMSHIRE AND MILTON KEYNES FIRE AUTHORITY held on WEDNESDAY 19 November 2014 at 10.00 am

Present: Councillors Busby (Chairman), Dransfield, Gomm, Morris, Reed, Schofield and Webb

Officers: J Thelwell (Chief Operating Officer), G Britten (Director of Legal and Governance), D Skinner (Director of Finance and Assets), L Swift (Director of People and Organisational Development), M Osborne (Head of Service Transformation), J Parsons (Head of Service Delivery), E Andrews (Executive Assistant to Chief Fire Officer), F Pearson (Communication and Consultation Manager) and K Nellist (Democratic Services Officer)

Two members of the public

Apologies: Councillor Lambert.

EX17 MINUTES

RESOLVED –

That the Minutes of the meeting of the Executive Committee held on 17 September 2014, be approved and signed by the Chairman as a correct record, subject to 'Chairman' being added after Councillor Busby's name.

EX18 QUARTER TWO BUDGET MONITORING PERFORMANCE AND DEBT MANAGEMENT APRIL – SEPTEMBER 2014

The Vice Chairman introduced the report and advised members that the Authority was half way through the year and in a healthy position and the senior management team should be commended.

The Director of Finance and Assets advised members that the £238k underspend would be used to bring forward the ICT Strategy. Although a good news story, there were still on-going risks that needed to be monitored.

In answer to a question as to whether the underspend would have an impact on the precepts for next year it was explained there would be no impact other than allowing the Authority to manage a reduction in funding in future years.

In answer to a question on the underspend for the Retained Duty System (RDS) employees it was explained that the budget was set for the establishment which had been agreed, but at present there was a need to recruit more staff.

In answer to a question regarding the £25k overspend on contracted cleaning services it was explained that spend on contract cleaners still gave an underspend of over £67k.

RESOLVED –

1. That the latest projected outturn forecast for the Authority as at 30 September 2014 be noted.
2. That the budget virement (A) as detailed at the end of section 9 of the report be authorised.
3. That £238k of the projected underspend be used to fund projects from the ICT strategy to be brought forward from future years and would be accounted for as an additional revenue contribution to capital in 2014/15.

EX19 TREASURY MANAGEMENT PERFORMANCE 2014/15 – QUARTER 2

The Vice Chairman advised members that this report was about how the Authority was investing its money in a safe way and doing very well. The accrued interest earned for the first half of 2014/15 was £65k, which was £30k higher than the budget for the six month period.

RESOLVED –

That the Treasury Management Performance 2014/15 – Quarter 2 be noted.

EX20 PROCUREMENT STRATEGY 2015-2020

The Director of Finance and Assets advised members that it was an update to the existing strategy and the aim of the strategy was to set a clear framework for the procurement of goods, works and services within the Authority.

The Chairman advised members it was one of the most comprehensive procurement strategies he had seen in a local authority and thanked the team that had prepared it.

The Vice Chairman felt that the work done by the 'member challenge' process over the last few years had brought expenditure on unnecessary items down and there was now a clearer understanding of what the Authority wanted to purchase.

RESOLVED –

That the Procurement Strategy 2015-2020 be adopted for implementation.

EX21 RESPONSE TO CONSULTATION OF FIREFIGHTERS' PENSIONS SCHEME 2015: PROPOSALS FOR NEW GOVERNANCE ARRANGEMENTS

The Lead Member for Human Resources and Equality & Diversity, introduced the report and explained to members that the report

set out the Authority's response on the draft Governance Regulations for the Firefighters' Pension Scheme 2015 following the six week consultation period which closed on 21 November 2014.

The Director of People and Organisational Development advised members that the new proposals set out the terms for the establishment of a new single national Scheme Advisory Board to be in place from April 2015 and the requirement for each fire and rescue authority to establish a local Pension Board, also by 1 April 2015.

An initial risk assessment had identified a number of potential risks.

An amendment to the recommendation having been moved and seconded it was:

RESOLVED –

That the Committee note and endorse the Authority's response to the consultation paper on the Firefighters' Pension Scheme 2015 Proposals for the new governance arrangements and note a follow up report would be presented once the final governance arrangements are announced.

EX22

MEMBERS SCHEME OF ALLOWANCES 2015/16

The Director of Legal and Governance advised members that payments and the process by which payments are approved can only be made in line with the statutory scheme.

The regulations require that combined fire authorities must have regard to the independent remuneration panels' recommendations from the constituent authorities and those recommendations are contained within the appendices of this report.

The Director of Legal and Governance explained to members that the removal of allowances in the event that a members was suspended by their standards committee, was taken out of the scheme by the Authority two years ago because under the Localism Act 2011 it is no longer permissible to suspend a member, therefore it is not permissible to withhold allowances.

In answer to a question as to whether the Authority had to take note of a constituent authority's responses to its own independent remuneration panel's recommendations, it was advised that the regulations only require that Authority to have due regard of the recommendations of the panels.

RESOLVED –

That the Authority be recommended to adopt the Scheme for Members' Allowances for 2015/16.

EX23

EXCLUSION OF PUBLIC AND PRESS

RESOLVED –

That the public and press be excluded from the meeting by virtue of Paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 as appendix 1 of the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and on those grounds it is considered the need to keep information exempt outweighs the public interest in disclosing the information, so that the meeting may consider the following matter:

Delivering Legal Services through an Alternative Business Structure

The Executive Assistant to the Chief Fire Officer, the Communication and Consultation Manager and the two members of the public left the meeting.

EX24

Delivering Legal Services through an Alternative Business Structure

The Director of Legal and Governance advised members that at its meeting on 17 July 2013 the Committee delegated responsibility to the Chief Fire Officer to negotiate terms of entry into the alternative business structure, to provide legal services to a wider client base.

The Director of Legal and Governance did not envisage the Chief Fire Officer being required, after consultation with the Chairman, to make any significant amendments. It was noted that the certificate of incorporation of the company was 'Buckinghamshire Law+', but it had now been required to change it to 'Buckinghamshire Law Plus'.

RESOLVED –

1. That the terms of participation by the Authority in the company 'Buckinghamshire Law Plus' as set out in the Shareholders' Agreement be endorsed.
2. That the post-holder of Chief Fire Officer/Chief Executive of the Authority, ex officio, be appointed as a director to the board of the company.

3. That the post-holder of Chief Fire Officer/Chief Executive of the Authority, ex officio, be authorised to act as the Authority's representative as shareholder of the company.
4. That authority be delegated to the Chief Fire Officer/Chief Executive to make any amendments to the Shareholder's Agreement needed to gain agreement prior to completion in consultation with the Chairman.

EX25

EXCLUSION OF PUBLIC AND PRESS

RESOLVED –

That the public and press be excluded from the meeting by virtue of Paragraph 1 of part 1 of Schedule 12A of the Local Government Act 1972 as appendix 2 of the report contains information relating to an individual; and Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 contains information relating to the financial or business affairs of a person and on those grounds it is considered the need to keep information exempt outweighs the public interest in disclosing the information, so that the meeting may consider the following matter:

Appointment of the Authority's Future Chief Fire Officer/Chief Executive

The Chairman asked the Chief Operating Officer, the Head of Service Transformation, the Head of Service Delivery and the Director of Finance and Assets to leave the room.

EX26

APPOINTMENT OF THE AUTHORITY'S FUTURE CHIEF FIRE OFFICER/CHIEF EXECUTIVE

In accordance with Section 100B(4)(b) of the Local Government Act 1972 the Chairman ruled that the Committee should consider the Appointment of the Authority's Future Chief Fire Officer/Chief Executive Report as an urgent item in order to allow the Committee to approve the appointment of a Chief Fire Officer/Chief Executive designate before February 2015.

There was only one member of the Executive Committee who had not been able to attend the interview selection process for the new Chief Fire Officer/Chief Executive. The Chairman felt that with the members and the help of Sir Ken Knight, it was a very robust and defensible process.

The Director of People and Organisational Development advised members that it was noted in Appendix 1 that if the first stage, considering an internal candidate was not successful, the selection would be widened to external candidates.

Members asked that a press release be issued as soon as possible advising that Jason Thelwell had been appointed the new Chief Fire Officer/Chief Executive from February 2014.

RESOLVED –

1. That Jason Thelwell be selected as Chief Fire Officer/Chief Executive to commence in post on 7 February 2015.
2. That Jason Thelwell becomes Chief Fire Officer/Chief Executive designate on 1 January 2015.
3. That the Authority be recommended to approve the remuneration for the Chief Fire Officer/Chief Executive set out in Appendix 2 as £138,500 per annum on appointment.

[Press and Public re-admitted]

EX27

DATE OF NEXT MEETING

The Committee noted that the date of the next Executive Committee would be held on Wednesday 4 February 2014 at 10.00am.

THE CHAIRMAN CLOSED THE MEETING AT 11AM.



Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	4 February 2015
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	Treasury Management Strategy 2015/16
EXECUTIVE SUMMARY	<p>This report is being presented as the Fire Authority is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These documents (Appendix A) all support the Medium Term Financial Plan (agenda item 7).</p> <p>The changes of note are:</p> <ol style="list-style-type: none"> 1. The Authority proposes to invest in enhanced money market funds (the current strategy only permits instant access money market funds). Use of these will help the Authority achieve a more optimal balance of liquidity and yield without compromising security. 2. The Authority proposes that up to 10% of the portfolio can be invested with other local authorities for more than one year, up to a maximum of five years. This allows the Authority to lend at higher rates of interest to the highest rated counterparties. 3. The Authority proposes to invest in Certificates of Deposit (CDs). This will allow access to additional investment terms and rates. It also improves liquidity as CDs can be traded in a secondary market (although it is envisaged CDs will be held to maturity unless there are significant changes in economic/local circumstances).
ACTION	Decision.
RECOMMENDATIONS	<p>It is recommended that:</p> <p>The Authority be recommended to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy for 2014/15.</p>

RISK MANAGEMENT	<p>Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk will be managed in accordance with the strategy and with advice from external treasury management advisors.</p> <p>The Director of Finance and Assets will act in accordance with the Authority's policy statement; treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management. There are no direct staffing implications.</p> <p>All of the proposed changes will have an insignificant impact on the risk of counterparty failure. All deposits placed in accordance with the changes will still be made in line with the Creditworthiness Policy detailed in the body of the report.</p>
FINANCIAL IMPLICATIONS	The proposed budget for 2015/16 is £100k. It is anticipated that the budget will be met. Detailed information is shown within Appendix A.
LEGAL IMPLICATIONS	The Authority is required by section 15(1) of the Local Government Act 2003 to have regard to the Department for Communities and Local Government Guidance on Local Government Investments; and by regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] to have regard to any prevailing CIPFA Treasury Management Code of Practice
HEALTH AND SAFETY	No direct impact.
EQUALITY AND DIVERSITY	No direct impact.
USE OF RESOURCES	The projected income has been factored into the Medium Term Financial Plan.
PROVENANCE SECTION & BACKGROUND PAPERS	<p>Treasury Management Strategy and Policy Statements 2013/14 http://bucksfire.gov.uk/files/3814/0292/6941/TREASURYMANAGEMENTfeb14.pdf</p> <p>Treasury Management Practices http://www.bucksfire.gov.uk/NR/rdonlyres/FDA454EA-1735-4569-BE96-C1E3D0079A75/0/ITEM6TreasuryManagementPracticeSandASep13andAnnexA.pdf</p> <p>Department for Communities and Local Government Guidance on Local Government Investments (DCLG Guidance) https://www.gov.uk/government/uploads/system/uplo</p>

	<p>ads/attachment_data/file/320206/1501971.pdf</p> <p>This paper should also be read in conjunction with the paper "The Prudential Code, prudential indicators and minimum revenue provision"</p>
APPENDICES	<p>Appendix A – Treasury Management Policy Statement Treasury Management Strategy Statement and Annual Investment Strategy</p> <p>Appendix B – Provisional Counterparty List</p> <p>Appendix C – Prospects for Interest Rates</p>
TIME REQUIRED	10 minutes.
REPORT ORIGINATOR AND CONTACT	<p>Linda Blunt</p> <p>lblunt@bucksfire.gov.uk</p> <p>01296 744404</p>

Appendix A – Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy

Treasury Management Policy Statement

This Authority defines its treasury management activities as:

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

This Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

The investment policy objective for this Authority is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Authority's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Authority will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Treasury Management Strategy Statement

Current Portfolio Position

The Authority's treasury portfolio position as at 31 December 2014 comprised:

Borrowing

Fixed Rate Funding: £8.265m Average Rate: 4.59%

Investments

£20.722m Average Rate 1 April 2013 to 31 December 2014: 0.69%

It is anticipated that a number of large payments will be made before the end of the year. Therefore, projected interest receivable (see 'Prospects for Interest Rates' below) has been modelled on an average fund balance of £18.5m.

Prospects for Interest Rates

For 2015/16, the Authority will continue with Capita (formerly known as Sector) as its external treasury management advisor. Capita's view of the prospects for interest rates can be seen in Appendix C.

Capita advise that the current benchmark rate of return on investments should be Base Rate (currently 0.50%), although the rate may be higher if the Authority is able and willing to commit funds for longer durations (up to one year). Using this benchmark figure would give an annual return of circa £92.5k on a balance of £18.5m (the total projected return for 2014/15 is circa £120k).

If the Annual Investment Strategy was to remain unchanged from 2014/15, the Authority projects that it could achieve an average rate of 0.59%, which would give an annual return of circa £109k on a balance of £18.5m.

By adopting use of enhanced money market funds, and extending the investment period for local authority investments as detailed within the Annual Investment Strategy (AIS) the Authority projects that it could achieve an average rate of 0.61%, which would give an annual return of circa £113k on a balance of £18.5m.

Borrowing Strategy

The Authority's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio
- To manage the Authority's debt maturity profile, leaving no one future year with a disproportionate level of repayments

No additional borrowing is forecast to take place during the duration of the medium term financial plan.

Investment Strategy

This Authority maintains investments that are placed with reference to cash flow requirements. Investment of the Authority's funds is in accordance with the Annual Investment Strategy.

Debt Rescheduling

The potential for debt rescheduling is monitored in light of interest rate movements.

Any rescheduling will be in accordance with the borrowing strategy. The reasons for rescheduling include:

- The generation of cash savings at minimum risk
- Fulfilment of the borrowing strategy
- Enhancement of the maturity profile of the borrowing portfolio

Due to the current level of penalties on the early repayment of borrowing, it is not expected that any debt will be restructured over the medium term.

Annual Investment Strategy (AIS)

A prudent investment policy has two objectives (as defined by the DCLG guidance):

- achieving first of all security (protecting the capital sum from loss);
- and then liquidity (keeping the money readily available for expenditure when needed);
- once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities.

Investment Policy

In accordance with guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the Authority has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps (CDS) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita in producing its colour coding which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

This Authority applies the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies 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 spreads 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.

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 supporting government.

As well as continuing to invest in AAA rated money market funds (MMFs), the Authority also proposes to invest in AAA rated enhanced money market funds (EMMFs) during the year. An EMMF provides the same level of security as a MMF, but whilst MMFs provide instant access to funds, EMMFs require a notice period (typically seven days) before funds can be drawn. EMMFs pay a slightly higher interest rate and will be a useful tool for balancing liquidity and yield whilst maintaining the security of the deposit.

The Authority also proposes to invest in certificates of deposit (CDs). CDs are a negotiable form of fixed deposit, the difference being that you are not obligated to hold the CD to maturity, thus providing added liquidity to the Authority's investment portfolio. CDs create no additional risk as they are issued by UK and international banks and Building Societies and the Authority will invest only in CDs offered by counterparties on the lending list as determined by Capita's creditworthiness policy (as detailed earlier in this section). Although the CDs will be limited to the same counterparties, it may open up rates or durations not offered by those counterparties under a traditional fixed-term deposit.

Country Limits

In 2014/15, the Authority determined that it would not only use approved counterparties based within the United Kingdom during the year but allowed a limited number of counterparties from outside of the UK to be used. Although none of these counterparties were used during 2014/15, these will remain on the lending list for 2015/16. The primary purpose of this is not to increase yield, but to provide additional diversity to the portfolio to effectively manage risk. A number of non-UK banks are ranked higher than some of the UK banks on the Authority's current counterparty list. A list of the proposed counterparties is shown in Appendix B. Although Capita advise that investments can be placed with some of the counterparties for longer than 100 days, the Authority proposes to limit the duration of all non-UK investments to 100 days.

Counterparty Limits

As per the 2014/15 AIS, the Authority has determined that the maximum balance that can be invested with a single counterparty at any point in time will be no more than 30% of the portfolio, up to a limit of £5 million.

The one exception to this limit in the 2015/16 AIS will continue to be Lloyds, where the maximum balance that can be invested will be a limit of £7.5 million. Of this £7.5 million, no more than £5 million will be invested in non-instant access (call) accounts.

The rationale for this is that Lloyds are the Authority's main banking provider, and as part of the contract will pay credit interest on all balances at a rate of Base Rate minus 0.10% (currently giving an effective rate of 0.40%). This means that:

- A higher rate can be achieved than on most other instant-access accounts

- The staff time taken to move money between our main bank account and other instant access account is reduced
- The banking charges associated with the movement of the money between accounts is reduced
- The additional risk exposure to the Authority is minimal as:
 - Lloyds are part nationalised and enjoy significant support from the Government
 - All amounts over the current £5 million limit would be available for withdrawal immediately should circumstances require

Investment Security

Investments are defined as being in one of two categories:

- Specified investments – these are investments with high security and high liquidity. All specified investments are in sterling and have a maturity of no more than one year. They will be with the UK government, a local authority, a parish council or with an investment scheme or body of “high credit quality” (as judged against the Creditworthiness Policy detailed earlier in this paper)
- Non-specified investments – any type of investment that does not meet the specified investment criteria. A maximum of 10% will be held in aggregate in non-specified investments i.e. the Authority may invest funds with other Local Authorities for longer than 364 days – up to a maximum of five years as denoted by the yellow banding on the Capita creditworthiness policy detailed earlier in this paper. Local authorities are Government backed.

Investment Training

Relevant training and updates will be provided to relevant staff by the external treasury management advisors. This will be supplemented by additional training from CIPFA where necessary.

Investment of Money Borrowed in Advance of Need

The Authority does not currently have any money that has been borrowed in advance of need. No further borrowing is planned over the medium term.

Investment Liquidity

In consultation with external treasury advisors, the Authority will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

Appendix B – Provisional Counterparty List

This list is based on information provided by Capita as at January 2015. Please note that all colours indicated refer to Capita's creditworthiness policy (see Appendix A):

UK Based Counterparties

<u>Country</u>	<u>Counterparty</u>	<u>Maximum Duration</u>
UK	Abbey National Treasury Services	Red - 6 mths
UK	Bank of New York Mellon (International) Ltd	Orange - 12 mths
UK	Barclays Bank plc	Red - 6 mths
UK	Cater Allen	Red - 6 mths
UK	Citibank International PLC	Green - 100 days
UK	Close Brothers	Green - 100 days
UK	Credit Suisse International	Red - 6 mths
UK	Goldman Sachs International	Green - 100 days
UK	HSBC Bank plc	Orange - 12 mths
UK	MBNA Europe Bank	Green - 100 days
UK	Merrill Lynch International	Red - 6 mths
UK	Morgan Stanley & Co International plc	Green - 100 days
UK	Santander UK PLC	Red - 6 mths
UK	Standard Chartered Bank	Red - 6 mths
UK	Sumitomo Mitsui Banking Corporation Europe Ltd	Green - 100 days
UK	UBS Ltd	Red - 6 mths
UK	Nationwide BS	Red - 6 mths
UK	Debt Management Office	Yellow - 60 mths
UK	Other Local Authorities	Yellow - 60 mths
UK*	Lloyds Banking Group	Blue - 12 mths
UK*	Royal Bank of Scotland Group	Blue - 12 mths

* Indicates that the counterparty is nationalised/part nationalised

The Authority will also have the ability to invest in AAA rated money market funds (MMFs) and enhanced money market funds. Enhanced money market funds (EMMFs) are money market funds with a fixed notice period for the date of return and whilst still achieving the security of AAA money market funds may achieve a slightly higher rate of interest.

AAA MMFs the Authority currently holds accounts with are CCLA, Igins and Goldman Sachs, and currently we only have balances held in the CCLA MMF. Proposed AAA EMMFs would be at least one of Insight Liquidity Plus Fund, Ignis Short Duration Cash Fund, Payden Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Sterling Investment Cash Fund, Henderson Institutional Cash Fund, Royal London Asset Management Cash Plus, Blackrock Ultra Short Bond Fund and TwentyFour Senior Secured Bond Fund.

Non-UK Based Counterparties

Country	Counterparty	Maximum Duration (as rated by Capita)
Germany	Deutsche Bank AG	Green - 100 days
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Green - 100 days
Germany	Landesbank Berlin AG	Green - 100 days
Germany	Landesbank Hessen-Thüringen Girozentrale	Green - 100 days
Germany	Landwirtschaftliche Rentenbank	Orange - 12 mths
Sweden	Nordea Bank AB	Orange - 12 mths
Sweden	Skandinaviska Enskilda Banken AB	Red - 6 mths
Sweden	Svenska Handelsbanken AB	Orange - 12 mths
Sweden	Swedbank AB	Red - 6 mths

As noted in Appendix A, the duration of all non-UK investments will be limited to 100 days, even where Capita advise that a longer duration is acceptable.

There are a number of other non-UK based counterparties that have not been included on the list, as either the rates offered are significantly lower than available elsewhere, or that the counterparty is unlikely to take deposits of the size the Authority would be able to offer.

Counterparties Rated 'No Colour' by Capita

As noted in Appendix A, sole reliance will not be placed on the use of Capita ratings. The Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government. The Authority proposes to continue to use the following UK building societies rated as 'no colour' to its counterparty list. The rationale for this is:

- Building societies have an unparalleled record of investor safety. No investor (retail or wholesale) has lost money invested with a building society at least since the Second World War
- All building societies are "credit institutions" for the purposes of the EU Banking Directives, and are required to meet the same standards for capital adequacy and risk control as UK and other EU banks
- Where occasionally a society has encountered difficulties, a merger with a stronger society has ensured that both retail savers and wholesale depositors experience no uncertainty or interruption to service

The purpose of keeping these additional counterparties on The Authority's Counterparty List is to improve the liquidity and cash management of the portfolio. The building societies listed below generally offer more flexibility with their fixed term deposits, allowing maturities on selected days and less than one month in duration. This will allow the Authority greater flexibility to manage ad-hoc large payments, such as retirement lump sums, which may only become known a few weeks in advance of payment.

The following building societies that the Authority proposes to use all have group assets of at least £10billion. The maximum duration for investments will be limited to 100 days.

Country	Counterparty	Maximum Duration (as rated by Capita)
UK	Coventry Building Society	No colour - 0 mths
UK	Leeds Building Society	No colour - 0 mths
UK	Skipton Building Society	No colour - 0 mths
UK	Yorkshire Building Society	No colour - 0 mths

Appendix C – Prospects for Interest Rates

The Authority will continue to use Capita as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives the Capita central view:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

The following paragraphs provide Capita's commentary on the current economic situation (*due to the potentially volatile nature of the economy, this section will be updated further before presentation to the CFA*).

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Over time, an increase in investor confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the Eurozone debt crisis, or a break-up of the Eurozone, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where Eurozone institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the Eurozone will be tepid for the next couple of years and some Eurozone countries experiencing low or negative growth, will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose

confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the Eurozone debt crisis. While the European Central Bank (ECB) has adequate resources to manage a debt crisis in a small Eurozone country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to Eurozone politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to Eurozone and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world.
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring considerable government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti-austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competitiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This

is a return to a similar environment to the one which led to the 2008 financial crisis.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	4 February 2015
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	The Prudential Code, Prudential Indicators and Minimum Revenue Provision
EXECUTIVE SUMMARY	<p>This report is being presented as the Prudential Indicators (Appendices A and B) and Minimum Revenue Provision policy statement (Appendix C) are required to be approved by the Fire Authority and to support the Medium Term Financial Plan (MTFP).</p> <p>A review of the Balance Sheet indicates that the Authority is currently in an over-borrowed position. Due to prohibitive penalties the early repayment of borrowing is not an option. The Authority has no plans for additional borrowing in the foreseeable future, according to the current MTFP.</p>
ACTION	Decision.
RECOMMENDATIONS	<p>It is recommended that:</p> <ol style="list-style-type: none"> 1. the Authority be recommended to approve the Prudential Indicators; and 2. the Authority be recommended to approve the Minimum Revenue Provision policy statement.
RISK MANAGEMENT	<p>The Prudential Code was established to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The indicators presented here demonstrate that the current plans for capital investment meet these criteria and present an acceptable level of risk to the Authority.</p> <p>Minimum revenue provision is a statutory charge to the General Fund, which ensures that an Authority has sufficient cash balances to repay borrowing upon maturity, reducing the refinancing risk.</p> <p>There are no direct staffing implications.</p>
FINANCIAL	The decision on the prudential indicators sets out the financial limits within which the Authority will operate

IMPLICATIONS	<p>in future years.</p> <p>The minimum revenue provision is a statutory charge against the General Fund, estimated at £311k for 2015/16.</p>
LEGAL IMPLICATIONS	<p>The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, SI 2003/3146 make provision for capital finance and accounts under the Local Government Act 2003 requiring the authority to have regard to the 'Prudential Code for Capital Finance in Local Authorities' when determining, under the Local Government 2003 Act, how much money it can afford to borrow; and require the Authority to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.</p>
HEALTH AND SAFETY	No impact.
EQUALITY AND DIVERSITY	No impact.
USE OF RESOURCES	<p>The impact of the Prudential Code will allow the Authority to make informed choices between revenue and capital financing of procured services, to encourage invest to save schemes and will only allow capital investment to proceed where the Authority can fund projects within prudential limits.</p> <p>Making sufficient minimum revenue provision ensures that when borrowing matures, cash is available to make the repayment. This ensures that the Authority does not need to borrow additional money to repay existing loans.</p>
PROVENANCE SECTION & BACKGROUND PAPERS	The draft medium term financial plan 2015/16–2019/20 (final to be approved February 2015)
APPENDICES	<p>Appendix A – Prudential Indicators</p> <p>Appendix B – Summary Table of Prudential Indicators</p> <p>Appendix C – Minimum Revenue Provision Policy Statement</p>
TIME REQUIRED	10 minutes.
REPORT ORIGINATOR AND CONTACT	<p>Linda Blunt</p> <p>lblunt@bucksfire.gov.uk</p> <p>01296 744404</p>

Appendix A – Prudential Indicators

1.0 Indicators for Affordability

1.1 The ratio of financing costs to net revenue stream

This indicator measures the percentage of the net revenue funding used to finance external debt. In spite of falling funding levels this indicator is projected to remain stable in the medium term. This is due to the reducing minimum revenue provision charge, repayment of borrowing and no new additional borrowing planned over the medium term:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Ratio of financing costs to net revenue stream	2.0%	2.0%	2.1%	1.9%	2.0%

1.2 The incremental impact of capital investment decisions on the council tax

This indicator measures the impact of any additional (or reduction in) financing costs on the council tax. The amount is forecast to reduce as money is set aside to reduce the capital financing requirement annually and no future borrowing is planned over the medium term:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
The incremental impact of capital investment decisions on the council tax	-£0.05	-£0.04	-£0.05	-£0.05	-£0.04

2.0 Indicators for Prudence

2.1 Gross borrowing and the Capital Financing Requirement

The table below shows gross borrowing and the capital financing requirement (CFR). The Authority should ensure that gross borrowing does not, except in the short term, exceed the CFR. Gross borrowing will remain at £8.265m for the majority of 2015/16, although £515k will be repaid in March 2016. A further £368k will be repaid in May 2016. The figures shown below indicate the maximum level of borrowing during the year (i.e. repayments will reduce the limit for the following year):

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Gross borrowing (£000)	8,265	8,265	8,265	7,750	7,382
Capital financing requirement (£000)	8,669	8,334	8,010	7,699	7,402

3.0 Indicators for Capital Expenditure

3.1 Capital Expenditure

This indicator shows the expected level of capital expenditure for future years:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Capital expenditure (£000)	939	2,206	8,577	1,600	1,600

3.2 Capital Financing Requirement (CFR)

The CFR reflects the Authority's underlying need to borrow. This figure is predicted to reduce in future years, as revenue is set aside each year to repay borrowing when it matures, and no additional borrowing is planned in the medium term. The CFR should be looked at in relation to gross borrowing, as detailed in Section 2.1:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Capital financing requirement (underlying need to borrow for a capital purpose) (£000)	8,669	8,334	8,010	7,699	7,402

4.0 Indicators for External Debt

4.1 Authorised Limit

This is the maximum limit on borrowing and other long-term liabilities (currently limited to the finance lease at Gerrards Cross). This amount cannot be exceeded without approval from the Fire Authority:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Authorised limit for borrowing (£000)	8,265	8,265	8,265	7,750	7,382
Authorised limit for other long-term liabilities (£000)	1,873	1,826	1,779	1,732	1,685
Authorised limit for external debt (£000)	10,138	10,091	10,044	9,482	9,067

4.2 Operational Boundary

This indicator shows the most likely estimate of debt for future years:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Operational boundary for borrowing (£000)	8,265	8,265	8,265	7,750	7,382
Operational boundary for other long-term liabilities (£000)	1,873	1,826	1,779	1,732	1,685
Operational boundary for external debt (£000)	10,138	10,091	10,044	9,482	9,067

The actual external debt for the year ending 31 March 2014 was **£10.138m**.

5.0 Indicators for Treasury Management

5.1 Adoption of CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes

The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the Authority's borrowing and investment portfolios. This guidance will be adopted for 2015/16.

5.2 Upper limit on fixed interest rate exposures

This indicator shows the Authority's upper limit of the net exposure to fixed interest rates. Currently all borrowing is at a fixed rate of interest:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%

5.3 Upper limit on variable interest rate exposures

This indicator shows the Authority's upper limit of the net exposure to variable interest rates:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%

5.4 Maturity structure of fixed rate borrowing

This shows the repayment profile of fixed rate borrowing. All loans are repayable on maturity:

Indicator	Actual 2013/14	Projected 2014/15		Estimate 2015/16		Estimate 2016/17		Estimate 2017/18	
Maturity structure of fixed rate borrowings	Actual Maturity	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0%	0%	6%	0%	5 %	0%	0 %	0%	0%
12 months and within 24 months	6%	0%	4%	0%	0%	0%	8%	0%	0%
24 months and within five years	12%	0%	7%	0%	8%	0%	0%	0%	8%
five years and within 10 years	20%	0%	20%	0%	21%	0%	22%	0%	27%
10 years and within 20 years	28%	0%	29%	0%	30%	0%	32%	0%	19%
20 years and within 30 years	0%	0%	0%	0%	0%	0%	0%	0%	0%
30 years and within 40 years	26%	0%	26%	0%	36%	0%	38%	0%	38%
40 years and above	8%	0%	8%	0%	0%	0%	0%	0%	0%

5.5 Total principal sums invested for periods longer than 364 days

The purpose of this indicator is for the Authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested. The Authority may seek to invest for periods longer than 364 days with other Local Authorities. This will be kept under review in light of economic conditions and advice from treasury management advisors:

Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Total principal sums invested for periods longer than 364 days (£000)	0	0	2,000 (max)	2,000 (max)	2,000 (max)

5.6 Credit Risk

The duration of any investment with a counterparty will be restricted as advised by our treasury management advisors. The advisors will base their assessment of credit risk based on credit ratings provided by the major agencies, as well as reviewing credit default swaps (a proxy measure for the markets perceived risk of default).

Appendix B – Summary Table of Prudential Indicators

For reference, the following table summarises the key indicators detailed in Appendix A in a single table:

	Indicator	Actual 2013/14	Projected 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Indicators for Affordability						
1.1	Ratio of financing costs to net revenue stream	2.0%	2.0%	2.1%	1.9%	2.0%
1.2	The incremental impact of capital investment decisions on the council tax	-£0.05	-£0.04	-£0.05	-£0.05	-£0.04
Indicators for Prudence						
2.1	Gross borrowing (£000)	8,265	8,265	8,265	7,750	7,382
Indicators for Capital Expenditure						
3.1	Capital expenditure (£000)	939	2,206	8,577	1,600	1,600
3.2	Capital financing requirement (£000)	8,669	8,334	8,010	7,699	7,402
Indicators for External Debt						
4.1	Authorised limit for external debt (£000)	10,138	10,091	10,044	9,482	9,067
4.2	Operational boundary for external debt (£000)	10,138	10,091	10,044	9,482	9,067
Indicators for Treasury Management						
5.2	Upper limit on fixed interest rate exposures	100%	100%	100%	100%	100%
5.3	Upper limit on variable interest rate exposures	20%	20%	20%	20%	20%
5.5	Total principal sums invested for periods longer than 364 days (£000)	0	0	0	0	0

The actual external debt for the year ending 31 March 2014 was £10.138m. The projected external debt for the year ending 31 March 2015 is £10.091m (both figures include the finance lease liability).

The following indicators are not shown above:

- 5.1 – the Authority has adopted CIPFA's Treasury Management Code for 2015/16
- 5.4 – details of the maturity structure of fixed rate borrowing (see Appendix A)
- 5.6 – narrative regarding credit risk (see Appendix A)

Appendix C – Minimum Revenue Provision (MRP) Policy Statement

The two methods for calculating prudent provision are set out below and were approved by members in 2008/09. Regulation 28 of the 2003 Regulations (as amended by regulation 4 of the 2008 Regulations) requires a local authority to calculate for the current financial year an amount of MRP which it considers to be prudent. The Secretary of State recommends that, for the purposes of regulation 4 the prudent amount of provision should be determined in accordance with one of four options, two of which were agreed by members in 2008/09 and are outlined below.

The broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life).

(a) CFR Method

MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial years which, in the case of this Authority is currently projected at £135k for 2015/16. This is the method of calculation applied to all capital assets for all borrowing taken out prior to 31 March 2008.

(b) Asset Life Method

Since 1 April 2008, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is projected to be £176k for 2015/16.

Where assets have been purchased utilising Capital grants or Revenue Contributions no MRP calculation is required. Only assets purchased utilising borrowing require an MRP charge.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Director of Finance and Assets & Treasurer, with regard to the statutory guidance and advice from professional valuers.

Buckinghamshire & Milton Keynes Fire Authority



MEETING	Executive Committee
DATE OF MEETING	4 February 2015
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	Medium Term Financial Plan (MTFP) 2015/16 to 2019/20
EXECUTIVE SUMMARY	<p>This main report (Annex A) presents the proposed revenue and capital Medium Term Financial Plan (MTFP) for the financial years 2015/16 to 2019/20.</p> <p>The provisional settlement was announced on 18 December 2014 and is included in the funding assumptions for government grant funding, business rates and council tax receipts. Final confirmation is expected in February 2015.</p> <p>All assumptions are detailed in section 5.7 of the report and are based on information received to date.</p> <p>Appendix 1 shows the base budget for 2014/15 with adjustments made for savings and growth to give the position for each future year. The savings and growth lines match the totals for those bids scrutinised by officers, Strategic Management Board and the Chair and Vice Chair of the Authority and the Chair of the Overview and Audit Committee at the challenge sessions held on 27 October 2014 and 13 January 2015.</p> <p>Appendix 2 shows the latest summary of the capital programme for 2015/16 and an indicative position for the following four years.</p> <p>The estimated reserves statement at Appendix 3 shows the expected movements required to set a balanced budget and sustain the financial plan in the medium term given the information available to date.</p> <p>Appendix 4 shows the detailed breakdown of council tax and business rates funding.</p> <p>Appendix 5 summaries the funding forecast and analyses the amounts confirmed and the potential risk of variation on the amounts still to be confirmed.</p> <p>Annexes B and C are provided for additional background information and insight. Annex B analyses the key financial ratios of the Authority</p>

	against the other combined fire authorities. Annex C sets out the economic outlook and forecasts for locally financed current expenditure.
ACTION	Decision.
RECOMMENDATIONS	<p>It recommended that:</p> <p>the Authority be recommended to:</p> <ol style="list-style-type: none"> 1. Note and have due regard to the report and Statement of the Chief Finance Officer (see section 10). 2. Approve a Council Tax precept of £59.13 for a band D equivalent property (no increase from 2014/15) and the revenue budget as set out in Appendix 1. 3. Approve the capital programme for 2015/16 as set out in Appendix 2 and the indicative capital programme for 2016/17 to 2019/20. 4. Agree that the General Fund balance should be maintained at the current level (£3.7 million) and note the estimated movements in earmarked reserves as set out in Appendix 3.
RISK MANAGEMENT	Management of our Financial resources is a key risk to the Authority. By projecting forward and monitoring our financial plans, we are in a better position to avoid and mitigate the risk of adverse financial consequences.
FINANCIAL IMPLICATIONS	All financial implications are shown in the main body of the report.
LEGAL IMPLICATIONS	<p>The Local Government Act 2003 gives the responsible finance officer, namely the Chief Finance Officer of the Combined Fire Authority under s112 of the Local Government Finance Act 1988, the responsibility to report to Members of the Authority on their assessment of the robustness of the estimates used within the budget and on the adequacy of reserves.</p> <p>Members must take account of the advice of the Chief Finance Officer in respect of the above and the highlighted associated risks before considering the recommendations as set out in the report.</p>
HEALTH AND SAFETY	No direct impact.
EQUALITY AND DIVERSITY	No direct impact.
USE OF RESOURCES	The Medium Term Financial Plan, including capital and revenue budgets, identifies the financial resources required projected into the future based on the

	<p>delivery of specific aims and objectives of the Authority as set out in the Public Safety Plan (PSP).</p> <p>Members, Senior Management Board and many staff have been involved in agreeing priorities and the budget setting process over the forthcoming months.</p>
PROVENANCE SECTION & BACKGROUND PAPERS	<p>Medium Term Financial Plan (MTFP) 2014/15 to 2017/18 – Fire Authority, 19 February 2014:</p> <p>http://bucksfire.gov.uk/files/3814/0734/4977/ITEM8MediumTermFinancialPlan201415to201718.pdf</p>
APPENDICES	<p>Annex A – Medium Term Financial Plan (MTFP) 2015/16 to 2019/20</p> <p>Appendix 1 – MTFP Budget Model</p> <p>Appendix 2 – Capital Programme Summary</p> <p>Appendix 3 – Estimated Reserve Levels</p> <p>Appendix 4 – Council Tax and Business Rates Funding</p> <p>Appendix 5 – Funding Forecasts and Potential Risks</p> <p>Annex B – Key Financial Ratios</p> <p>Annex C – Economic Outlook and Locally Financed Current Expenditure</p>
TIME REQUIRED	30 minutes.
REPORT ORIGINATOR AND CONTACT	<p>Mark Hemming</p> <p>mhemming@bucksfire.gov.uk</p> <p>01296 744687</p>

Annex A - Medium Term Financial Plan (MTFP) 2015/16 to 2019/20

1. Introduction

- 1.1. The purpose of this report is to present the proposed revenue and capital Medium Term Financial Plan (MTFP) 2015/16 to 2019/20. Members are asked to consider and approve the 2015/16 budget and note the indicative budgets for the following four years.
- 1.2. The MTFP is closely linked to the Public Safety Plan (PSP) and Corporate Plan. The PSP sets out our strategic approach to the management of risk in the communities we serve. The Corporate Plan sets out how we intend to equip and develop our organisation and its people to meet the challenges that we face. The MTFP details the resources available to facilitate these plans and how the plans contribute to reducing future operating costs.
- 1.3. As part of the Fire Authority's Terms of Reference and MTFP, the Authority reviews and sets a balanced budget each year in line with corporate priorities. The MTFP is expressed as a detailed annual budget for the first year, with outline indicative budgets for the following four years (increased from three years in order to align with the five-year PSP and Corporate Plan).
- 1.4. Under Section 25 of the Local Government Act 2003 the Chief Finance Officer (as S.112 Chief Finance Officer of the Local Government Finance Act 1988) is required to report to Members on:
 - 1.4.1. The robustness of the estimates made for the purposes of the calculations of the budget
 - 1.4.2. The adequacy of the proposed financial reserves
- 1.5. The Local Government Act 2003 requires that Members have regard to the report in making their decisions (see section 10).
- 1.6. Sections 32 and 43 of the Local Government Finance Act 1992 also require precepting authorities to have regard to the level of reserves for meeting estimated future expenditure when calculating the net budget requirement.

2. Local Government Finance Settlement 2015/16

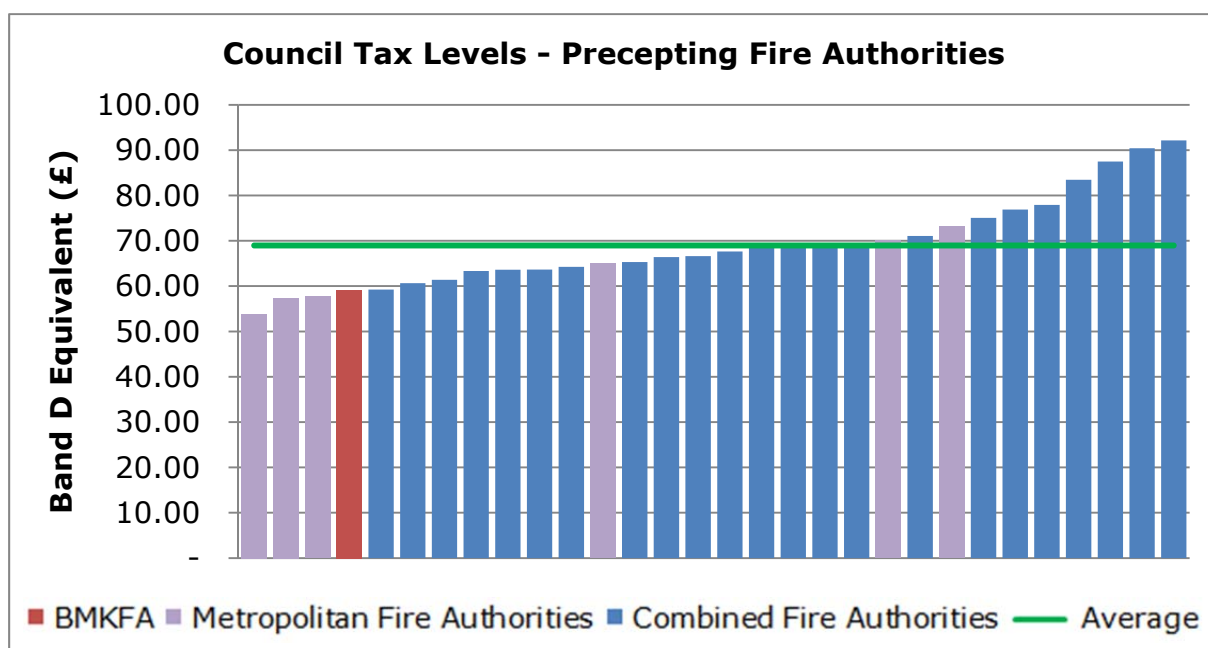
- 2.1. On 18 December 2014, the Minister for Local Government, Kris Hopkins MP announced the provisional Local Government Finance Settlement for 2015/16.
- 2.2. The headline figure announced by the Government shows an overall reduction in spending power of 1.8% (1.6% if transformation funding is included). The Government's methodology for calculating spending power includes locally raised council tax, settlement funding, some ring-fenced grants, and pooled budgets with the NHS.
- 2.3. An alternative measure used by our external advisors measures spending power only including resources that are not ring-fenced i.e. locally-raised council tax and settlement funding. On this measure the reduction is 6.1% (excluding the Greater London Authority).
- 2.4. From 2014/15 to 2015/16, BMKFRS will experience a total spending power reduction of 2.13%. Due to the funding available to BMKFRS this reduction is

the same regardless of which of the methods stated in sections 2.2 and 2.3 is used.

3. Local and Central Funding

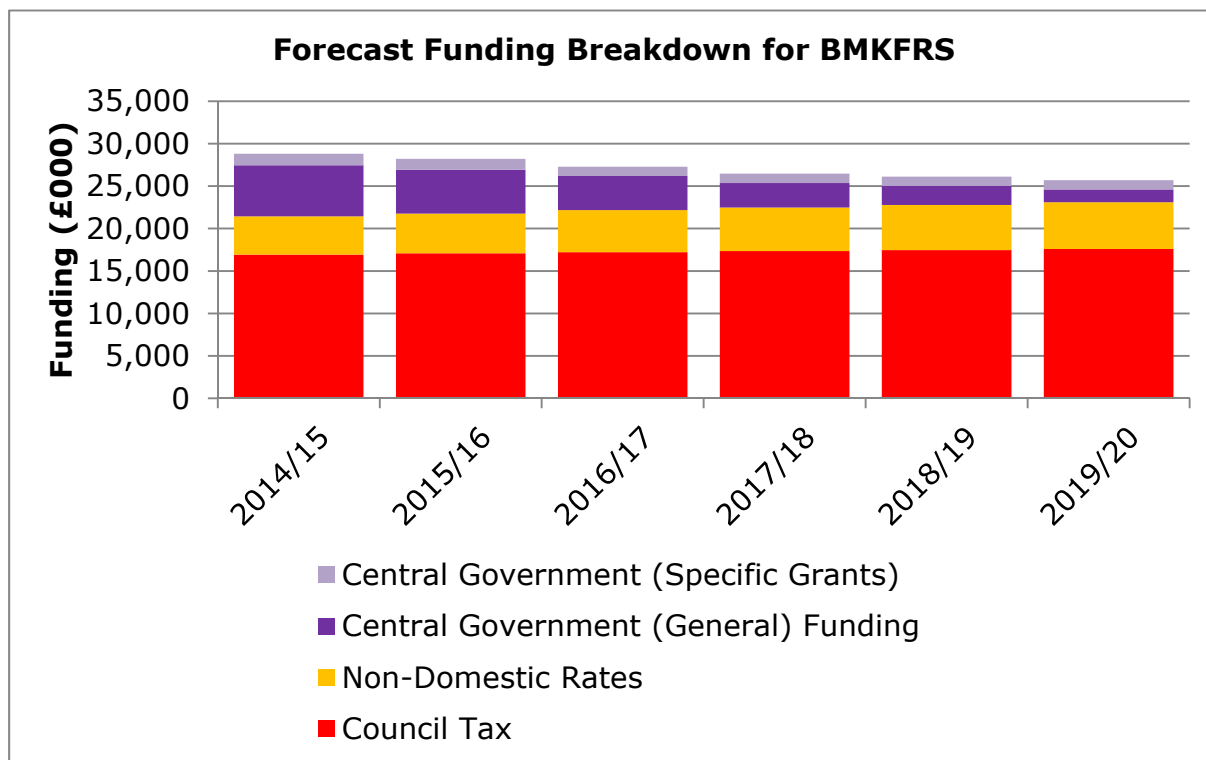
- 3.1. The Authority has frozen council tax in every year from 2010/11 to 2014/15. This was despite having the option to increase council tax by up to £5.00 (equivalent to an 8.46% rise) in 2013/14 without the need to undertake a local referendum.
- 3.2. The Authority currently sets a band D equivalent precept of £59.13 per annum (approx. £1.13 per week). This is significantly below the national average and is the lowest precept of any combined fire authority. This is illustrated in chart A1.

Chart A1 – Council Tax Levels – Precepting Fire Authorities



- 3.3. Nationally, fire authorities have received cuts of 20% between 2010/11 and 2014/15 in the amount of funding received from Central Government. Due to the funding formula this Authority has received cuts of 26% over the same period.
- 3.4. The level of grant received from Central Government that the Authority receives is forecast to continue to decrease. This will place an ever increasing reliance on local funding i.e. council tax and business rates (NDR). Chart A2 shows the actual breakdown of funding received for 2014/15, and the forecast levels up to 2019/20.
- 3.5. When considering council tax and NDR, the Authority is only able to directly determine the amount of council tax received, which is done by determining the precept to be levied to the billing authorities. As the level of Central Government grant decreases, decisions about the level of precept to levy become even more critical to the financial position of the Authority.

Chart A2 – Council Tax Levels – Precepting Fire Authorities



3.6. The Government has again set aside Council Tax Freeze Grant to provide compensation to those authorities which freeze or reduce Council Tax levels. This compensation is equivalent to a 1% council tax increase on the enhanced taxbase (i.e. including the full value for those receiving council tax support). This equates to a grant of £182k for 2015/16.

4. Key Financial Ratios

- 4.1. This report should be read in conjunction with Annex B, which shows how the Authority compares with other combined fire authorities across a number of key financial performance measures.
- 4.2. Annex B indicates that the Authority is managing its finances well as the key ratios are all broadly in line with the averages for all combined fire authorities.

5. Robustness of the Estimates

- 5.1. The budget proposed for 2015/16 at Appendix 1 has been compiled by looking in detail at current spending and future plans. Savings opportunities and growth bids compared to last year's budget have been identified and subjected to senior officer and Member challenge. As far as possible, bids and savings have been matched to the priorities outlined in the corporate plan.
- 5.2. The Authority has also received provisional notification of section 31 grant funding of £1.099m for 2015/16 (£1.178m in 2014/15) for New Dimension and Firelink, which is distributed separately from the formula grant funding. Should the Government at any point in the future decide to aggregate all of the grants together into formula funding, then this could be subjected to revised floor damping arrangements, subject to continuing austerity measures, thus watering down the amount received had it remained a separate grant.

- 5.3. Indicative figures for surpluses on council tax funds have so far been received from three out of the five billing authorities. The proportion of surplus allocated to BMKFA has been used to increase the revenue contribution to fund the capital programme due to the reduction in capital grant funding.
- 5.4. Based on the updated budget requirement including the assumptions at 5.7, the budget at Appendix 1 demonstrates that the Authority will need to plan for further savings or an increase in council tax from April 2016 in order to avoid a cumulative shortfall at the end of 2019/20 of £5.6m.
- 5.5. Salaries have been adjusted to take into account savings to match our expectations from the retirement profile and the updated establishment.
- 5.6. Savings and growth bids which have been subjected to challenge are included for 2015/16 and the base adjusted. Other risks which have been identified are to be covered from the general reserves and contingency.
- 5.7. The detailed costings are based on the updated budget requirement including the inflation assumptions below:

	2015/16	2016/17	2017/18	2018/19	2019/20
	%	%	%	%	%
Council Tax	0.00	0.00	0.00	0.00	0.00
Council Tax Growth	2.04	0.75	0.75	0.75	0.75
Central Government Funding	-14.02	-22.46	-27.96	-22.71	-32.44
Business Rates [Note 1]	3.57	6.45	3.36	3.35	3.33
Salary Increases	1.00	1.00	1.00	1.00	1.00
Employers National Insurance	0.00	3.40	0.00	0.00	0.00
Firefighters Employer Pension Costs [Note 2]	0.00	0.00	0.00	0.00	0.00
General Inflation (Based on CPI)	1.50	2.00	2.00	2.00	2.00
Utilities	0.00	5.00	5.00	5.00	5.00
Fuel	1.50	2.00	2.00	2.00	2.00
Rates	2.00	2.00	2.00	2.00	2.00

Note 1 – The volatility shown here is because the authority is still awaiting confirmation of a number of figures from the billing authorities (see Appendix 4, Section 2). Once these have been received the projections for future years will be revised where necessary.

Note 2 – This is subject to consultation (see Section 6.1.4)

- 5.8. The inflation figures shown for fuel and utilities will be kept under review throughout the year. Recent evidence shows that the cost of fuel is currently decreasing, although this is another area that is potentially very volatile. Variations against budget will be reported as part of the monitoring process and future years' budgets updated accordingly in subsequent plans.
- 5.9. The Department for Communities and Local Government has set a referendum level for authorities for 2015/16 of 2% with any percentage point above this cap triggering a referendum. The costs of a referendum would be significant

with the billing authorities not only incurring costs directly relating to the running of a referendum but also the potential costs of rebilling. These costs would be passed on to the Authority which would potentially out-weigh any benefit of an increase in Council Tax above the cap.

6. Risk Factors in the Budget Assumptions

6.1. Key issues impacting on the budget estimates are:

- 6.1.1. Pay awards - the nationally negotiated pay award is applied from the 1 July each year. A 1% increase has been applied to all staff for each year of the MTFP period. If however higher increases are agreed additional awards would need to be met from contingency.
- 6.1.2. Employers National Insurance contributions – at the time of writing, no amounts have been advised for future years. If increases are agreed, these will be calculated and would need to be met from contingency. It should be noted that in 2016/17 the impact of the removal of National Insurance Contributions rebate has been included in the estimates.
- 6.1.3. LGPS Pensions – the employer cost of this scheme has been held at 13.3% of pensionable pay due to the restructuring of the liability prior to the start of 2014/15. No increase has been applied and the figures may vary in future years following the next actuarial revaluation of the Local Government Pension Scheme in two years' time.
- 6.1.4. Fire fighters Pensions – no increase in employer's contributions has been included for the fire-fighters pension fund for future years. DCLG has recently received the initial results of the 2012 valuation of the Firefighters' Pension Schemes. This indicates that the estimated average employer contribution rate paid by fire and rescue authorities in 2015-16 will be 18.9%, 0.24% lower than the previous projection of 19.1%. To ensure that the changes in costs are fiscally neutral for the sector and for central Government, the Government intends to reduce the fire funding element of Revenue Support Grant for each fire and rescue authority, by an amount equal to 0.24% of the total pensionable pay for that authority. However, this proposal is still under consultation.
- 6.1.5. Borrowing - the cost of borrowing to pay for assets would need to be paid from the revenue account this would include interest payments and a proportion of the principal sum spread across the lives of the assets involved. In order to mitigate the risk as far as possible, Members have agreed to maintain the Capital Programme within capital funding limits. Currently, average annual costs for each £1m worth of assets with a 12 year life would incur additional costs to the revenue account of £112k.
- 6.1.6. Unexpected events - the capital programme includes a provision for refurbishment of the buildings but no contingency for

- unexpected events. Uninsured events would rely in the short term on the use of reserves.
- 6.1.7. Exceptional conditions - the operational activity budget is funded for the normal range of conditions. Prolonged spare conditions could lead to increased costs.
- 6.1.8. Uninsured Losses - the Authority has a robust approach to risk management across all areas and we have a good record of managing our insurable risks and health and safety within the organisation. Uninsured losses would need to be funded from reserves.
- 6.1.9. Savings proposals have been aligned with the workforce planning model – whilst business cases for savings proposals have been scrutinised for feasibility, alignment with plans and known risks, there are still a number of uncertainties surrounding the deliverability (for example assumptions made for timing of savings being made earlier than happen in reality). In these cases and particularly where large sums are involved, they will be regularly monitored and reported back to the Strategic Management Board (SMB) and Executive Committee for action.
- 6.1.10. Growth bids have also been scrutinised by senior officers and the Chair and Vice Chair of the Authority and the Chair of the Overview and Audit Committee. Where details are known we have budgeted for any future growth items as accurately as possible using the information available. However there may be unforeseen events that occur during the year which lead to growth which has not been accounted for. Any such items will need to be funded from contingency or reserves.
- 6.1.11. A number of savings built into the budget are based on partnership working (Thames Valley Joint Control, Procurement shared with Royal Berkshire Fire and Rescue Service) and the achievement of these will be reliant on these partnerships working effectively.

7. Capital

- 7.1. No general capital grant funding has been awarded by CLG for 2015/16 (£908k in 2014/15). In anticipation of this reduction, the Authority established an annual revenue contribution to capital within the base budget in 2013/14. For 2014/15 this amount was £1.266m and it is proposed to increase this to £1.937m for 2015/16 to match the capital programme required.
- 7.2. In October 2014 the Authority received notification that following a successful bid it has been awarded £2.84m from the Fire Transformation Fund. It is intended that, subject to consultation, the funding will be used to merge two fire stations and a police site into a modern joint facility. The costs and funding relating to this project have been included within the capital programme for 2015/16 and future years.
- 7.3. The capital programme has been determined based on a series of challenge panels held by officers and then by the Chair and Vice Chair of the Authority and the Chair of the Overview and Audit Committee during the MTFP process. The revenue impact of the capital programme has been factored into the base revenue budget requirement.
- 7.4. The table at Appendix 2 details the approved capital programme for 2014/15, the estimated provisional outturn position and any proposed slippage to the programme. Any slippage is then added to the new budget requests for 2015/16 to give a total capital budget requirement of £9.3m for 2015/16.
- 7.5. The Authority should also take cognisance of the prudential indicators when approving the capital programme (submitted as a separate paper at this meeting)

8. Scrutiny and Challenge Process

- 8.1. The Revenue and Capital budgets and the underlying assumptions have been scrutinised by an officer challenge panel, Strategic Management Board and the Chair and Vice Chair of the Authority and the Chair of the Overview and Audit Committee.
- 8.2. Adjustments have been made to the base where budgets are no longer required.
- 8.3. Senior Officers have submitted growth and savings proposals.
- 8.4. Regular detailed discussions have been held with the Chief Fire Officer and other members of the SMB (Officer Challenge).
- 8.5. Challenge sessions and Member briefings have occurred to scrutinise and challenge budget submissions in detail and have informed the proposed budget.

9. Adequacy of Reserves

- 9.1. The table at Appendix 3 shows the estimated movement on earmarked reserves as at 31 March 2015 and 31 March 2016.
- 9.2. There are currently thirteen earmarked revenue reserves and the General Fund Reserve. A table showing an assessment of the risks that could impact on the General Fund is set out below in Appendix 3.

10. Communication and Consultation

- 10.1. A number of workshops have already taken place with senior officers and Lead Members about the Medium Term Financial Plan and the effect on the overall aims and objectives of the Authority.
- 10.2. Any future changes to front-line service delivery including how we work with the community and our partners will have a people impact assessment carried out as part of the overall PSP review.
- 10.3. Once the budget has been approved by the Authority, information is published on our website showing the sources of finance and where the money will be spent.

11. Statement by the Chief Finance Officer

- 11.1. The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Fire Authority's case the Director of Finance and Assets and Chief Finance Officer, must report on:
 - 11.1.1. The robustness of the estimates made for the purposes of the calculations of the budget and;
 - 11.1.2. The adequacy of the proposed financial reserves;
 - 11.1.3. In recommending the budget to the Authority, Members must take the advice of the Chief Finance Officer in respect of the above and the associated risks as highlighted within the report.
- 11.2. Given the level of the General Fund Balance and earmarked reserves available, the prudent approach to the budget setting process for the next financial year and the tighter controls introduced for budget management, it is my conclusion as Chief Finance Officer for the Authority that there is sufficient capacity in the reserves to cope with the financial risks the Authority faces for 2015/16 and future years and that the methodology applied provides the necessary assurance to the Authority about the robustness of the estimates used in constructing the budget.

Appendix 1**1. MTFP Budget Model**

1.1. Current Model

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Base Budget	28,988	28,808	28,205	27,996	28,059	27,692
Pay Adjustment	225	213	525	222	224	204
Inflation Adjustment	86	88	90	95	95	110
Savings	-613	-1,096	-622	-266	-684	-608
Growth	420	409	-65	34	-2	0
Previous year savings & growth adjustments	-702	-888	-136	-22	0	0
Precept growth and collection fund surplus	280					
Revenue Contribution to Capital	124	671				
Net Budget Requirement	28,808	28,205	27,996	28,059	27,692	27,398
Govt Funding	-6,013	-5,170	-4,009	-2,888	-2,232	-1,508
Business Rates	-4,509	-4,670	-4,971	-5,138	-5,310	-5,487
Council Tax Receipts Surplus/Deficit	-298	-113				
Council Tax Freeze Grant	-178	-182				
Specific Grants (S.31)	-1,178	-1,099	-1,099	-1,099	-1,099	-1,099
Council Tax Receipts	-16,632	-16,971	-17,212	-17,341	-17,471	-17,602
Total Funding Available	-28,808	-28,205	-27,291	-26,466	-26,112	-25,696
Shortfall for year	0	0	705	1,593	1,580	1,702
Cumulative savings requirement	0	0	705	2,298	3,878	5,580

1.2. Impact of Potential Savings from 2016/17 Onwards

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Thames Valley Control			-40	-40	-40	-40
RBFRS shared services income			-60	-60	-60	-60
Reduction in contingency			-362	-362	-362	-362
Back office staffing reduction				-290	-290	-290
High Wycombe/Beaconsfield premises					-250	-250
Red fleet lease payments						-100
Base Budget	28,988	28,808	28,205	27,534	27,307	26,690
Net Budget Requirement	28,808	28,205	27,534	27,307	26,690	26,296
Total Funding Available	-28,808	-28,205	-27,291	-26,466	-26,112	-25,696
Shortfall for year	0	0	243	841	578	600
Cumulative savings requirement	0	0	243	1,084	1,662	2,262

Appendix 2

Capital Programme Summary	Approved Budget 2014/15 £000	Provisional Outturn 2014/15 £000	Slippage 2014/15 A £000	New Budget Requests 2015/16 B £000	Total Budget Requirement 2015/16 A+B £000
Property Portfolio	1,490	395	1,071	1,540	2,611
Fire Appliances & Equipment	1,369	1,063	336	733	1,069
Support	929	748	35	347	382
Community Safety	15	0	15		15
Control Room Project	800	0	800		800
Other					0
Milton Keynes transformation bid				4,448	4,448
Total Anticipated Spend	4,603	2,206	2,257	7,068	9,325
Funding Brought Forward					
<i>Capital Grants</i>					
<i>Revenue Contribution to Capital</i>		-2,349			-5,125
<i>Capital Receipts</i>		-46			-48
<i>Control Room Capital Grant</i>		-800			-800
<i>Other Capital Grants</i>		-326			
Total Funding Brought Forward		-3,521			-5,973
In Year Funding					
<i>Capital Grants</i>		-1,190			
<i>Revenue Contribution to Capital</i>		-3,466			-1,937
<i>Transformation Grant</i>					-2,841
<i>Capital Receipts</i>		-2			
Total In Year Funding		-4,658			-4,778
TOTAL ANTICIPATED FUNDING		-8,179			-10,751
FUNDING (SURPLUS)/DEFICIT		-5,973			-1,426
TOTAL USABLE CAPITAL RESERVES		-5,973			-1,426

	2015/16 Budget Requests £000	2016/17 Indicative Budget £000	2017/18 Indicative Budget £000	2018/19 Indicative Budget £000	2019/20 Indicative Budget £000
Property Portfolio	2,611	600	600	600	600
Fire Appliances & Equipment	1,069	745	700	700	700
Support	382	250	250	250	250
Community Safety	15				
Control Room Project	800				
Other		50	50	50	50
Milton Keynes transformation bid	4,448				
Total Anticipated Spend	9,325	1,645	1,600	1,600	1,600
Funding Brought Forward					
<i>Capital Grants</i>					
<i>Revenue Contribution to Capital</i>	-5,125	-1,426	-1,718	-2,055	-2,392
<i>Capital Receipts</i>	-48				
<i>Other Capital Reserves</i>	-800				
Total Funding Brought Forward	-5,973	-1,426	-1,718	-2,055	-2,392
In Year Funding					
<i>Revenue Contribution to Capital</i>	-1,937	-1,937	-1,937	-1,937	-1,937
<i>Transformation Grant</i>	-2,841				
Total In Year Funding	-4,778	-1,937	-1,937	-1,937	-1,937
Total Funding Available	-10,751	-3,363	-3,655	-3,992	-4,329
(Surplus)/Deficit for the Year	-1,426	-292	-337	-337	-337
Cumulative Funding (Surplus)/Deficit	-1,426	-1,718	-2,055	-2,392	-2,729

Appendix 3**1. Summary of Estimated Movement on Earmarked Reserves**

1.1. Estimated Movement on Earmarked Reserves

Reserve	Balance at 1 April 2014 £000	Projected Transfers In 2014/15 £000	Projected Transfers Out 2014/15 £000	Projected Balance at 31 March 2015 £000	Planned Transfers In 2015/16 £000	Planned Transfers Out 2015/16 £000	Projected Balance at 31 March 2016 £000
General Fund Balance	-3,700	0	0	-3,700	0	0	-3,700
Sub Total Non-Earmarked General Fund Balance	-3,700	0	0	-3,700	0	0	-3,700
Fire Control Reserve	-150	0	0	-150	0	150	0
Invest to Save Reserve	-513			-513			-513
New Dimensions Reserve	-1,000			-1,000			-1,000
Redundancy and Early Retirement Reserve	-349			-349			-349
Vehicle Reserve	-69	-17		-86	-17		-103
Funding Pressures Reserve	-1,183			-1,183			-1,183
Control Room Reserve (Revenue)	-1,360	0	0	-1,360	0	1,360	0
RDS Pension Contributions Reserve	-650		250	-400		400	0
Continuing Projects Reserve	-300			-300		300	0
Sub Total Earmarked Reserves - Revenue	-5,574	-17	250	-5,341	-17	2,210	-3,148
Usable Capital Receipts Reserve	-46	-2	0	-48			-48
Control Room Capital Grant Unapplied	-800	0	0	-800	0	800	0
Other Capital Grants Unapplied	-302	0	302	0			0
Revenue Contribution to Capital	-2,349	-3,466	690	-5,125			-5,125
Sub Total Earmarked Reserves - Capital	-3,497	-3,468	992	-5,973	0	800	-5,173
Total Usable Reserves	-12,771	-3,485	1,242	-15,014	-17	3,010	-12,021

1.2. Risks that Could Impact on the General Fund

Risk description	Risk factor - likelihood Rank % factor {a}	Risk factor - impact Rank % factor {b}	Potential Amount Required £000's {c}	Result Actual Assessed Risk £000's {a} x {b} x {c}
Inflation budget assumptions - especially fuel and utilities	5%	50%	2,300	58
Pay awards - budget includes 1% increase. This could vary dependent on national agreements	50%	80%	213	85
Savings assumptions - The savings built into the budget for 2015/16 are dependent on a number of factors and reliant on estimates made.	25%	100%	1,984	496
Property - very limited provision for capital maintenance. Would need to resort to use of reserves.	25%	100%	1,000	250
Capital budget assumptions - buildings. Limited capacity built into the budgets for unseen events. Current value of buildings is £15.3m. There is no contingency for uninsured risks	5%	50%	15,300	383
Capital assets - vehicles - risk of losses not covered by insurance policies. No provision within the budgets. Would need to be covered from reserves	10%	20%	3,700	74
Legal fees - there are times when it is necessary to take cases through the courts. There is provision in the budgets for this. However, there is always a risk that fees become burdensome and the case is lost with loss of our fees and the possibility that we would need to fund the company's costs	20%	75%	500	75
Spate conditions. The budget is set on the assumption that there is a normal pattern of turnouts for whole time and retained duty staff. In the event of extraordinary circumstances where turnouts significantly exceed the norm and overtime runs above the normal allowance, there would be an impact on reserves.	20%	70%	500	70

Risk description	Risk factor - likelihood Rank % factor {a}	Risk factor - impact Rank % factor {b}	Potential Amount Required £000's {c}	Result Actual Assessed Risk £000's {a} x {b} x {c}
Staff risks - injury payments for uninsured risk - i.e. the organisation is found to be negligent in its duty of care to staff	10%	100%	500	50
Staff risks - there is no provision in the budgets for redundancy costs nor unfair dismissal claims.	25%	25%	600	38
Public risks - there is no provision in the budgets for injury or damage to public or public property if the organisation is found to be negligent in its duty of care.	1%	100%	10,000	100
Combined FireControl project - further delay in cut-over.	25%	20%	1,500	75
Part time workers pay reserve insufficient to meet negotiated settlement	50%	100%	100	50
Unable to negotiate satisfactory continued use of SAP from BCC - need to implement new financial or ERP system	25%	100%	1,000	250
Risk of merging S31 Grant into formula grant - inadequate or no grant funding to cover staff permanently employed but currently 100% funded.	50%	75%	1,099	412
Pension Fund LGPS Triennial revaluation	15%	25%	709	27
PSP risk and back office reviews	50%	75%	600	225
Provision for ill health retirements	5%	75%	3,000	113
Business rates funding lower than forecast	5%	80%	4,670	187
Council Tax funding lower than forecast	5%	80%	16,971	679
General Fund Balance Requirement				3,697

- 1.3. In the table "likelihood" is officer's estimate of the event actually occurring. Of course this presumes no action to mitigate against occurrence for the purposes of risk estimation. "impact" is assessed as the affect the event would have if it is realised. The actual assessed risk is the product of likelihood multiplied by impact and this is in turn calculated against the amount potentially required to give an estimate of reserve requirement.

- 1.4. The risk table shows that the general fund holds adequate amounts to match within the expected range of events. Specific reserves have been created for individual events that are above the general range of activity and for known pressures.
- 1.5. However any other unidentified events or specific pressures arising from asset based pressures would need to be met from either within existing reserves, by borrowing or funding from revenue with an associated pressure either on council tax or by increasing savings.

2. Reasons for Holding Reserves

- 2.1. Reserves are held for a number of reasons, including:
 - 2.1.1. General resilience – funds need to be held to cover the risks as detailed in the previous section
 - 2.1.2. Specific projects – earmarked reserves need to be held when known future spending has been identified on specific projects e.g. combining control rooms
 - 2.1.3. A focus on achieving long-term savings in advance, so that year end surplus can be invested in service transformation in future years
 - 2.1.4. As a contingency against future funding settlements and the increased volatility of local funding
 - 2.1.5. Capital expenditure – the Authority no longer receives a general capital grant each year. It is therefore necessary to hold reserves to fund future expenditure on new assets.

Appendix 4

1. Council Tax Funding

1.1. Current council tax bandings:

Bands	Proportion of Band D Charge	Per Week (£)	Per Month (£)	Per Year (£)
A	6/9	0.76	3.29	39.42
B	7/9	0.88	3.83	45.99
C	8/9	1.01	4.38	52.56
D	9/9	1.13	4.93	59.13
E	11/9	1.39	6.02	72.27
F	13/9	1.64	7.12	85.41
G	15/9	1.89	8.21	98.55
H	18/9	2.27	9.86	118.26

Please note that weekly and monthly amounts may not multiply through to give the exact annual amount stated due to rounding.

1.2. Total council tax funding by billing authority:

	AVDC	MKUA	CDC	SBDC	WDC	Total
Tax Base 14/15	65,853	76,262	42,809	31,626	64,731	281,281
Additional Band D houses	2,049	2,231	334	126	996	5,736
Tax Base 15/16	67,902	78,493	43,143	31,752	65,727	287,017
Band D Rate	59.13	59.13	59.13	59.13	59.13	59.13
Total (£000)	4,015	4,642	2,551	1,877	3,886	16,971

2. Business Rates Funding

2.1. Business rates baselines and amount received:

	2013-14 Baseline £000	2013-14 Received £000	2014-15 Baseline £000	2014-15 Received £000	2015-16 Baseline £000	2015-16 Confirmed Funding £000
Aylesbury Vale	473	485	482	487	491	TBC*
Chiltern	198	207	202	215	205	TBC*
South Bucks	287	291	293	254	298	TBC*
Wycombe	670	662	683	609	696	TBC*
Milton Keynes UA	1,372	1,386	1,399	1,419	1,426	1,530
Top-up Grant	1,495	1,495	1,525	1,525	1,554	1,554
Total	4,495	4,526	4,584	4,509	4,670	3,084

*The statutory deadline for authorities to confirm business rates forecasts is 31 January 2015

Appendix 5

3. Funding Projections

3.1. The table below shows the funding estimates as per the model, the amounts that have been confirmed, and the residual amounts that still require third party confirmation to the Authority:

	Per Model £000	Confirmed Funding £000	Residual Amount £000
Govt Funding	-5,170	-5,170	0
Business Rates	-4,670	-3,084	-1,586
Council Tax Receipts Surplus/Deficit	-113	-113	0
Council Tax Freeze Grant	-182	-182	0
Specific Grants (S.31)	-1,099	-1,099	0
Council Tax Receipts	-16,971	-16,971	0
Total	-28,205	-26,619	-1,586

3.2. The majority of the unconfirmed amounts are in relation to business rates. As noted the earlier, the deadline for providing this information is 31 January 2015.

Annex B – Key Financial Ratios

This appendix examines each of the key financial ratios in turn. In the charts, the green line shows the average value for all of the combined fire authorities.

(i) Current assets to current liabilities

This ratio measures the relationship between an organisation's current assets and its current liabilities. While it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a significant risk for local government organisations given their ability to take short-term borrowing (though there may be additional costs to organisations that rely on short-term borrowing to pay debts). It does, however, act as an indicator of how short-term finances are managed and highlight possible future cash-flow problems. If a local government organisation did experience cash-flow difficulties which resulted in, for example, problems paying creditors this could present a significant reputational risk to the organisation. Conversely, organisations with a high ratio, over 4.0, should possibly consider if they are managing their current assets in the most effective way.

Current assets include cash and cash equivalents, payments in advance, debtors, short-term investments, inventories, assets held for sale and current intangible assets.

Current liabilities include bank overdrafts, receipts in advance, creditors, short-term borrowing, provisions, liabilities held by groups awaiting disposal and other short-term liabilities (e.g. current finance lease liabilities).

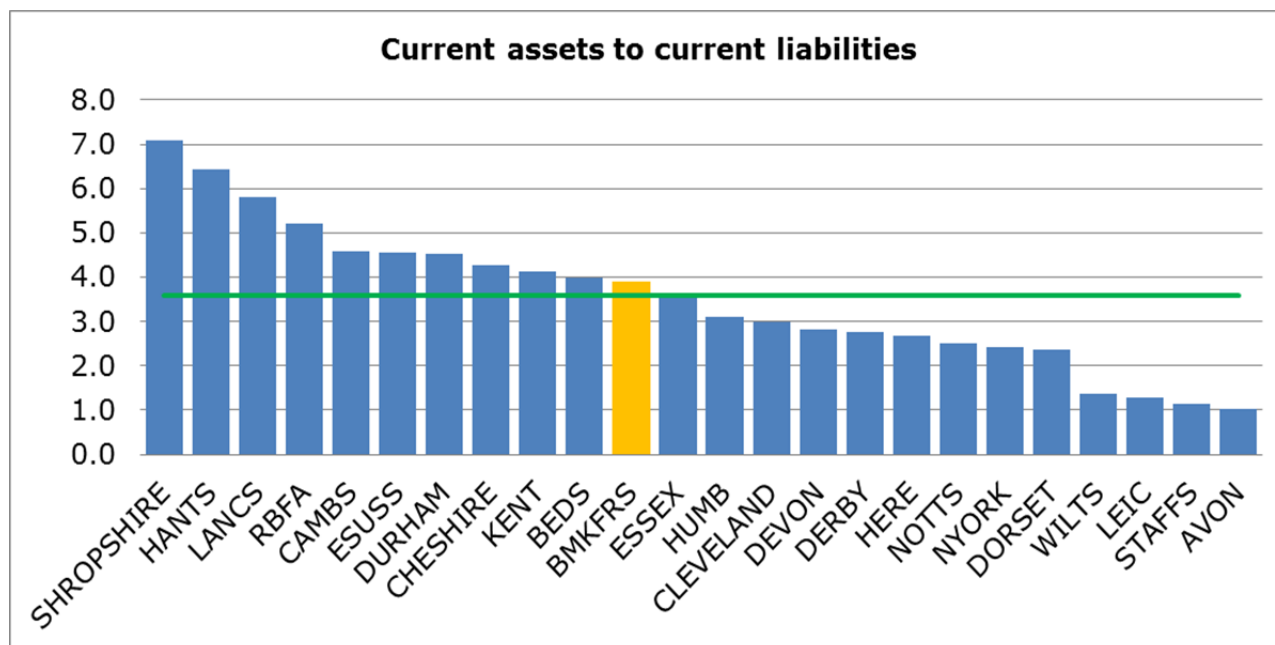


Chart 1

Chart 1 above shows that all the organisations have a ratio over 1.0 in 2012/13. This indicates that they have a higher level of current assets than current liabilities and are therefore managing their current assets effectively. The ratio for BMKFRS is in line with the average, which indicates that there is a good balance between maintaining liquidity and managing current assets effectively.

(ii) Usable reserves to gross revenue expenditure

This ratio measures the relationship between an organisation's usable reserves, which is the money it is retaining to fund future spending commitments and to meet unpredictable variations in spending, and its annual gross revenue expenditure. Organisations make local decisions on the amount of reserves they need in response to their local circumstances. Elected Members are responsible for ensuring that the levels of reserves are appropriate and the purposes for holding these reserves should be clearly communicated through the annual accounts. Organisations with very high levels of reserves relative to their spending should review the purposes for which these are held to ensure that they are still required.

Usable reserves include the General Fund, other earmarked reserves and usable capital receipts.

Gross revenue expenditure is the total cost of services shown in the comprehensive income and expenditure statement within the accounts.

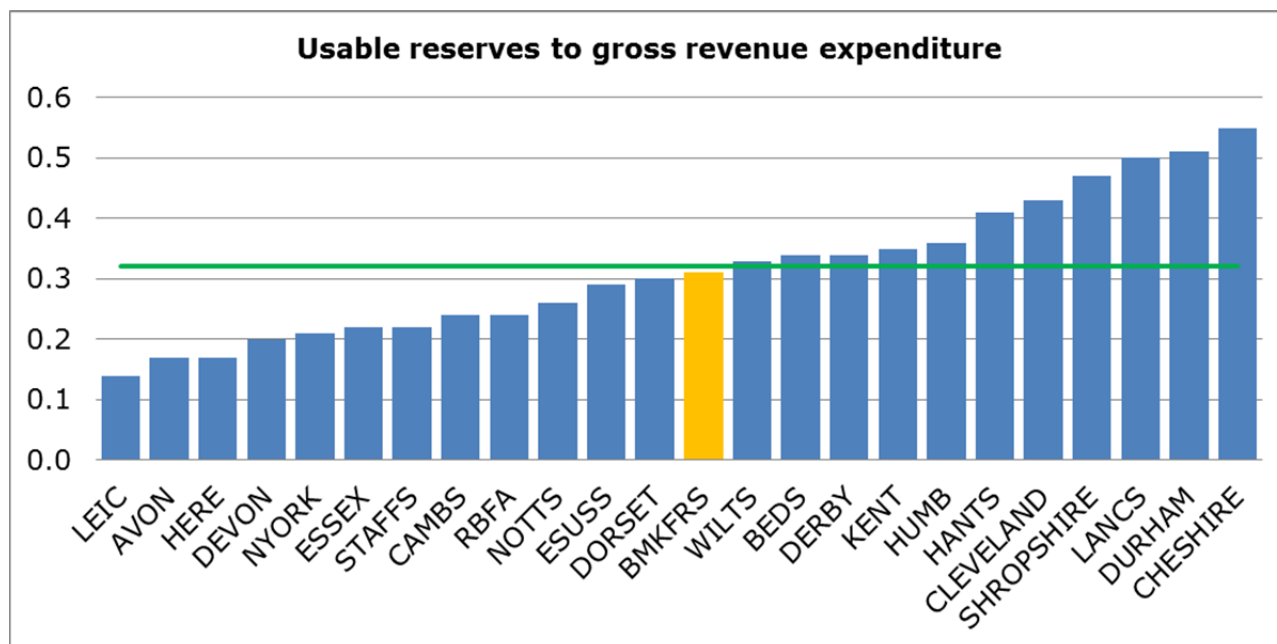


Chart 2

The usable reserves to gross expenditure ratios are shown in Chart 2. The reason for a high ratio here is generally as a consequence of a reduction in spending as organisations change the way they deliver services at lower cost, combined with increasing levels of reserves being held due to the uncertainty of future funding levels. The graph indicates that BMKFRS are holding reserves of approximately 31% of gross revenue expenditure, which whilst fairly high, is in line with the average for combined fire authorities.

(iii) Long-term borrowing to tax revenue

This ratio measures the relationship between an organisation's long-term borrowing and its tax revenue. When interpreting this ratio, consideration should be given to the reasons for long-term borrowing. Local government organisations enter into long-term borrowing to finance large-scale investment in the buildings and equipment they need to deliver services. Organisations need to ensure that their medium-term financial strategies take sufficient account of the level of debt repayments to minimise any impact these may have on future spending plans. Currently interest rates are at a historically low level, making borrowing more affordable, however, with interest rates set to rise in the years ahead, future borrowing will become more expensive.

Long-term borrowing includes long-term loans, long-term liabilities relating to Private Finance Initiatives and finance lease liabilities.

Tax revenue includes the revenue support grant, Council Tax income and business rates income (non-domestic rates).

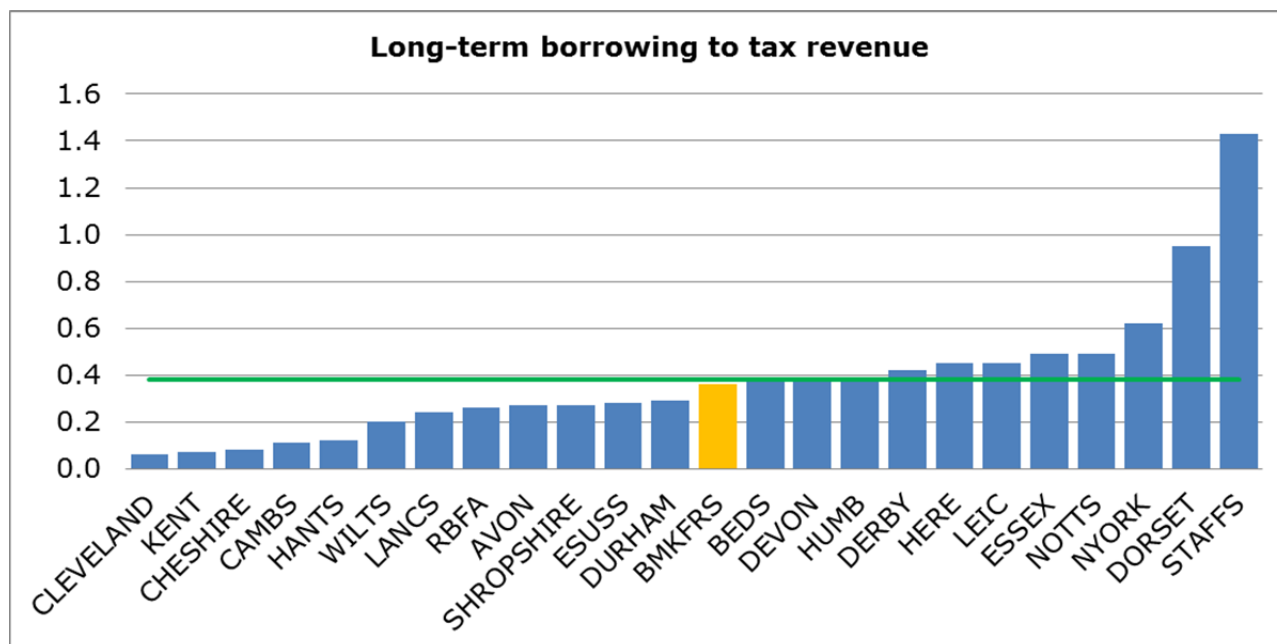


Chart 3

Chart 3 shows the long-term borrowing compared with tax revenues. The comparison shows that BMKFRS has a fairly low reliance on long-term borrowing with outstanding borrowing at approximately a third of tax revenue. This is primarily because in recent years the capital programme has been funded from capital grant and contributions from revenue. This ratio will strengthen as long-term borrowing is repaid in line with the maturity profile, but there is currently no incentive to repay borrowing early due to the substantial early repayment premiums that would be incurred.

(iv) Long-term borrowing to long-term assets

This ratio measures the relationship between an organisation's long-term borrowing and long-term assets. This ratio provides insight into what borrowing has funded and the potential need for future borrowing to finance investment in delivering services. Once again, interpretation of this ratio requires consideration of the historical reasons for long-term borrowing. The amount that organisations need to borrow to finance their long-term capital investment plans will be influenced by their ability to raise funds from the sale of existing long-term assets.

Long-term borrowing includes long-term loans, long-term liabilities relating to Private Finance Initiatives and finance lease liabilities.

Long-term assets includes property, plant and equipment, heritage assets, investment property, intangible assets (e.g. computer software), assets under construction, long-term investments and long-term debtors.

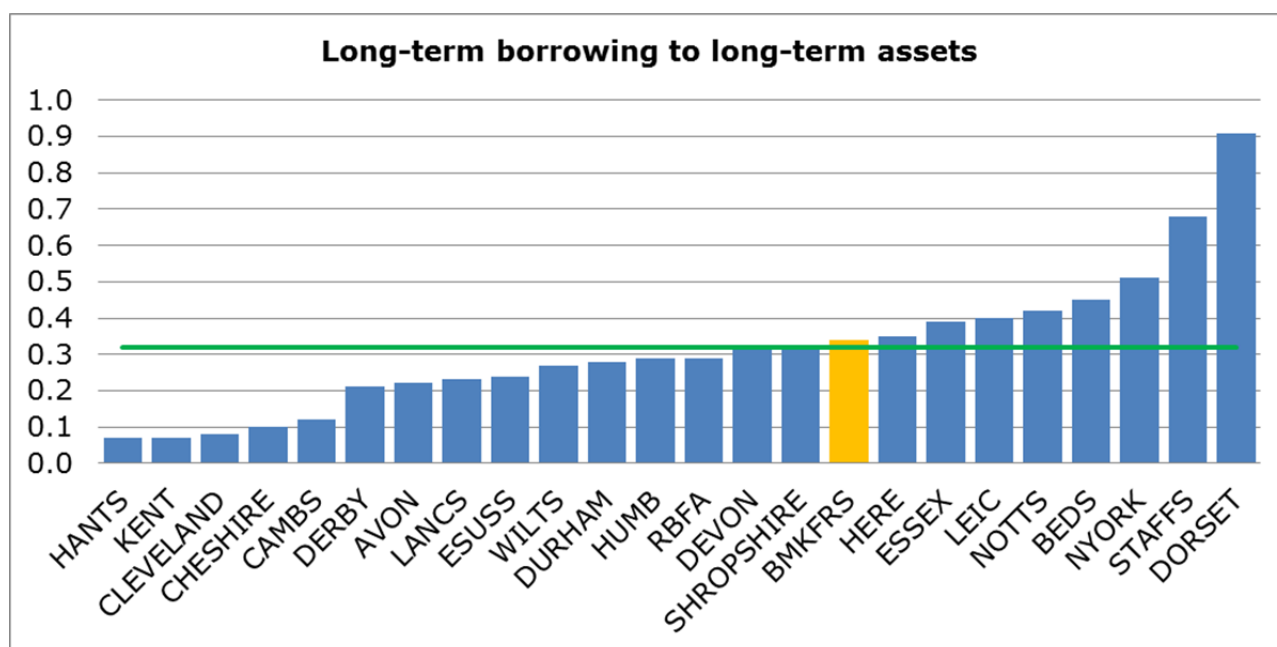


Chart 4

Chart 4 indicates how much outstanding borrowing each organisation has compared with their long-term assets. Currently BMKFRS has outstanding borrowing equivalent to approximately a third of the value of its long-term assets. The Authority has no current plans to borrow further, instead funding future capital expenditure through revenue contributions. As is the case in section (iii), this ratio will also improve as long-term borrowing is repaid in line with the maturity profile, but there is currently no incentive to repay borrowing early due to the substantial early repayment premiums that would be incurred.

Key to Abbreviations Used in the Charts

Avon Fire Authority	AVON
Bedfordshire and Luton Combined Fire Authority	BEDS
Buckinghamshire and Milton Keynes Fire Authority	BMKFRS
Cambridgeshire and Peterborough Fire Authority	CAMBS
Cheshire Fire and Rescue Authority	CHESHIRE
Cleveland Fire Authority	CLEVELAND
County Durham and Darlington Fire and Rescue Authority	DURHAM
Derbyshire Fire Authority	DERBY
Devon and Somerset Fire and Rescue Authority	DEVON
Dorset Fire Authority	DORSET
East Sussex Fire Authority	ESUSS
Essex Fire Authority	ESSEX
Hampshire Fire And Rescue Authority	HANTS
Hereford and Worcester Fire And Rescue Authority	HERE
Humberside Fire Authority	HUMB
Kent And Medway Fire And Rescue Authority	KENT
Lancashire Combined Fire Authority	LANCS
Leicester, Leicestershire and Rutland Combined Fire Authority	LEIC
North Yorkshire Fire And Rescue Authority	NYORK
Nottinghamshire and City of Nottingham Fire and Rescue Authority	NOTTS
Royal Berkshire Fire Authority	RBFA
Shropshire and Wrekin Fire and Rescue Authority	SHROPSHIRE
Stoke on Trent and Staffordshire Fire and Rescue Authority	STAFFS
Wiltshire And Swindon Fire Authority	WILTS

Annex C – Economic Outlook and Locally Financed Current Expenditure

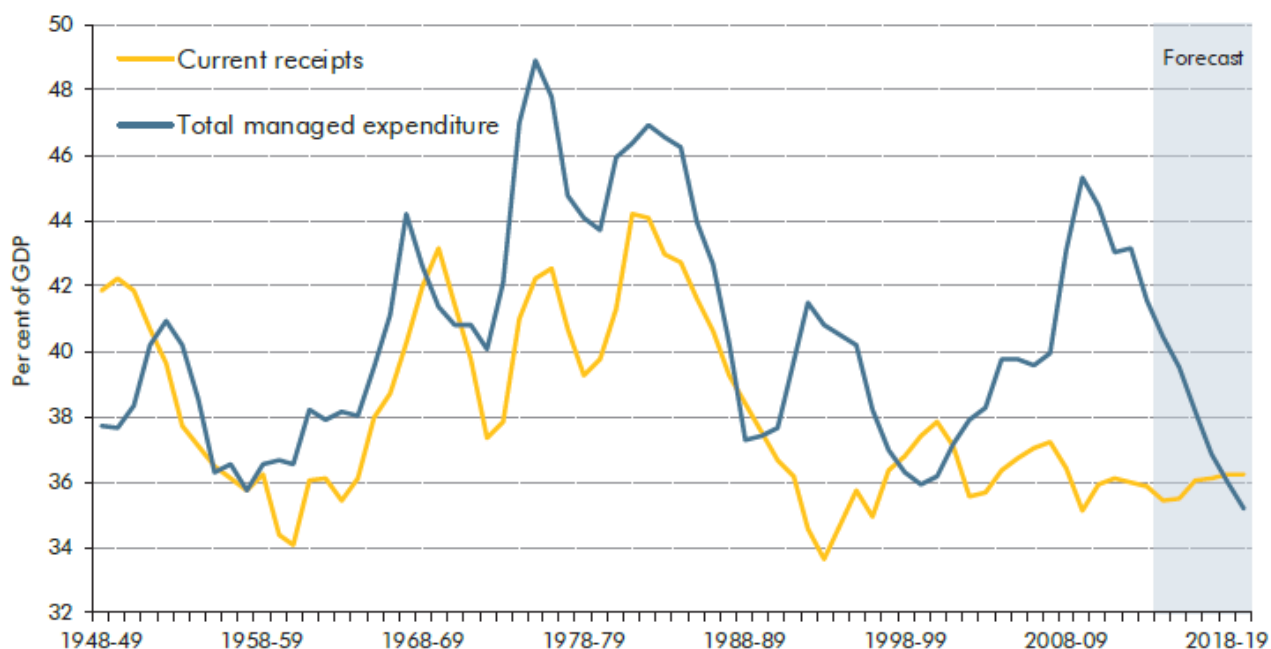
1. The Economic Outlook

- 1.1. The UK economy has outperformed the Office for Budget Responsibility's (OBR) March forecast, with GDP expected to grow by 3.0% this year and unemployment already down to 6.0%. But wage and productivity growth have once again disappointed, while national income and spending have outperformed most in those areas that yield least tax revenue.
- 1.2. For these and other reasons, this year has seen a sharp fall in the amount of tax raised for every pound of measured economic activity. As a result, despite strong economic growth, the budget deficit is expected to fall by only £6.3 billion this year to £91.3 billion, around half the decline the OBR expected in March. That would be the second smallest year-on-year reduction since its peak in 2009/10, despite this being the strongest year for GDP growth.
- 1.3. Public sector net borrowing is expected to fall by 0.6% of GDP this year, reaching 5.0% – half the peak it reached in 2009/10. Looking further ahead, the OBR expect the deficit to fall each year and – as in March – to reach a small surplus by 2018/19. This reflects relatively large and broadly offsetting changes in the expected path of receipts and spending. In particular:
 - 1.3.1. Receipts have been revised down by £7.8 billion in 2014/15, rising to £25.3 billion by 2018/19. Lower wage growth has reduced income tax forecast and a variety of factors have reduced expected receipts from VAT and excise duties. Relative to GDP, tax receipts are expected to recover to their 2013/14 level towards the end of the forecast. This relies on an improvement in productivity boosting earnings growth and income tax receipts, although the Budget 2013 decision to abolish contracting out from National Insurance contributions will also raise the tax-to-GDP ratio significantly in 2016/17
 - 1.3.2. Public spending has been revised down by £2.0 billion in 2014/15 and by £7.7 billion in 2015/16, the final years for which the Government has set detailed spending plans. By 2018/19, the downward revision reaches £23.5 billion. This largely reflects lower debt interest payments, due to the fall in market interest rates since March. But the Government has also tightened the implied squeeze on departmental spending on public services from 2016/17 to the end of the forecast and of the next Parliament.
- 1.4. On the Government's latest plans and medium-term assumptions, we are now in the fifth year of what is projected to be a ten-year fiscal consolidation. Relative to GDP, the budget deficit has been halved to date, thanks primarily to lower departmental spending (both current and capital) and lower welfare spending. The tax-to-GDP ratio has risen little since 2009/10. Looking forward, the Government's policy assumption for total spending implies that the burden of the remaining consolidation would fall overwhelmingly on the day-to-day running costs of the public services – and more so after the Autumn Statement

2014. Between 2009/10 and 2019/20, spending on public services, administration and grants by central government is projected to fall from 21.2% to 12.6% of GDP and from £5,650 to £3,880 per head in 2014/15 prices. Around 40% of these cuts would have been delivered during this Parliament, with around 60% to come during the next. The implied squeeze on local authority spending is similarly severe.

- 1.5. As Chart C1 illustrates, total public spending is now projected to fall to 35.2% of GDP in 2019/20, taking it below the previous post-war lows reached in 1957/58 and 1999/00 to what would probably be its lowest level in 80 years. Receipts are projected to end the forecast broadly in line with their average share of GDP over the past 20 years.

Chart C1 Total Public Sector Spending and Receipts



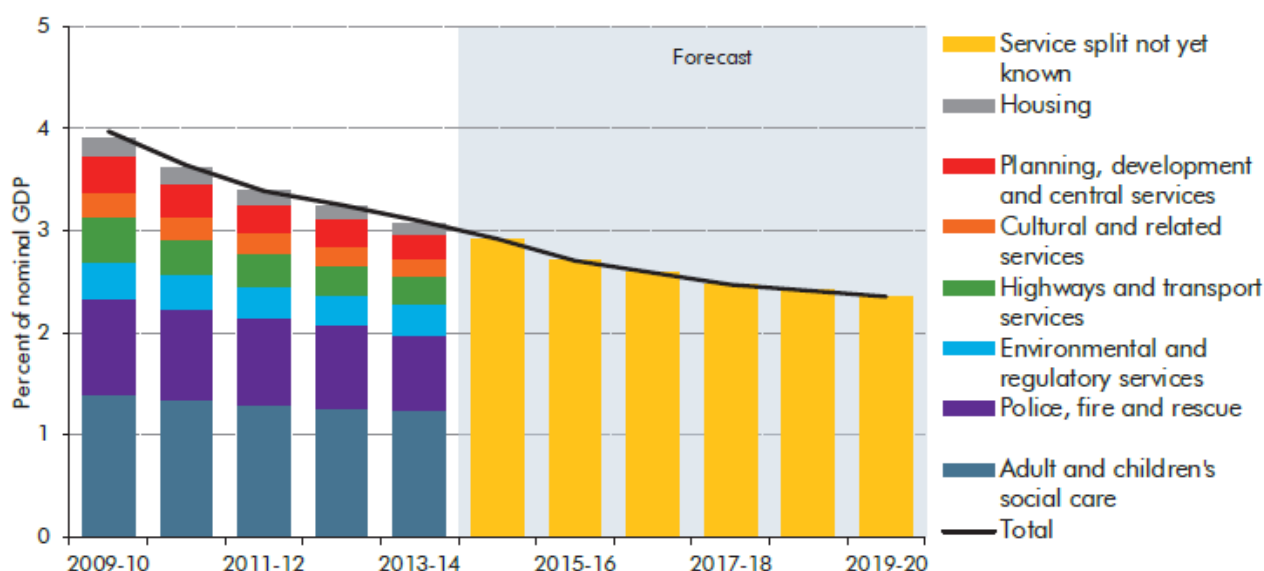
Source: ONS, OBR

2. Locally Financed Current Expenditure

- 2.1. The OBR produce a forecast of local authority spending by forecasting the sources of income that local authorities use to finance their spending. They also make an assumption about the extent to which spending will be lower or higher than income, thereby adding or subtracting from local authorities' reserves.
- 2.2. The forecast of current spending is largely driven by the forecasts for council tax and retained business rates in England. The forecast profile for council tax is reduced in 2014/15 and 2015/16 by the availability of council tax freeze grant in England, which runs until 2015/16. This has kept average council tax increases down to 0.9% in 2014/15, as 60% of local authorities have frozen their tax levels and taken up the council tax freeze grant. In 2015/16, the OBR expect a similar rise. After 2015/16, they assume that council tax in England, Scotland and Wales will rise in line with CPI inflation.

- 2.3. The most difficult judgement for the current forecast is the extent to which English local authorities will continue to underspend their current budgets and add to their current reserves. English local authorities have added to their current reserves in every year from 2010/11 to 2013/14. This occurred despite substantial reductions in their current spending. In the years immediately before 2010/11, local authorities spent more than they forecast in their budget returns to DCLG. By contrast, since 2010/11, they have underspent against their budgets. The largest underspend to date has been £4.2 billion in 2013/14.
- 2.4. The OBR forecast the extent to which local authorities will continue to cut their current spending in absolute terms and relative to their income i.e. the extent to which they will continue to add to reserves. Chart C2 shows how local authorities have reduced their spending across the main services that they provide. It also shows the OBR forecast of their income in future years, based on assumptions about grants from central government.

Chart C2 Local Authority Current Spending in England



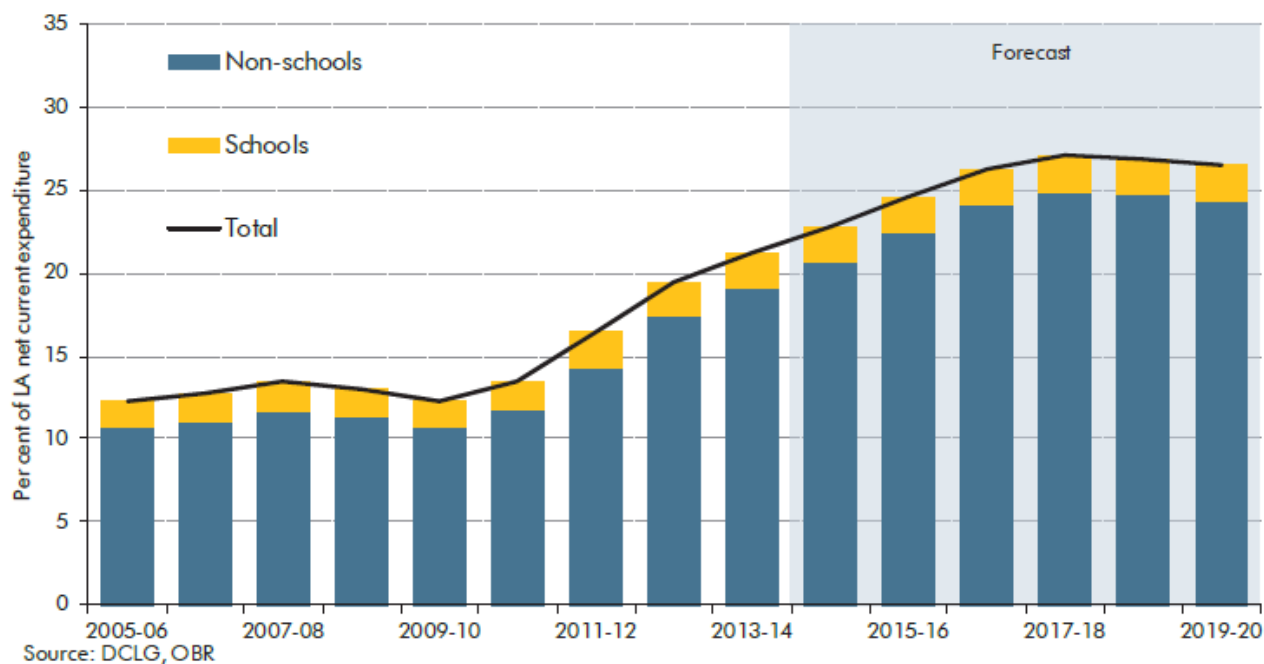
Source: DCLG, OBR

1. Total current spending excludes education and public health, where data are not comparable across years, and also excludes housing benefit, which is largely funded by central government. 2. Total spending from 2016-17 derived on the assumption that central government grants to local authorities decline in line with total implied PSCE in RDEL

- 2.5. One conclusion that the OBR has drawn is that local authorities may be using their 'earmarked' reserves to help manage the effect of expected future reductions in their spending, and manage the additional uncertainties about key aspects of their future income. It is also clear that there are differences in financial conditions and pressures across local authorities.

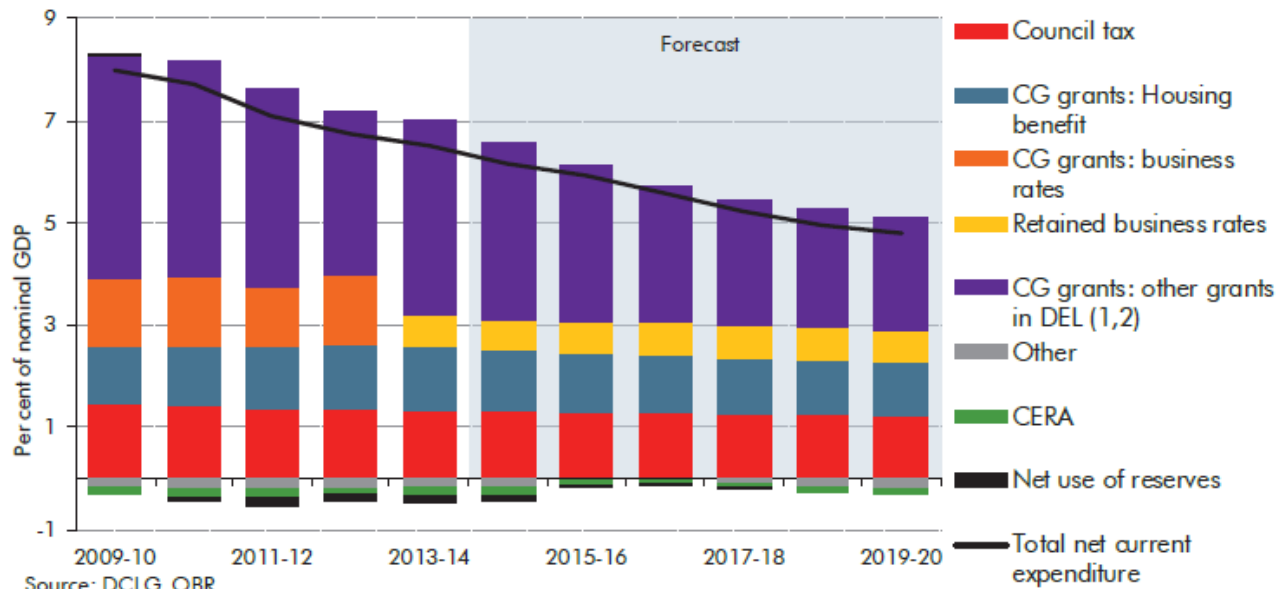
- 2.6. The OBR forecasts that English local authorities will add to their current reserves by £1.5 billion in 2014/15. They assume that they will continue to add to their reserves, but by decreasing amounts, until 2018/19, and that they will be flat thereafter. Chart C3 shows that this is consistent with local authorities' current reserves rising as a percentage of their current spending until 2018/19.

Chart C3 Local Authority Current Reserves in England, Relative to Net Current Expenditure



- 2.7. The forecast of total local authority spending depends critically on the level of central government grants to local authorities, which will be allocated from departmental expenditure limits (DELs) in future local government settlements. The OBR forecasts do not try to predict any change in the current allocation of spending between central government departments spending and central government grants to local authorities. Chart C4 shows how the forecast for local authority current spending is constructed from the sources of finance. The forecasts for the years after 2015/16 assume that local authority grants account for the same proportion of spending in 2015/16. However, the amount that will be allocated to local government grants will depend on the next Government's choices on future DEL spending.

Chart C4 Composition of Local Authority Financing in England



¹ Central government grants in DEL from 2013-14 includes funding for business rates not retained by local authorities.

² Figures for central government grants to local authorities in DEL after 2015-16 are assumed to decline in line with total implied PSCE in RDEL

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Buckinghamshire & Milton Keynes Fire Authority



MEETING	Executive Committee
DATE OF MEETING	4 February 2015
OFFICER	Lynne Swift, Director of People and Organisational Development
LEAD MEMBER	Councillor Roger Reed
SUBJECT OF THE REPORT	Senior Management Team Remuneration and Performance Review
EXECUTIVE SUMMARY	<p>This report sets out recommendations for members' consideration on senior management team (SMT) pay and remuneration for the 2014 annual review. Appendix 1 sets out the senior management team pay review methodology.</p> <p>The review process should take place annually in the autumn with any changes approved by the full Authority generally effective from the following 1 January. The last review took place in February 2014.</p> <p>Senior management team members are contracted under the National Joint Council (NJC) for Brigade Managers of Fire and Rescue Services Constitution and Scheme of Conditions of Service; known as the "Gold Book", for pay purposes. The "Gold Book" sets a two track approach for determining levels of pay as outlined in the background section of this report and detailed in Appendix 3.</p> <p>For 2014 the NJC national pay award for Brigade Managers was a one per cent increase on salaries up to £99,999 and a £1,000 flat rate for salaries £100,000 and above. There had not been a national pay increase for senior managers since 2009.</p> <p>For 2014, firefighters under the National Joint Council (NJC) for Local Authority Fire and Rescue Services Scheme of Conditions of Service 2004, known as the "Grey Book" received a one per cent pay award. They had received the same level of award in 2012 and 2013.</p> <p>Appendix 4 provides more detail on the 2014 'Gold' and 'Grey' book awards.</p> <p>Support services staff under the Buckinghamshire and Milton Keynes Fire Authority scheme of conditions of service were part of an equal pay audit and full review of pay and benefits which concluding in May 2014.</p>

	<p>Outcomes were introduced from September 2014.</p> <p>A new salary and grading structure was introduced. Allowances were streamlined and a comparison was undertaken against the market. Time based increments were removed. There has been no specific 'annual' salary review for 2014. A pay modeling exercise is underway to determine future review mechanisms and options.</p> <p>Appendix 2 details the nationally agreed pay award for staff employed under the "Green Book" conditions of service for comparison purposes only. The national award was 2.20% over a two-year period.</p> <p>Appendices 5 and 6 of this report set out the Authority's performance and comparisons with other fire and rescue services based on research and CIPFA data.</p>
ACTION	Decision.
RECOMMENDATIONS	<p>It is recommended that:</p> <ol style="list-style-type: none"> 1. members approve the minor changes to the methodology as set out in Appendix 1. 2. members approve the proposals as set out in Appendix 7.
RISK MANAGEMENT	There are no risks to the delivery of the Authority's functions.
FINANCIAL IMPLICATIONS	<p>If members are minded to consider an award as per the methodology described in Appendix 1, this would be funded from the year end outturn favourable variances.</p> <p>For members information the year end outturn positions before movements to and from reserves in recent years have been:</p> <p>2011/12 c£1,800K favourable variance</p> <p>2012/13 c£873K favourable variance</p> <p>2013/14 c£1,300K favourable variance</p> <p>The latest estimate for the corresponding 2014/15 outturn as of end December 2014 is projected to be c£1,700K. This is an agreed reduction on to estimated £2 million underspend reported for Quarter 2; the main change being member approval for £238K of the underspend for ICT capital projects.</p>
LEGAL IMPLICATIONS	The terms of reference of the Executive Committee include the role of the employer in connection with employees of the Authority contracted in whole or in part to the "Gold Book". The recommendations are consistent with the Authority's extant statutory pay

	policy statement.
HEALTH AND SAFETY	There is no impact.
EQUALITY AND DIVERSITY	A People Impact Assessment has been completed and there are no equality and diversity issues arising from this report.
USE OF RESOURCES	<p>The senior management team are collectively and individually responsible for delivering the corporate plan and the Authority's objectives.</p> <p>Performance of SMT members is regularly appraised either by the CFO/CEO or Chairman supported by Lead Members where appropriate.</p> <p>The Authority's Pay Policy, Part 2 section 24, and the methodology described in Appendix 1, allow for Authority consideration of one-off bonus payments linked to evidenced and scrutinised delivery of performance management objectives.</p> <p>Whilst SMT members have been invited to contribute with evidence to demonstrate performance improvements, officers have not been and will not be party to any decision making in relation to their own remuneration.</p> <p>Performance and Benchmarking Data</p> <p>In determining any changes to local pay, the methodology requires members to consider various types of qualitative and quantitative data. This section of the report includes a summary of the data.</p> <p>Specifically:</p> <ol style="list-style-type: none"> 1. Information about the extent to which corporate objectives have been met. 2. Chief Fire Officer/Chief Executive appraisal data as provided by the Chairman. 3. Senior management team appraisal data as provided by the Chief Fire Officer/Chief Executive. 4. Progress on any specific projects that members had identified as high priority. 5. Comparative performance data with other Fire Services. 6. Salary benchmarking data in relation to senior management team salaries for Group 2, Combined South East Region Fire Services. 7. Financial Data about budget provision for pay/reward costs arising from this review. 8. Data about national pay settlements awarded to Gold, Green and Grey book employees. 9. Performance Data provided by the Chief Fire Officer

	(following discussions with the senior management team).
PROVENANCE SECTION & BACKGROUND PAPERS	<p>Background</p> <p>SMT members are contracted under NJC "Gold Book" conditions for pay purposes. This involves a two-track approach for determining levels of pay;</p> <ul style="list-style-type: none"> National Pay - At national level, the NJC annually reviews the level of pay increase applicable to Principal Officers. Any increase is effective from the usual annual settlement date 1st January. There had not been a national pay increase for senior managers since 2009 until the national agreement agreed in July 2014, effective from 1 January 2014. Local Pay - The NJC agreement also requires Fire and Rescue Authorities to review Principal Officers' salary levels on an annual basis. <p>Remuneration principles are part of the Authority's current Pay Policy Statement 2013/2014. More recently specific principles were agreed in relation to support services staff pay. The principle of self-funding linked to savings and performance is central to the Authority's reward and remuneration philosophy.</p> <p>The methodology (Appendix 1) recognises that there are a range of pay and non-pay options for members to consider which include attending development opportunities, incorporated salary rises, non-incorporated bonuses, pay agreements that span a number of years and no change to existing reward packages.</p>
APPENDICES	<p>Appendix 1: Senior Management Team Pay Review Methodology</p> <p>Appendix 2: NJC "Green Book" Pay Award 2015-2016</p> <p>Appendix 3: Extract from "Gold Book" 2006 Fifth Edition</p> <p>Appendix 4: NJC "Grey Book" Pay Award 2014</p> <p>Appendix 5: Salaries for Chief Fire Officers in England</p> <p>Appendix 6: CIPFA Statistical Data</p> <p>Appendix 7: Senior Management Remuneration and Performance (Exempt)</p>
TIME REQUIRED	15 Minutes.
REPORT ORIGINATOR AND CONTACT	<p>Keith MacGillivray MBE MA BSc</p> <p>keith.macgillivray@btinternet.com</p> <p>07500 931466</p>

Senior Management Team Pay Review Methodology

This methodology is designed to provide a mechanism for the implementation of the Senior Officers Remuneration Procedure, in accordance with the Gold Book.

Overview

A working group of at least two members of the ~~Human Resources Sub-Committee (including the Chairman)~~ Executive Committee (including the Chairman) and the Chairman of the Overview and Audit Committee will meet annually to consider relevant data and make recommendations to the autumn meeting of the ~~Human Resources Sub-Committee~~ Executive Committee. This will then be put forward as a recommendation to the full Authority; who will consider it in the context of the approved policy statement.

The salaries for the posts of Chief Fire Officer, Chief Operating Officer, Director of People and Organisational Development, Director of Legal and Governance, Director of Finance and Assets **and Heads of Service Delivery** will be considered as part of this process.

Changes will generally be effective from 1 January.

In their deliberations, members will be mindful of the wider economic context and the current national pay restraints. The outcomes of the Hutton Review of Fair Pay in the Public Sector will also be considered.

Any costs arising from the application of this methodology will be self-funded through savings (full or part) on the senior management team budget and will not impact on the finance available for other Buckinghamshire and Milton Keynes Fire and Rescue Service staffing budgets.

Objectives

The purpose of the review is to ensure that the Fire Authority motivates the senior management team to:

- Stimulate greater effectiveness
- Expedite the Corporate plan
- Drive culture change by providing an acceptable level of reward which is recognised as fair, given local and national perspectives.

Range of Possible Outcomes

The working group may choose to make a range of recommendations including:

- Non-pay rewards (such as attending development opportunities)
- Pay increases that are incorporated into salaries
- Non-incorporated bonuses
- Pay agreements that span more than one year
- No change to existing reward arrangements

Senior Management Team Remuneration and Performance Review

Appendix 1

Process

1. An external consultant will be engaged to gather relevant information and prepare a report for presentation to the members' sub-group. The report with recommendations will address qualitative and quantitative data which may include:
 - Information about the extent to which corporate objectives have been met (as provided by the Performance Intelligence Unit Manager).
 - Chief Fire Officer appraisal data as provided by the Chairman.
 - Senior management team appraisal data as provided by the Chief Fire Officer.
 - Progress on any specific projects that members had identified as high priority.
 - Performance data provided by the Chief Fire Officer (following discussions with the senior management team).
 - Comparative performance data with other fire services.
 - Salary benchmarking data in relation to senior management team salaries for Group 2, Combined South East Region Fire Services.
 - Financial data about budget provision for pay/reward costs arising from this review.
 - Data about the national pay settlements awarded to Gold, Green and Grey book employees.

From 31 March 2012, these points will be considered within the context of the approved policy statement as set by the Authority.

2. Working group members meet to analyse and discuss the report, and determine their recommendation to the ~~Human Resources Sub-Committee~~ Executive Committee.
3. The external consultant prepares the report to committee setting out the sub-group recommendation, and the justification for the recommendation. This report forms the audit trail for any pay/benefits adjustments.
4. The report will be presented to members at the autumn meeting of the ~~Human Resources Sub-Committee~~ Executive Committee and then to the full Fire Authority.
5. Any appeals will be dealt with through the Buckinghamshire and Milton Keynes Fire Authority Grievance Procedure.

Senior Management Team Remuneration and Performance Review

Appendix 2

Appendix 2 details the agreed pay award for staff employed under the national "Green Book" conditions of service and is included **for comparison purposes only**.

Support services staff under the Buckinghamshire and Milton Keynes Fire Authority scheme of conditions of service were part of an Equal Pay audit and full review of pay and benefits concluding in May 2014, with outcomes introduced from September 2014.

A new salary and grading structure was introduced. Allowances were streamlined and comparison was undertaken against the market. Time based increments were removed; therefore there has been no specific 'annual' salary review for 2014. However a pay modelling exercise is underway to determine future review mechanisms and options.

Nationally agreed pay award

For the period 2015/16, staff under the National Joint Council for Local Government Services, known as the national "Green Book", were recently awarded a 2.20% pay rise effective from 1 January 2015. The pay award covers a two year period.

Details of the award are below:

National Joint Council for Local Government Services
Employers' Secretary:
Sarah Messenger
Local Government House, Smith Square London, SW1P 3HZ
Tel: 020 7187 7373 Fax: 020 7664 3030

To: Chief Executives in England, Wales and N Ireland (copies for the Finance Director and HR Director) Members of the National Joint Council

14 November 2014

Dear Chief Executive,

2014-16 PAY SCALES & ALLOWANCE

Agreement has now been reached on rates of pay applicable from 1 January 2015. The new rates are attached at Annex 1.

Details of the non-consolidated payments to be paid in December 2014 (SCPs 5-49 only) and in April 2015 (SCPs 26-49 only) are attached at Annex 2.

The new rates for allowances up-rated in line with the pay increase of 2.20% are also set out at Annex 3.

It has been agreed that Spinal Column Point 5 (SCP5) will be deleted with effect from 1 October 2015. Therefore, employees on SCP5 shall progress to SCP6 on 1 October 2015.

Executive Committee (Item 9), 4 February 2015

NJC future work

Both sides recognise that local government is undergoing a period of unprecedented change. The way that public services are designed and delivered is evolving at a rapid pace and against this background the NJC agrees that councils and their workforces need collective agreement that:

- Reward employees fairly and recognise the diverse needs of the workforce
- Attract, retain and train people with the skills needed for the future
- Enable local service providers to react more quickly to changing circumstances
- Facilitate effective partnership working and collaboration across organisations
- Remove or modify existing barriers to ensure employees can move more easily between different public sector employers

The NJC remains committed to national collective bargaining and aims to ensure that the bargaining machinery can reflect and support new ways of working. The NJC will focus on producing outputs that are relevant, fair and beneficial to both employers and those employed to provide public services.

Yours sincerely

Sarah Fiona Messenger

Implementation of a local salary structure
(Extract from the "Gold Book "2006 Fifth Edition)

Guidance

Introduction

1. Both the employers and Brigade Managers recognise the importance of applying the appropriate skills and developing the competencies necessary to support and embed the cultural change inherent within these new terms and conditions.

Local salary structures

2. When determining the appropriate level of salaries for all brigade managers, the fire and rescue authority should refer to the relevant minimum salary of the Chief Fire Officer and the most relevant benchmark data.
3. Normally the fire and rescue authority will wish to begin by determining appropriate salary for their most senior manager.
4. When deciding how these posts should be remunerated the following factors are to be considered:
 - a. The Chief Fire Officer's salary and that of any senior staff not covered by the Scheme of Conditions of Service (Gold Book);
 - b. The relationship of current salary to the appropriate illustrative national benchmark;
 - c. Any special market considerations;
 - d. Any substantial local factors not common to fire and rescue authorities of similar type and size e.g. London weighting; complex local, regional or national responsibilities which bring added value
 - e. Comparative information to be supplied on request by the Joint Secretaries on salaries in other similar authorities;
 - f. Top management structures and size of management team compared to those of other fire and rescue authorities of similar type and size; and
 - g. The relative job size of each post, as objectively assessed through an appropriate job evaluation process or otherwise
 - h. Incident command responsibility and the requirement to provide operational cover within the employing authority and beyond

The process for setting salary levels should include consideration of the following criteria:

- Minimum salary levels for Chief Officers in relevant sized local authorities
- Market rates of pay for senior managers in a range of private and public sector organisations
- Evidence of recruitment and/or retention difficulties with existing minimum rates

Senior Management Team Remuneration and Performance Review Appendix 4

For 2014, firefighters under the National Joint Council NJC for Local Authority Fire and Rescue Services Scheme of Conditions of Service 2004, known as the "Grey Book" received a 1% pay award, effective from 1 July 2014.

For 2014 the national Brigade Managers pay award was 1% on salaries below £100,000 with a flat rate £1000 increase in salaries at or over £100,000.

Details are below:

**To: Chairs of Fire Authorities
Chief Fire Officers
Clerks to Fire Authorities**

**Directors of Human Resources
Members of the National Joint Council**

8 August 2014

Dear Sir/Madam

Pay Settlement 2014

1. The NJC has reached the following agreement in respect of the pay award for 2014:
 - I. An increase of 1.0% on basic salary applicable to brigade managers earning a basic salary of £99,999 or lower (as at 31 December 2013)
 - II. A flat rate increase of £1000 on basic salary applicable to brigade managers earning a basic salary of £100,000 or more (as at 31 December 2013)
2. Each of the approaches above is effective from 1 January 2014. Therefore the pay of all brigade managers covered by the Gold Book should be increased by the amount relevant to an individual (as set out in paragraph 1 above), with effect from that date.
3. Minimum annual rates of pay for chief fire officers are attached. The minimum salary arrangements for new appointments in population bands 1 and 2 remain as defined in the 2006/2007-pay settlement (issued by circular on 7 December 2006), which will be subject to review in due course.

Yours faithfully,

SIMON PANNEL
STUART ERRINGTON
Joint Secretaries

**ANNUAL RATES OF PAY FOR CHIEF FIRE OFFICERS
FROM 1 JANUARY 2014**

Population band 1	Up to 500,000
Minimum rate of pay	£97,810*
Population band 2	500,001 to 1,000,000
Minimum rate of pay	£97,810*
Population band 3	1,000,001 to 1,500,000
Minimum rate of pay	£106,738
Population band 4	1,500,000 and above (except London)
Minimum rate of pay	£117,310
Population band 5	London
Minimum rate of pay	£128,943

* New appointments in accordance with paragraph 3 above

Senior Management Team Remuneration and Performance Review
Appendix 5

Salaries of Chief Fire Officers in England

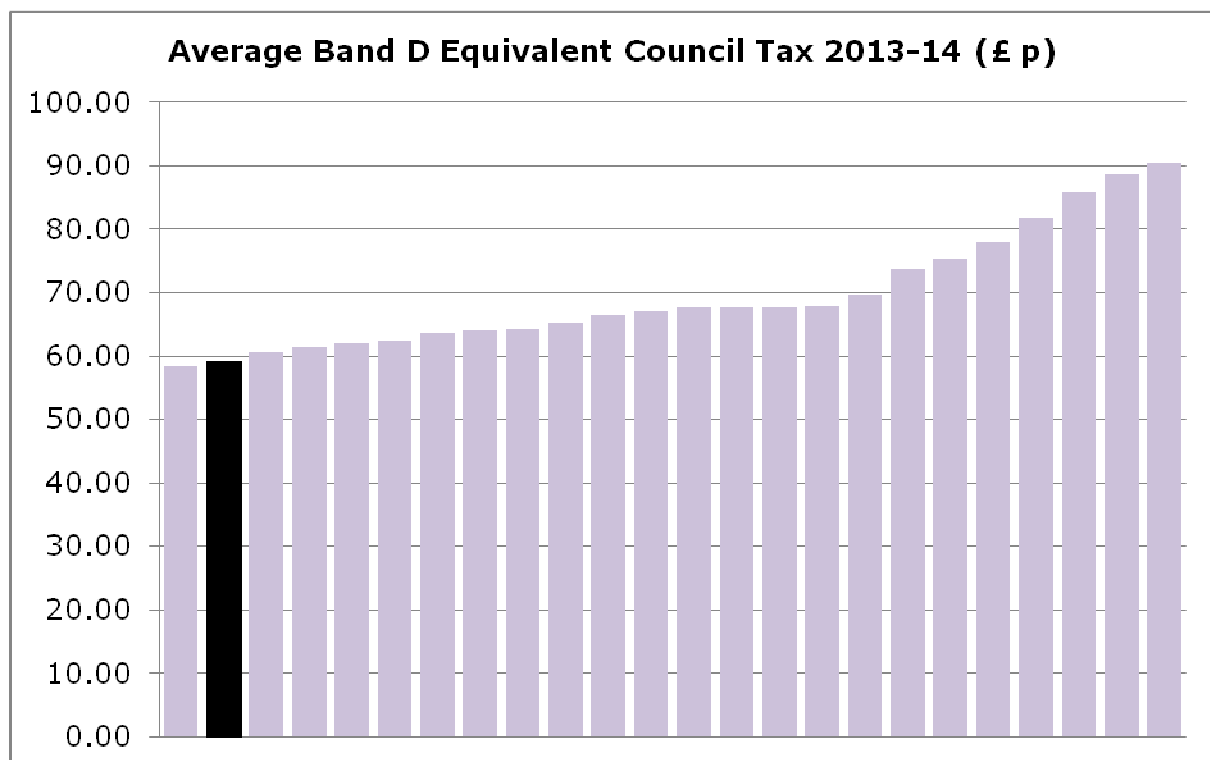
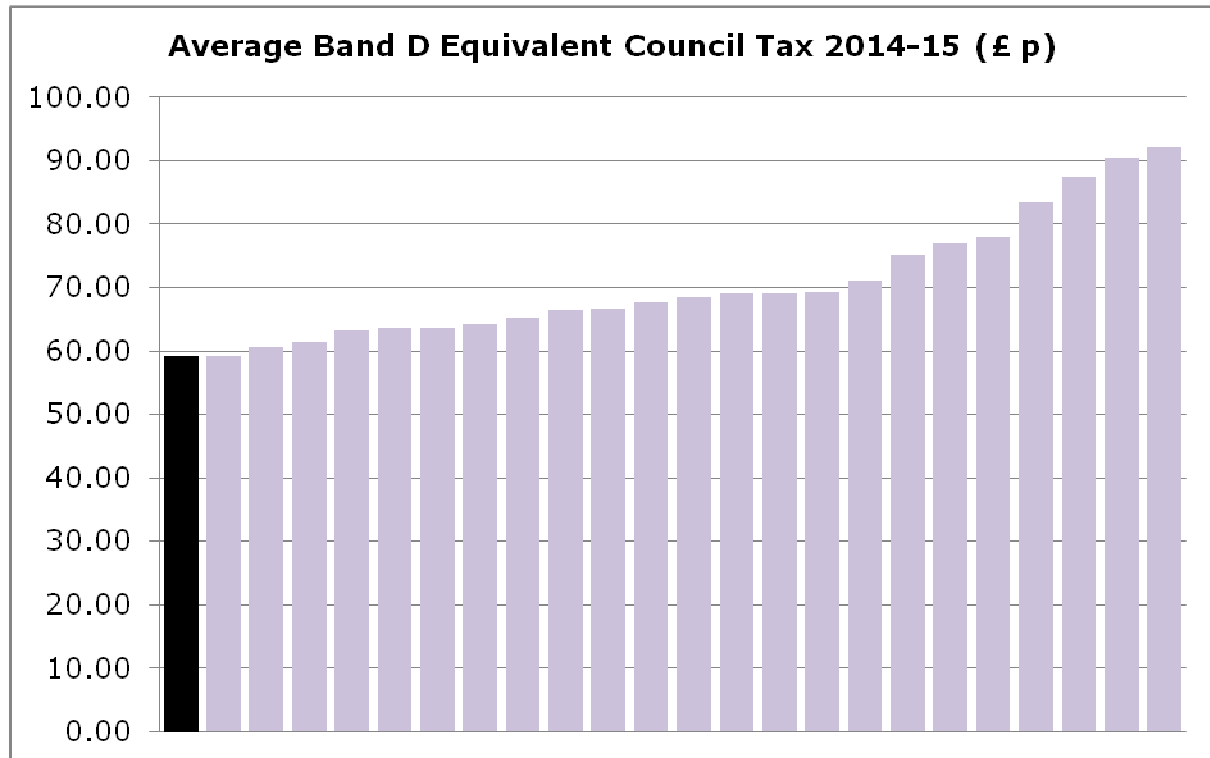
Fire & Rescue Service	Salary incl Pension	Reemployed
Royal Berkshire FRS	£168,433	No
Luton & Bedfordshire FRS	£95,085	Yes
Cambridgeshire FRS	£168,302	Yes
Leicestershire FRS	£149,220	Yes
Dorset FRS	£131,854	No
North Yorkshire FRS	£153,817	No
Wiltshire FRS	£110,000	No
East Sussex FRS	£151,227	Yes

Senior Management Team Remuneration and Performance Review

Appendix 6

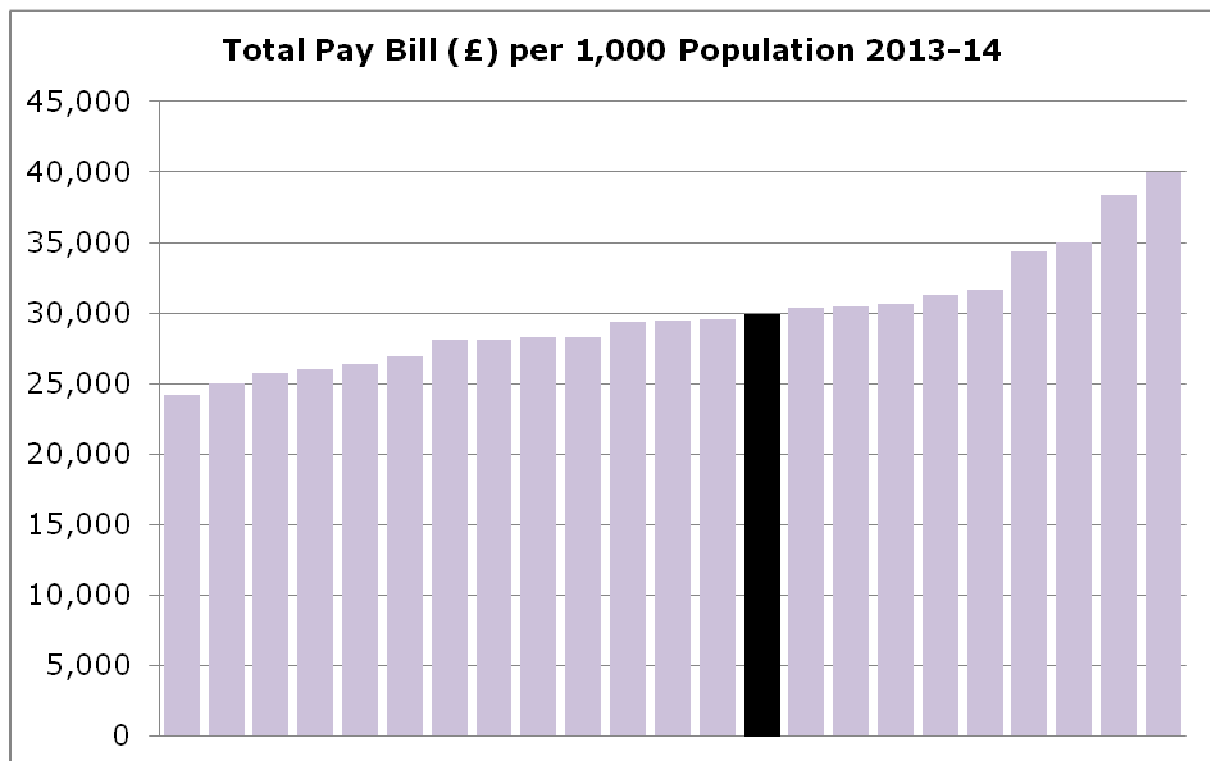
This statistical report displays figures for Buckinghamshire & Milton Keynes Fire and Rescue Service (BMKFRS) compared against other combined fire authorities. The bars representing BMKFRS have been highlighted black.

Average Band D Equivalent Council Tax

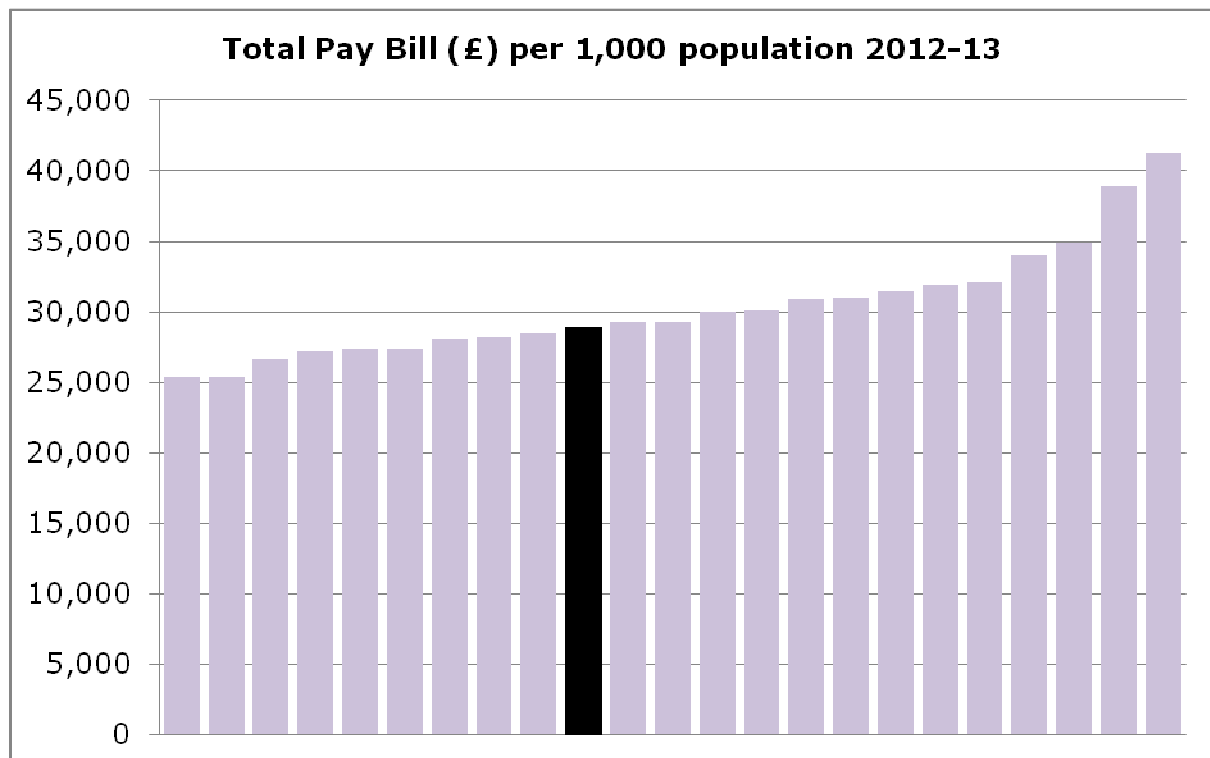


Source: Fire and Rescue Service Statistics (2010 to 2014)
 CIPFA Statistical Information Service © 2014
 Executive Committee (Item 9), 4 February 2015

Total Pay Bill per 1,000 Population

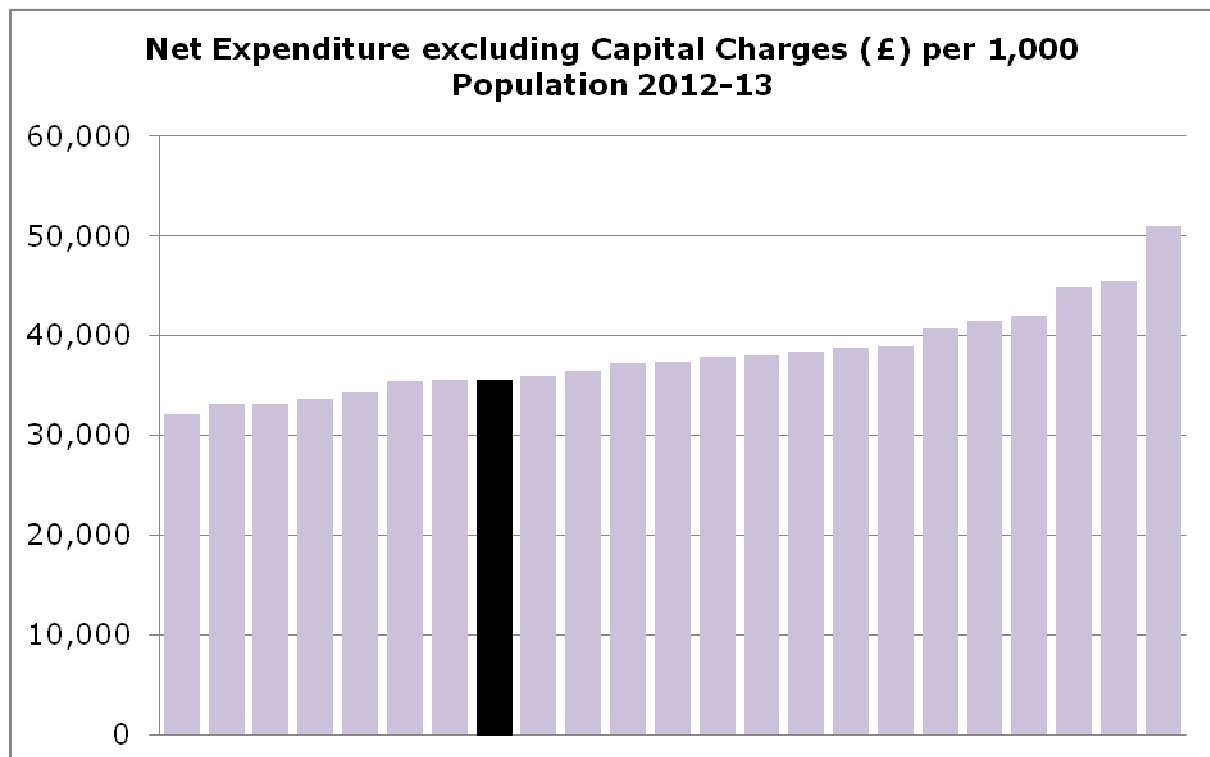
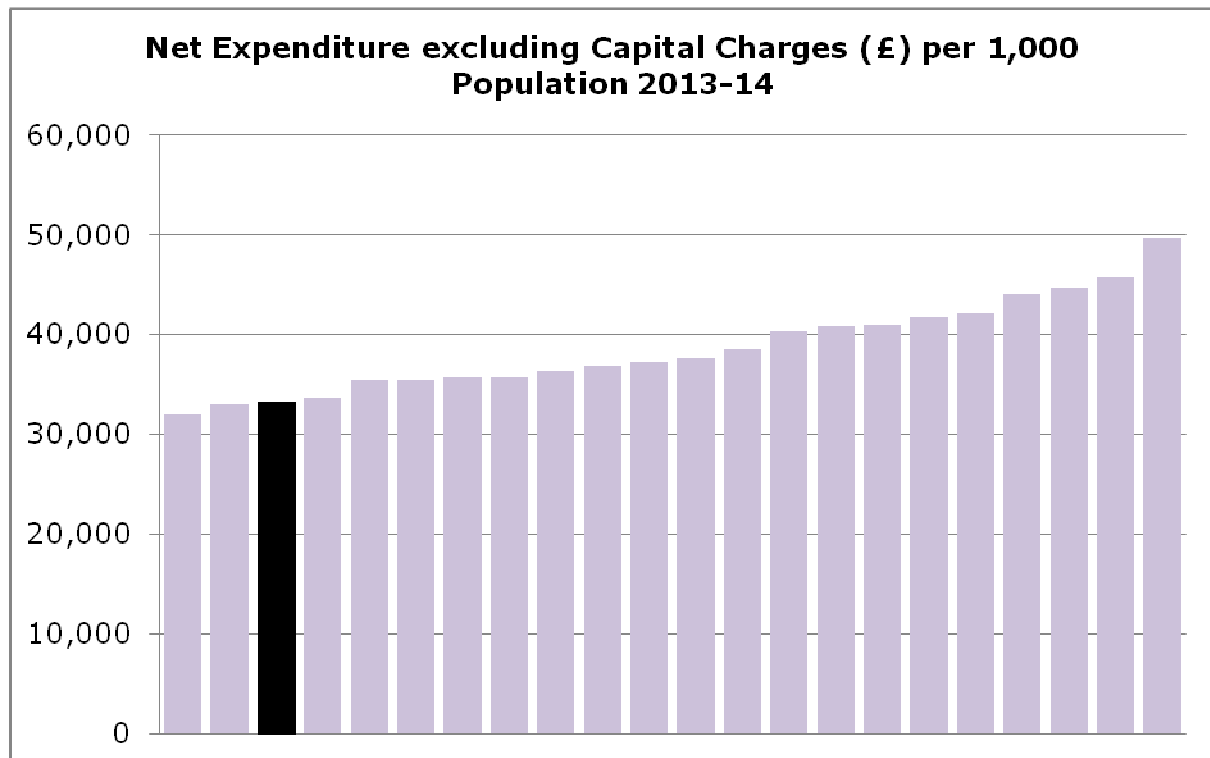


NB The above figure for BMKFRS includes a one-off payment of £1.9m to reduce the deficit on the Local Government Pension Scheme. The figure excluding this amount is £27,449. This would place BMKFRS as the 7th lowest spending authority in 2013-14 by total pay bill per 1,000 population (10th in 2012-13).



Source: Fire and Rescue Service Statistics (2010 to 2014)
 CIPFA Statistical Information Service © 2014
 Executive Committee (Item 9), 4 February 2015

Net Expenditure excluding Capital Charges per 1,000 Population



Source: Fire and Rescue Service Statistics (2010 to 2014)
CIPFA Statistical Information Service © 2014
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