



Chief Fire Officer and Chief Executive
Mark Jones

Buckinghamshire & Milton Keynes Fire Authority
19 February 2014

Agenda Item	Page No
8 MEDIUM TERM FINANCIAL PLAN (MTFP) 2014/15 - 2017/18 Report and appendices attached	2 - 25



Buckinghamshire & Milton Keynes Combined Fire Authority



MEETING	Fire Authority
DATE OF MEETING	19 February 2014
OFFICER	David Skinner, Director of Finance & Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	Medium Term Financial Plan (MTFP) 2014/15 to 2017/18
EXECUTIVE SUMMARY	<p>The attached MTFP report presents the proposed revenue and capital Medium Term Financial Plan (MTFP) for the financial years 2014/15 to 2017/18.</p> <p>The final settlement was announced on 5 February 2014 and is included in the funding assumptions for government grant funding, business rates and council tax receipts.</p> <p>All assumptions are detailed at section 5.10 of the report and are based on information received to date. At the time of writing final business rates information is still outstanding from a number of the districts. This is due to complications with the calculation of the new business rates scheme funding.</p> <p>In the event that any of the funding figures change, updated revenue, capital and reserves summaries will be presented at the meeting along with an update on the calculation of the baseline funding (Appendix D).</p> <p>The Model 1 (Council Tax freeze) summary at Appendix A(i) 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 at Business Transformation Board, Senior Management Board and Lead Members at the challenge sessions held on 31 October 2013 and 9 January 2014.</p> <p>Model 2 at Appendix A(ii) is an estimation of the MTFP showing the likely outcome should Members opt to forego the council tax freeze grant and increase council tax by 1.99%.</p> <p>Appendix B(i) and B(ii) show the latest summary of the capital programme for 2014/15 and an indicative position for the following three years.</p> <p>The estimated reserves statement at Appendix C shows</p>

	<p>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>The summary at Appendix D (to be presented at the meeting) gives a breakdown of the baseline funding calculation.</p>
ACTION	Decision.
RECOMMENDATIONS	<p>Members are asked to:</p> <ol style="list-style-type: none"> 1) Note and have due regard to the report and Statement of the Chief Finance Officer at section 10, 2) Note the information provided at sections 2 to 4 showing the effects of the latest global and UK economic forecast, the Localism Act and Autumn Statement on the funding settlement for 2014/15, 3) Approve a Council Tax precept of £59.13 for a band D property and the revenue budget as set out in Model 1 (Council Tax freeze) at Appendix A(i), or, 4) Approve a Council tax precept of £60.31 for a band D property and the revenue budget as set out in Model 2 (1.99% Council Tax increase) at Appendix A(ii), 5) Approve the capital programme for 2014/15 as set out in Appendix B(i) and the indicative capital programme for 2015/16, 2016/17 and 2017/18 as set out in Appendix B(ii), 6) Agree that the general reserve balance should be maintained and note the estimated movements in earmarked reserves as set out at in Appendix C, 7) Note the baseline funding summary at Appendix D (to be presented at the meeting).
RISK MANAGEMENT	<p>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.</p>
FINANCIAL IMPLICATIONS	Included in the main body of the report.
LEGAL IMPLICATIONS	<p>The Local Government Act 2003 gives the responsible finance officer, namely the Treasurer of the Combined Fire Authority under s112 of the Local Government</p>

	<p>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	None directly.
EQUALITY AND DIVERSITY	None directly.
USE OF RESOURCES	<p>The Medium Term Financial Plan, including capital and revenue budgets, identifies the financial resources required projected into the future based on the delivery of specific aims and objectives of the Authority as set out in the Public Safety Plan (PSP)/Integrated Risk Management Plan (IRMP).</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 & BACKGROUND PAPERS	MTFP 2013/14 to 2016/17
APPENDICES	<p>Appendix A – MTFP budget models,</p> <p>Appendix B – Capital programme summaries,</p> <p>Appendix C – Summary of estimated movement on earmarked reserves,</p> <p>Appendix D – Summary of baseline funding (to be presented at the meeting).</p>
TIME REQUIRED	30 minutes.
REPORT ORIGINATOR AND CONTACT	<p>Graham Young</p> <p>gyoung@bucksfire.gov.uk</p> <p>01296 744429</p>

Title: Medium Term Financial Plan (MTFP) 2014/15 to 2017/18

1 Introduction

- 1.1 The purpose of this report is to present the proposed revenue and capital Medium Term Financial Plan (MTFP) 2014-2018. Members are asked to consider and approve the 2014/15 budget and note the indicative budgets for the following three years.
- 1.2 The Medium Term Financial Plan (MTFP) links the outcomes required in the Authority's strategic aims and objectives as set out in the Public Safety Plan (PSP)/Integrated Risk Management Plan (IRMP) and Corporate Plan with the resources available to the Authority.
- 1.3 As part of the Fire Authority's Terms of Reference and Medium Term Financial Plan, 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 three years.
- 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.
- 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 The Economic Outlook

- 2.1 The UK budget 2013 highlighted three key global economic risks; the euro area sovereign debt crisis, the US 'fiscal cliff', and slowing growth in emerging markets (China, India, Russia and Brazil). Whilst some of these risks have subsequently eased, political and economic risks remain, with the potential to destabilise the UK recovery.
- 2.2 The US, which accounted for 17% of UK exports in 2012 is forecast to have growth strengthening in 2014. However the US fiscal and economic outlook is dependent on the progress of further budget and fiscal negotiations scheduled for the first half of the year. The major emerging markets taken together accounted for 7% of UK exports in 2012, however growth disappointed during 2013 due to significant capital outflows and currency depreciations mid-year.
- 2.3 The euro area is a key market for the UK and following improved financial market conditions throughout the year the euro area sovereign debt crisis has stabilised with growth in the European economy in the second and third

quarters of 2013. However, despite this improving economic outlook, activity across Europe remains subdued.

- 2.4 The UK economy picked up more strongly in 2013 than had previously been forecast mainly due to stronger than expected private consumption growth and housing investment. However it is judged that this growth surprise is more down to a reduction in the spare capacity in the economy rather than an indication of stronger underlying growth potential. It is therefore not expected that the growth rates seen during 2013 will be sustained into 2014 as despite consumer confidence, credit conditions and the housing market improving, productivity and real earnings growth have remained weak. It is forecast that growth will then strengthen from 2015 onwards as productivity picks up. Table 1.1 indicates the Gross Domestic Product (GDP) growth forecast.
- 2.5 Unemployment has been lower than forecast in 2013, continuing the pattern of previous years, however average earnings growth has remained weak. Whilst GDP has grown more strongly than expected, the number of hours worked was also higher leading to a weaker increase in productivity per hour. Employment forecasts have been revised up with unemployment forecast to fall steadily over the coming years reaching 6% by the end of 2017.
- 2.6 CPI inflation is currently at 2.0% having fallen back more than expected. It is forecast by the Office of Budget Responsibility (OBR) that CPI inflation will fall back to the Bank of England's 2% target during 2016.

A copy of the Office of Budget Responsibility's revised central economic forecast is shown in table 1.1 below:-

Table 1.1: Economic forecast overview

	Percentage change on a year earlier, unless otherwise stated						
	Outturn			Forecast ¹			
	2012	2013	2014	2015	2016	2017	2018
Gross domestic product (GDP)	0.1	1.4	2.4	2.2	2.6	2.7	2.7
Main Components of GDP							
Household consumption ²	1.2	1.9	1.9	1.7	2.4	2.8	2.8
Business investment	2.6	-5.5	5.1	8.6	8.7	8.9	7.9
General government consumption	1.7	0.7	0.4	-0.5	-1.0	-1.8	-1.1
General government investment	4.6	-6.9	7.3	1.2	2.1	0.5	-1.1
Net trade ³	-0.7	-0.2	0.0	0.1	0.0	0.0	-0.1
Inflation							
CPI	2.8	2.6	2.3	2.1	2.0	2.0	2.0
Labour market							
Employment (millions)	29.5	29.9	30.2	30.4	30.7	30.9	31.2
Average earnings ⁴	2.0	1.5	2.6	3.3	3.5	3.7	3.8
ILO unemployment (% rate)	7.9	7.6	7.1	7.0	6.6	6.1	5.6
Claimant count (millions)	1.59	1.43	1.27	1.23	1.18	1.13	1.10

¹ The forecast is consistent with the second estimate of GDP data for the third quarter of 2013, released by the Office for National Statistics on 27 November 2013.

² Includes households and non-profit institutions serving households.

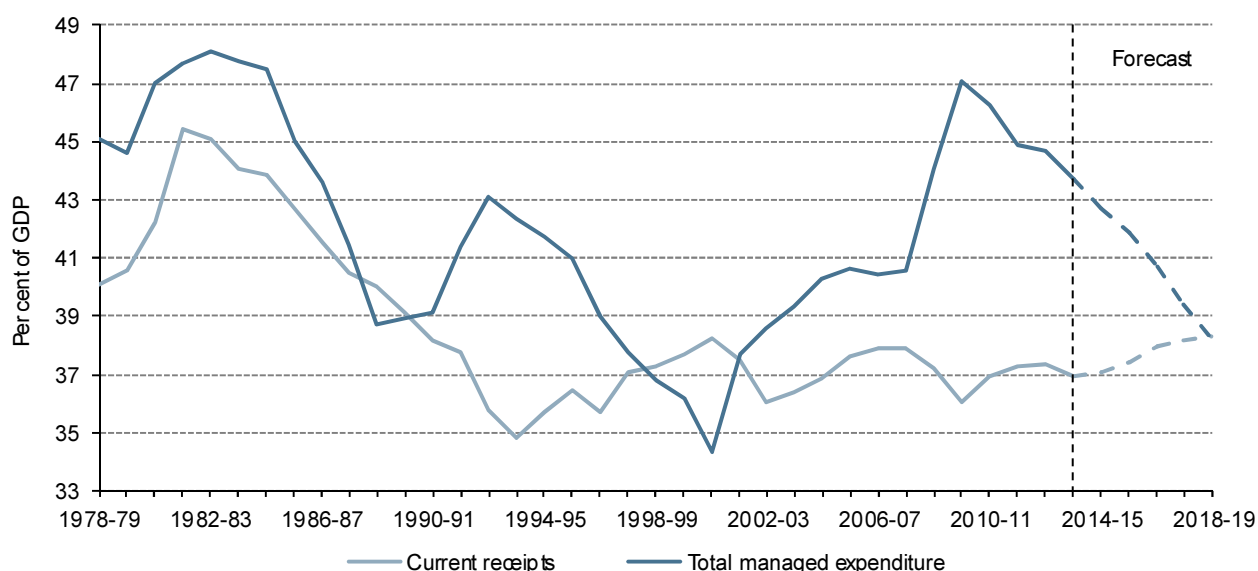
³ Contribution to GDP growth, percentage points.

⁴ Wages and salaries divided by employees.

2.7 The Chancellor’s Autumn Statement presented to Parliament on 5 December 2013 saw an extra £1 billion per year cuts on central government departmental spending in every year until 2017, and further 10% cuts in local government spending for 2015/16. The Chancellor forecast that annual deficits will continue until 2018/19 when totally managed expenditure (TME) is forecast to be flat in real terms. The statement also announced that the government plans to tighten rules for tackling budgets in an updated charter for budget responsibility. The aim will be to ensure that after 2018/19 national debt will fall as a percentage of GDP.

2.8 Chart 1.1 below shows that as a result of the plans set out in the Autumn Statement, public spending is projected by the OBR to continue to fall as a percentage of GDP whilst public sector receipts are expected to rise with the underlying balance expected to move into surplus by 2018/19.

Chart 1.1: Total public sector spending and receipts

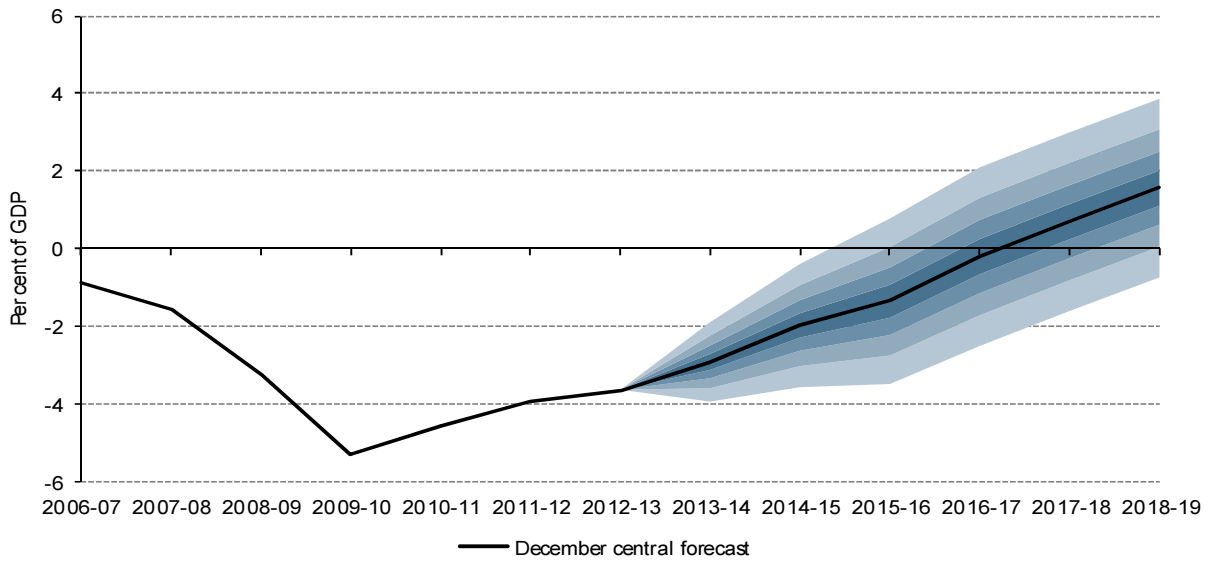


Source: ONS. OBR Excludes Royal Mail and APF transfers.

2.9 Fiscal policy remains at the heart of the Government’s commitment to reducing the deficit and promoting confidence in the sustainability of the public finances since the permanent structural deterioration caused by the global financial crisis. The Government’s fiscal strategy is underpinned by a forward-looking target to achieve a balanced budget by the end of the rolling, five-year forecast period (now 2018/19).

2.10 The OBR judges that there is a greater than 50% chance of meeting the fiscal target with the Government budget forecast to be in surplus by 1.6% of GDP in 2018/19. Chart 1.2 shows the current forecast with a fan showing the probability of differing outcomes based on the pattern of past forecasts with each shaded area representing a 20% probability band.

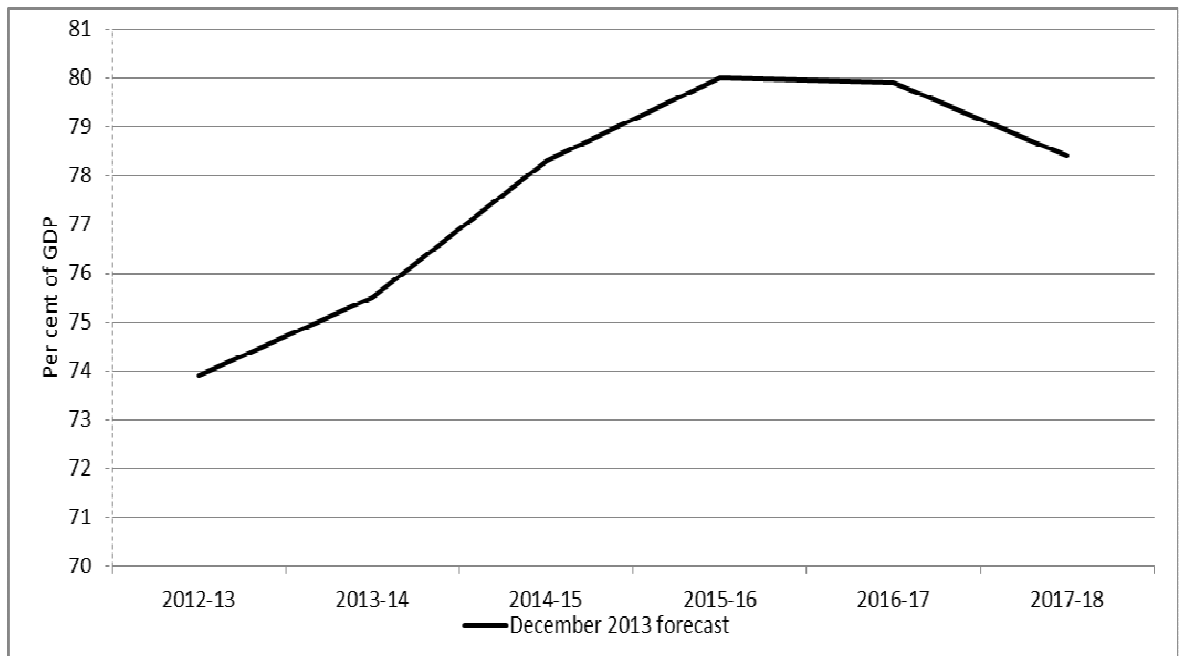
Chart 1.2: Cyclically-adjusted current budget fan chart



Source: OBR

2.11 The Government’s fiscal mandate is supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16. Chart 1.3 shows that the Government is not on course to meet the debt forecast in the target year with a projected rise to a peak of 80% of GDP in 2015-16 before falling in 2016-17 and subsequent years.

Chart 1.3: Public Sector Net Debt



2.12 Continued high levels of public debt create risks for the government’s economic and fiscal objectives, crowd out spending on public services and limit the ability to absorb the impact of future economic shocks.

3 The Effects of Localism

- 3.1 In April 2013, the Government introduced the business rates retention scheme and reformed the way in which local government is funded. The intention is that the local government sector will now benefit directly from supporting local business growth as they are able to keep half of any increases in business rates revenue to invest in local services.
- 3.2 Under this new scheme, there is little control for the Fire Authority as preceptor over the growth within our area, if the District, Unitary and County Authorities within our area gain we are likely to gain proportionately and vice versa if they lose. There is however a top-up and tariff system which should even up the odds and help cushion the blow for considerable losses in any given year.
- 3.3 In order to provide opportunities for the same incentives across all areas, the Government has included an arrangement within the new funding scheme for councils to be allowed to pool business rate resources where it makes local economic sense to do so. Providing a county council is part of a pooling arrangement, the creation of a pool within a two tier area can reduce or remove the levy on business rates growth paid to the Government by billing authorities. This will enable more business rates growth to be retained locally and used as agreed by the authorities within the pool.
- 3.4 The proposal of a pooling arrangement for Buckinghamshire local authorities has been discussed for 2014/15. However we are still not in a position to confirm whether or not participation would be of benefit to BMKFA as there are still so many unknowns in the estimates and calculations. Initial calculations indicate that this is too much of a risk for BMKFA as the potential loss is so much more disproportionate compared to any gains we might receive.
- 3.5 A key proposal in the Autumn Statement relating to business rates is to support businesses to expand by capping the RPI increase in business rates to 2% in 2014/15 thereby limiting the amount of possible business rates growth.
- 3.6 At the time of writing due to complications with the calculation of the new business rates scheme funding, final business rates information was still outstanding from a number of the districts. An update on the calculation of the baseline funding will be provided at the meeting.

4 The Autumn Statement 2013 and Funding Settlement (CSR)

- 4.1 The Autumn Statement sets out the next steps in the government's long-term economic plans. The Chancellor updates the budgets for each Government Department who in turn will allocate funds to cover public sector expenditure plans with the settlement funding then announced as the Comprehensive Spending Review.
- 4.2 The settlement funding is made up of baseline funding set by DCLG as part of business rates localisation and each authority's revenue support grant allocation. This is broadly similar to the old formula grant funding measure,

which was adjusted when business rates retention was introduced in April 2013.

- 4.3 Despite the improvement in the public finances, the Autumn Statement for 2013 was fiscally neutral reinforcing the government's commitment to the long-term economic plan of reducing the deficit and returning the public finances to a sustainable position.
- 4.4 The Treasury argues that economic growth alone will not bring the budget back into balance. Achieving this will require "deficit reduction plan", and therefore the trend of austerity will continue with further cuts in public spending.
- 4.5 The funding settlement for the last year of the CSR 2010 period was announced on the 5th February 2014. In cash terms, the grant for 2014/15 was reduced by £656k (-5.8%). The 2013 Spending Review (SR2013) also set out the government's spending plans for 2015/16 which will see further local authority funding reductions of 10% with the warning that austerity will last till 2020.
- 4.6 It was confirmed that the funding for the council tax freeze grant is now funded in the settlement.

5 Robustness of the Estimates

- 5.1 The budget proposed for 2014/15 Budget Model 1 at appendix A(i), has been compiled by looking in detail at where we are currently and then where we want to be in the future. Savings opportunities and growth bids compared to last years' 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 as outlined in our corporate plan.
- 5.2 A Council Tax freeze for 2014/15 has been modelled at Budget Model 1, in line with government expectations.
- 5.3 Council Tax freeze grant allocations relating to previous years have now been absorbed into the baseline funding calculations.
- 5.4 The "supported borrowing" funding for capital expenditure is absorbed into the revenue grant funding calculation. We currently do not receive additional funding to support borrowing costs for the capital programme.
- 5.5 The Authority has also received provisional notification of section 31 grant funding of £1.178m for 2014/15, this is for New Dimension and Firelink and 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 we would have received had it remained a separate grant.
- 5.6 Details of surpluses on council tax funds have been received from each billing authority. 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.

- 5.7 Based on the updated budget requirement including the assumptions at 5.10, Budget Model 1, at appendix A(i) demonstrates that the Authority will need to plan for further savings or an increase in council tax from April 2015 in order to avoid a cumulative shortfall at the end of 2017/18 of £4.9m.
- 5.8 Salaries have been adjusted to take into account savings to match our expectations from the retirement profile and the updated establishment.
- 5.9 Savings and growth bids which have been subjected to challenge are included for 2014/15 and the base adjusted. Other risks which have been identified are to be covered from the general reserves (see section 6 below) and contingency.
- 5.10 The detailed costings are based on the updated budget requirement including the inflation assumptions below:-

Assumptions

Notes	Expenditure/Income	2014/15 %	2015/16 %	2016/17 %	2017/18 %
1	Council Tax (Model 1 - Council Tax Freeze)	+0.00	+0.00	+0.00	+0.00
2	Council Tax (Model 2 - 1.99% increase)	+1.99	+1.99	+1.99	+1.99
3	Council Tax growth	+2.60	+0.75	+0.75	+0.75
4	Formula Grant	-13.30	-16.50	-19.70	-15.20
5	Business Rates	+2.00	+2.70	+3.50	+3.50
6	Grey book Employees	+1.00	+1.00	+1.00	+1.00
7	Green book Employees	+1.00	+1.00	+1.00	+1.00
8	Members Allowances	+1.00	+1.00	+1.00	+1.00
9	Employers National Insurance	+0.00	+0.00	+3.40	+0.00
10	Fire-fighters Employer Pension Costs	+0.00	+0.00	+0.00	+0.00
11	LGPS Employer Pension Costs	-6.60	+0.00	+0.00	+0.00
12	General Inflation	+1.90	+1.90	+2.00	+2.00
13	Utilities	+5.00	+5.00	+5.00	+5.00
14	Fuel	+6.00	+6.00	+6.00	+6.00
15	Rates	+2.00	+2.70	+3.50	+3.50

- Council Tax Model 1 - Budget with Council Tax freeze from 2014/15;
- Council Tax Model 2 - Budget with 1.99% Council Tax increase from 2014/15;
- Council Tax Growth - Actual growth in 14/15, assumed 0.75% growth from 2015/16;
- Formula Grant - Assumptions based on latest detail from DCLG;
- Business Rates - Assumed increase in rates funding;
- Employee increase of 1% has been applied to grey book staff from 2014/15;
- Employee increase of 1% has been applied to green book staff from 2014/15;
- Members Allowances - 1% increase has been applied from 2014/15;
- No notification of Employers National Insurance rates received for 2014/15. Increase in 2016/17 due to the end of the employers NI contributions rebate;
- No change for Employers costs of Pension for Fire-fighters at present;
- 6.6% reduction in LGPS pension contributions from 2014/15 to reflect the structuring of the liability;
- 1.9% general inflation has been assumed for 2014/15;
- Gas and Electricity charges assumed increase of 5% for 2014/15;
- Fuel rates constant at 6% per year;
- Rates - expenditure increases in line with Business Rates

5.11 The Department for Communities and Local Government has set a referendum level for authorities for 2014/15 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 costs of rebilling. These costs would be passed on to BMKFA which would potentially out-weigh any benefit of an increase in Council Tax.

5.12 The table below shows the additional annual, monthly and weekly difference for each band of council tax if there were a council tax freeze and also a 1.99% increase.

Band	Model 1 Council Tax Freeze £	Model 2 Council Tax 1.99% increase £	Annual Difference £	Monthly Difference £	Weekly Difference £
A	39.42	40.21	0.79	0.07	0.02
B	45.99	46.91	0.92	0.08	0.02
C	52.56	53.61	1.05	0.09	0.02
D	59.13	60.31	1.18	0.10	0.02
E	72.27	73.71	1.44	0.12	0.03
F	85.41	87.11	1.70	0.14	0.03
G	98.55	100.52	1.97	0.16	0.04
H	118.26	120.62	2.36	0.20	0.05

Band D Percentage Per Billing Authority 2014/15

Authority	Total £	BMKFA £	BMKFA percentage of total %	Total including BMKFA 1.99% increase £	BMKFA 1.99% increase £	BMKFA percentage of total %
Chiltern	1450.81	59.13	4.08%	1451.99	60.31	4.15%
Aylesbury Vale	1422.21	59.13	4.16%	1423.39	60.31	4.24%
South Bucks	1434.17	59.13	4.12%	1435.35	60.31	4.20%
Wycombe	1418.05	59.13	4.17%	1419.23	60.31	4.25%
Milton Keynes	1391.91	59.13	4.25%	1393.09	60.31	4.33%

Comparison of Band D Property Council Tax Across Years for Models 1 and 2.

	2013/14	2014/15	2015/16	2016/17	2017/18
	£	£	£	£	£
Model 1 (Council Tax freeze - Band D)	59.13	59.13	59.13	59.13	59.13
Model 2 (1.99% increase - Band D)	59.13	60.31	61.52	62.75	64.00
Difference in Band D per year	0.00	1.18	2.39	3.62	4.87
Difference in Band D per week	0.00	0.02	0.05	0.07	0.09
	£000	£000	£000	£000	£000
Model 1 total receipts*	16,205	16,632	16,757	16,882	17,009
Model 2 total receipts*	16,205	16,965	17,431	17,911	18,403
Less freeze grant**		178	178	178	178
Difference		155	496	851	1,216

*includes an estimated 0.75% growth in council tax base each year

**assumption that council tax freeze grant will continue beyond 2014/15

The overall impact on the budget of a 1.99% council tax increase can be found in Budget Model 2 at appendix A(ii).

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 1st July each year. A 1% increase has been applied to green and grey book staff for each year of the MTFP period. If however, higher increases are agreed in future years, the 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 reduced to 13.3% of pensionable pay due to the restructuring of the liability. 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 three 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. The results of the consultation for new reforms to the scheme which would require an increase in employee contributions rather than employer's contributions have not yet been finalised. Should these reforms not go ahead, employer contribution rates could increase. Also, the effects of previous valuations by Government Actuary Department (GAD) are yet to be released by the DCLG.
- 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 grant 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 £122k.
- 6.1.6 Unexpected events - the capital programme includes a provision for repairs and maintenance 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 spate 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 and 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 SMB and Executive Committee for action.

For the future, Members will be considering the workforce plan alongside all other resourcing plans in line with the agreed IRMP and making decisions in order to meet budget pressures.

- 6.1.10 Growth bids have also been scrutinised by senior officers and Lead Members. 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 Provisional capital grant funding of £1.19m has been awarded by CLG for 2014/15. The Authority has limited capital reserves set aside and there are no anticipated capital receipts for the near future, therefore in the event that capital grant funding is not forthcoming in future years any new expenditure over and above the grant funding and current revenue contributions will need to be funded through borrowing, additional revenue contributions or more commercial arrangements such as developer contributions or land swap deals. The costs of borrowing to fund the capital programme are a revenue cost thus further increasing the budget requirement.
- 7.2 The capital programme has been determined based on a series of challenge panels held by officers and then by Lead Members during the MTFP process. The revenue impact of outstanding borrowing only has been factored into the base revenue budget requirement. The following table sets out the indicative summary capital programme and funding for the next four years.
- 7.3 The DCLG have notified us that from 2015/16 a £45m Capital Transformation fund will be held to help secure efficiencies and ensure assets such as fire stations are appropriately located to ensure efficient and effective service delivery. Fire Authorities will be required to bid for this funding with further details of this bidding process to be announced in the spring.
- 7.4 The table at appendix B(i) details the approved capital programme for 2013/14, the estimated provisional outturn position and any proposed slippage to the programme. Any slippage is then added to the new budget requests for 2014/15 to give a total capital budget requirement of £4.1m for 2014/15.

- 7.5 The table at appendix B(ii) sets out the indicative summary capital programme and funding for the next four years
- 7.6 The Authority should also take cognisance of outstanding capital loans due for repayment as at 31st March 2014. These are set out in the table below:

Timeframe	Amount £000s
1-2 years	515
2-5 years	953
5-10 years	3996
10+ years	2,801
Total	8,265

8 Scrutiny and Challenge process

- 8.1 The Revenue and Capital budgets and the underlying assumptions have been scrutinised by the Business Transformation Board, Senior Management Board and Lead Members.
- 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 Senior Management Board (Officer Challenge).
- 8.5 Lead Member challenge sessions and Member briefings have occurred to scrutinise and challenge budget submissions in detail and have informed the proposed budget.
- 8.6 Three budget options (council tax freeze, 2% council tax increase and 1% council tax decrease) were originally modelled and reported to Executive Committee, with the council tax decrease option being dropped following the Executive Committee meeting. Members requested that an option was modelled with an increase just below the referendum capping limit. The announcement was made on 5 February 2014 that the DCLG have set a capping limit of 2% for 2014/15 and Model 2 therefore reflects the effect of a 1.99% increase.

9 Adequacy of reserves

- 9.1 The table at appendix C shows the estimated movement on earmarked reserves as at 31st March 2014 and 31st March 2015, assuming a Council Tax freeze:
- 9.2 There are currently 12 earmarked revenue reserves and the General Fund Reserve. A table showing an assessment of the risks that could impact on the general reserves is set out below:

Medium Term Financial Plan (MTFP) 2014/15 to 2017/18

	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}
1	Inflation budget assumptions - esp fuel and utilities	5%	50%	2,300	58
2	Pay awards - budget includes 1% increase (Grey/Green). This could vary dependent on national agreements	25%	50%	210	26
3	Savings assumptions - The savings built into the budget for 2014/15 are dependent on a number of factors and reliant on estimates made.	20%	100%	610	122
4	Property - very limited provision for capital maintenance. Would need to resort to use of reserves.	25%	100%	1,000	250
5	Capital budget assumptions - buildings. Limited capacity built into the budgets for unseen events. Current value of buildings is £12.6m. There is no contingency for uninsured risks	5%	40%	12,600	252
6	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
7	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
8	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
9	Staff risks - injury payments for uninsured risk - ie. the organisation is found to be negligent in its duty of care to staff	10%	100%	500	50
10	Staff risks - there is no provision in the budgets for redundancy costs nor unfair dismissal claims.	25%	25%	600	38
11	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
12	Combined FireControl project - further delay in cut-over.	25%	100%	1,500	375
13	Equal pay audit results in back pay settlement requirements	20%	100%	410	82
14	Part time workers pay reserve insufficient to meet negotiated settlement	50%	100%	100	50
15	Invest to Save and Moving Forward Agenda reserves inadequate for cost of implementing any agreed changes	50%	100%	300	150
16	Unable to negotiate satisfactory continued use of SAP from BCC - need to implement new financial or ERP system	25%	100%	1,000	250
17	Risk of merging S31 Grant into formula grant - inadequate or no grant funding to cover staff permanently employed but currently 100% funded.	50%	75%	924	347
18	Pension Fund LGPS Triennial revaluation	15%	75%	1,450	163
19	PSP risk and back office reviews	50%	75%	600	225
20	Provision for ill health retirements	5%	75%	3,000	113
21	Impact of Business Rates retention on funding	5%	80%	10,594	424
22	Localisation of Council Tax Benefits	3%	80%	16,632	399
	General Fund Balance Requirement				3,693

- 9.3 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.
- 9.4 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.
- 9.5 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.

10 Statement by Chief Finance Officer

- 10.1 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:-
- 10.1.1 The robustness of the estimates made for the purposes of the calculations of the budget and;
- 10.1.2 The adequacy of the proposed financial reserves;
- 10.1.3 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.
- 10.2 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 2014/15 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.

11 Communication / Consultation

- 11.1 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.
- 11.2 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 Public Safety Plan (PSP) review.

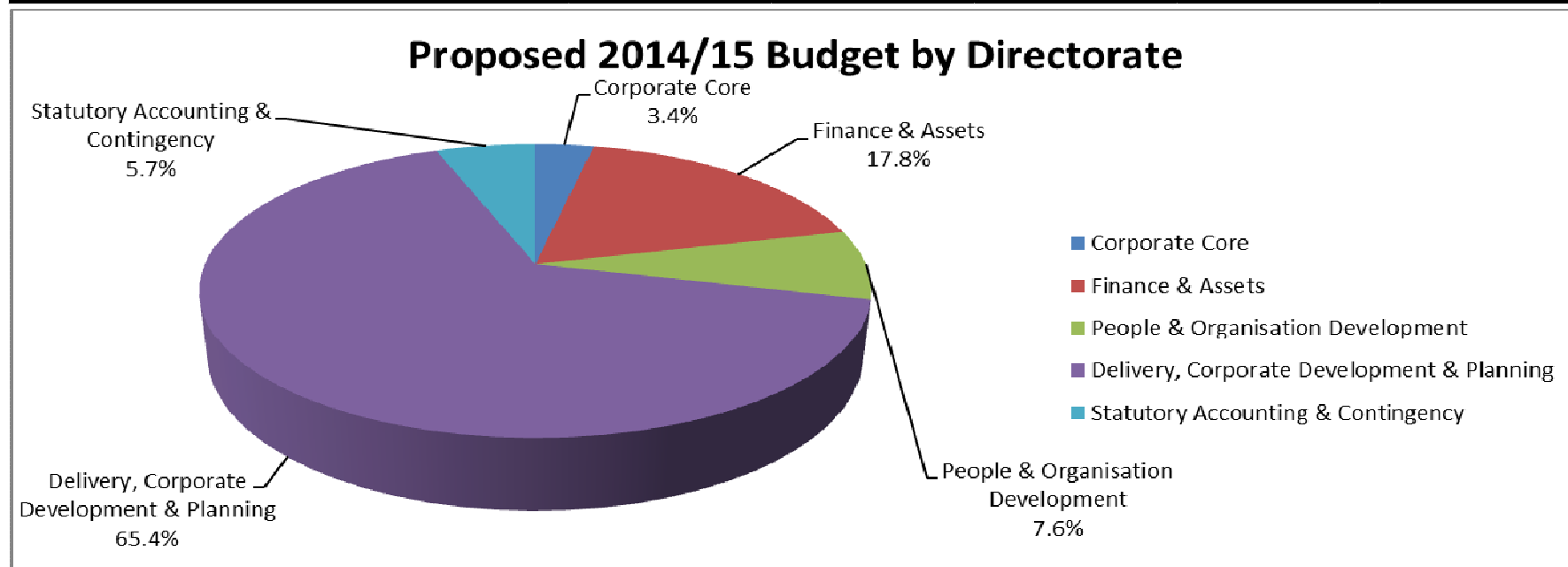
Appendix A(i)

Budget Model 1: Funding and Savings requirements (Council Tax freeze with estimated 0.75% growth in council tax base from 2015/16)

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Base Budget	28,463	28,988	28,882	28,302	28,861
Pay Adjustment	160	225	211	522	214
Inflation Adjustment		86	100	101	97
Savings	-1,584	-613	-238	-10	-12
Previous year saving adjustments	-173	-666	-55	-45	0
Precept growth and collection fund surplus	411	353			
Growth	238	420	-194	-77	-12
Previous year growth adjustments		-35	34	68	0
Revenue Contribution to Capital	1,035	124	-438		
Net Operating Budget	28,550	28,882	28,302	28,861	29,148
Specific Projects	1,181	970			
Contribution to/(from) Reserves - Capital	438				
Contribution to/(from) Reserves - Asset Management	-115				
Contribution to/(from) Reserves - Vehicle Replacement	18				
Contribution to/(from) Reserves - New Burdens	-84				
Contribution to/(from) Reserves - Control Room	-1,000	-970			
Net Budget Requirement	28,988	28,882	28,302	28,861	29,148
Govt Funding	-6,934	-6,013	-5,018	-4,030	-3,416
Business Rates	-4,495	-4,583	-4,709	-4,874	-5,044
Council Tax Receipts Surplus/Deficit	-188	-298			
Council Tax Freeze Grant 14/15		-178	-178		
Specific Grants (S.31)	-1,166	-1,178	-1,178	-1,178	-1,178
Council Tax Receipts	-16,205	-16,632	-16,757	-16,882	-17,009
Total Funding Available	-28,988	-28,882	-27,840	-26,964	-26,647
Shortfall for year	0	0	462	1,897	2,501
Cumulative savings requirement	0	0	462	2,359	4,860

Model 1 Base Budget by Directorate

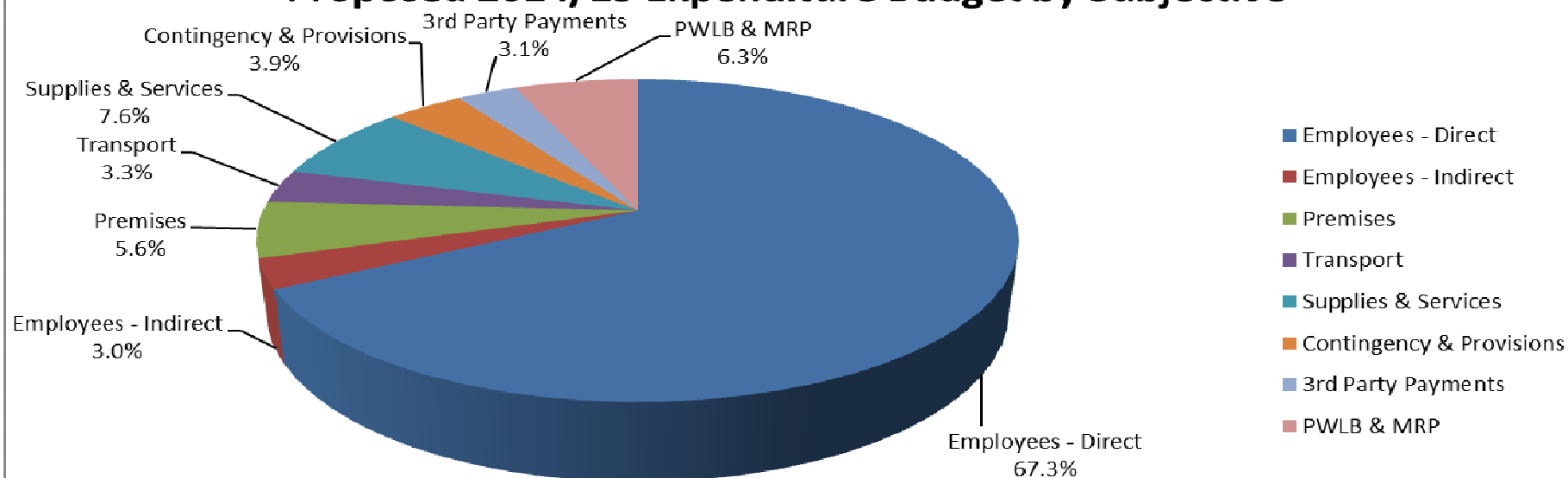
Directorate	Current Budget 2013/14 £	Proposed Base Budget 2014/15 £	Indicative Base Budget 2015/16 £	Indicative Base Budget 2016/17 £	Indicative Base Budget 2017/18 £
Corporate Core	1,041,723	971,855	977,056	989,264	993,887
Finance & Assets	5,105,998	5,147,284	4,820,431	4,917,221	4,981,240
People & Organisation Development	2,222,641	2,208,564	2,192,769	2,202,590	2,218,895
Delivery, Corporate Development & Planning	19,407,864	18,896,681	19,103,015	19,555,151	19,768,980
Statutory Accounting & Contingency	1,209,424	1,658,010	1,208,319	1,196,651	1,184,651
Grand Total	28,987,650	28,882,394	28,301,590	28,860,878	29,147,654



Model 1 Base Budget by Subjective Analysis

Subjective	Current Budget 2013/14 £	Proposed Base Budget 2014/15 £	Indicative Base Budget 2015/16 £	Indicative Base Budget 2016/17 £	Indicative Base Budget 2017/18 £
Employees - Direct	22,175,076	21,040,168	20,377,393	20,826,570	21,040,437
Employees - Indirect	906,247	930,849	688,690	702,464	700,995
Premises	1,667,932	1,748,798	1,668,623	1,631,536	1,672,372
Transport	1,094,984	1,042,592	1,053,157	1,069,133	1,085,067
Supplies & Services	2,147,999	2,362,142	1,715,375	1,746,623	1,772,583
Contingency & Provisions	968,918	1,216,201	1,216,201	1,216,201	1,216,201
3rd Party Payments	315,533	955,259	996,228	1,016,153	1,036,476
PWLB & MRP	1,755,000	1,956,000	1,944,000	1,932,000	1,920,000
Income, Fees & Charges	-1,974,039	-2,299,616	-1,288,078	-1,209,801	-1,226,478
Interest Received	-70,000	-70,000	-70,000	-70,000	-70,000
Grand Total	28,987,650	28,882,394	28,301,590	28,860,878	29,147,654

Proposed 2014/15 Expenditure Budget by Subjective*



*The percentages in the chart above exclude budgets for Income, Fees & Charges and Interest Received

Budget Model 2: Funding and Savings requirements (1.99% Council Tax increase with estimated 0.75% growth in council tax base from 2015/16)

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Base Budget	28,463	28,988	28,882	28,302	28,861
Pay Adjustment	160	225	211	522	214
Inflation Adjustment		86	100	101	97
Savings	-1,584	-613	-238	-10	-12
Previous year saving adjustments	-173	-666	-55	-45	0
Precept growth and collection fund surplus	411	353			
Growth	238	420	-194	-77	-12
Previous year growth adjustments		-35	34	68	0
Revenue Contribution to Capital	1,035	124	-438		
Net Operating Budget	28,550	28,882	28,302	28,861	29,148
Specific Projects	1,181	970			
Contribution to/(from) Reserves - Capital	438	153	37		
Contribution to/(from) Reserves - Asset Management	-115				
Contribution to/(from) Reserves - Vehicle Replacement	18				
Contribution to/(from) Reserves - New Burdens	-84				
Contribution to/(from) Reserves - Control Room	-1,000	-970			
Net Budget Requirement	28,988	29,035	28,339	28,861	29,148
Govt Funding	-6,934	-6,013	-5,018	-4,030	-3,416
Business Rates	-4,495	-4,583	-4,709	-4,874	-5,044
Council Tax Receipts Surplus/Deficit	-188	-298	0	0	0
Specific Grants (S.31)	-1,166	-1,178	-1,178	-1,178	-1,178
Council Tax Receipts	-16,205	-16,963	-17,430	-17,910	-18,404
Total Funding Available	-28,988	-29,035	-28,335	-27,992	-28,042
Shortfall for year	0	0	0	869	1,106
Cumulative savings requirement	0	0	0	869	1,975

Appendix B(i)

Capital Programme	Approved Budget 2013/14	Provisional Outturn 2013/14	Slippage 2013/14	New Budget Requests 2014/15	Total Budget Requirement 2014/15
			A	B	A+B
	£000	£000	£000	£000	£000
Property Portfolio	1,353	407	940	550	1,490
Fire Appliances & Equipment	1,094	145	947	419	1,366
Community Safety	83	69	14	0	14
Support	412	309	100	313	413
Control Room Project	800	0	800	0	800
TOTAL ANTICIPATED SPEND	3,742	930	2,801	1,282	4,083
Funding Brought Forward					
<i>Capital Grants</i>		-75			-405
<i>Revenue Contribution to Capital</i>		-1,936			-3,357
<i>Capital Receipts</i>		-46			-46
<i>Other Capital Reserves</i>		-69			
<i>Control Room Grant</i>		-800			-800
Total Funding Brought Forward		-2,926			-4,608
In Year Funding					
<i>Capital Grants</i>		-1,190			-1,190
<i>Revenue Contribution to Capital</i>		-1,422			-1,704
Total In Year Funding		-2,612			-2,894
TOTAL ANTICIPATED FUNDING	0	-5,538	0	0	-7,502
FUNDING (SURPLUS)/DEFICIT		-4,608			-3,419
BORROWING REQUIRED		0			0
TOTAL USABLE CAPITAL RESERVES	0	-4,608	0	0	-3,419

Appendix B(ii)

4 Year Capital Programme	Total Budget Requirement 2014/15	Indicative budget 2015/16	Indicative budget 2016/17	Indicative budget 2017/18
	£000	£000	£000	£000
Property Portfolio	1,490	600	600	600
Fire Appliances & Equipment	1,366	779	657	657
Community Safety	14	0	0	0
Support	413	100	100	100
Control Room Project	800	0	0	0
TOTAL ANTICIPATED SPEND	4,083	1,479	1,357	1,357
Funding Brought Forward				
<i>Capital Grants</i>	-405			
<i>Revenue Contribution to Capital</i>	-3,357	-3,419	-3,206	-3,115
<i>Capital Receipts</i>	-46			
<i>Other Capital Reserves</i>				
<i>Control Room Grant</i>	-800			
Total Funding Brought Forward	-4,608	-3,419	-3,206	-3,115
In Year Funding				
<i>Capital Grants</i>	-1,190			
<i>Revenue Contribution to Capital</i>	-1,704	-1,266	-1,266	-1,266
Total In Year Funding	-2,894	-1,266	-1,266	-1,266
TOTAL ANTICIPATED FUNDING	-7,502	-4,685	-4,472	-4,381
FUNDING (SURPLUS)/DEFICIT	-3,419	-3,206	-3,115	-3,024
BORROWING REQUIRED	0	0	0	0
TOTAL USABLE CAPITAL RESERVES	-3,419	-3,206	-3,115	-3,024

Appendix C

Reserve	Balance at 1 April 2013 £000	Estimated Transfers In 2013/14 £000	Estimated Transfers Out 2013/14 £000	Estimated Balance at 31 March 2014 £000	Estimated Transfers In 2014/15 £000	Estimated Transfers Out 2014/15 £000	Estimated Balance at 31 March 2015 £000
General Fund	-3,700	0	0	-3,700	0	0	-3,700
Fire Control Reserve	-150	0	0	-150	0	150	0
Invest to Save Reserve	-500	0	0	-500	0	0	-500
Moving Forward Agenda Reserve	-617	0	617	0	0	0	0
S.31 Grant - New Dimensions (USAR) Reserve	-1,000	0	0	-1,000	0	0	-1,000
Asset Management Reserve	-124	0	124	0	0	0	0
Redundancy & Early Retirement Reserve	-180	-140	0	-320	0	0	-320
Vehicle Replacement Reserve	-51	-18	0	-69	-22	15	-76
Funding Pressures Reserve	-2,000	0	1,283	-717	0	0	-717
Control Room Reserve	-684	-900	233	-1,351	0	1,351	0
RDS Contribution Reserve	-650	0	0	-650	0	650	0
Continuing Projects Reserve	-300	0	0	-300	0	70	-230
Total Revenue Reserves	-9,956	-1,058	2,257	-8,757	-22	2,236	-6,543
Usable Capital Receipts Reserve	-40	-6	0	-46	0	46	0
Control Room Capital Grant Unapplied	-800	0	0	-800	0	800	0
Other Capital Grants Unapplied	-51	-380	51	-380	0	380	0
Revenue Contribution to Capital	-1,936	-1,421	0	-3,357	-1,704	1,642	-3,419
Total Capital Reserves	-2,827	-1,807	51	-4,583	-1,704	2,868	-3,419
Total Usable Reserves	-12,783	-2,865	2,308	-13,340	-1,726	5,104	-9,962