Report considered by the Executive Committee – 4 February 2015

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	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. 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. All assumptions are detailed in section 5.7 of the report and are based on information received to date. 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. Appendix 2 shows the latest summary of the capital programme for 2015/16 and an indicative position for the following four years. 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. Appendix 4 shows the detailed breakdown of council tax and business rates funding. Appendix 5 summaries the funding forecast and analyses the amounts confirmed and the potential risk of variation on the amounts still to be confirmed. Annexes B and C are provided for additional background information and insight. Annex B analyses the key financial ratios of the Authority

	against the other combined fire authorities. Annex C sets out the economic outlook and forecasts for locally financed current expenditure.
ACTION	Decision.
RECOMMENDATIONS	It recommended that: the Authority be recommended to: 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	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. 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.
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

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

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).

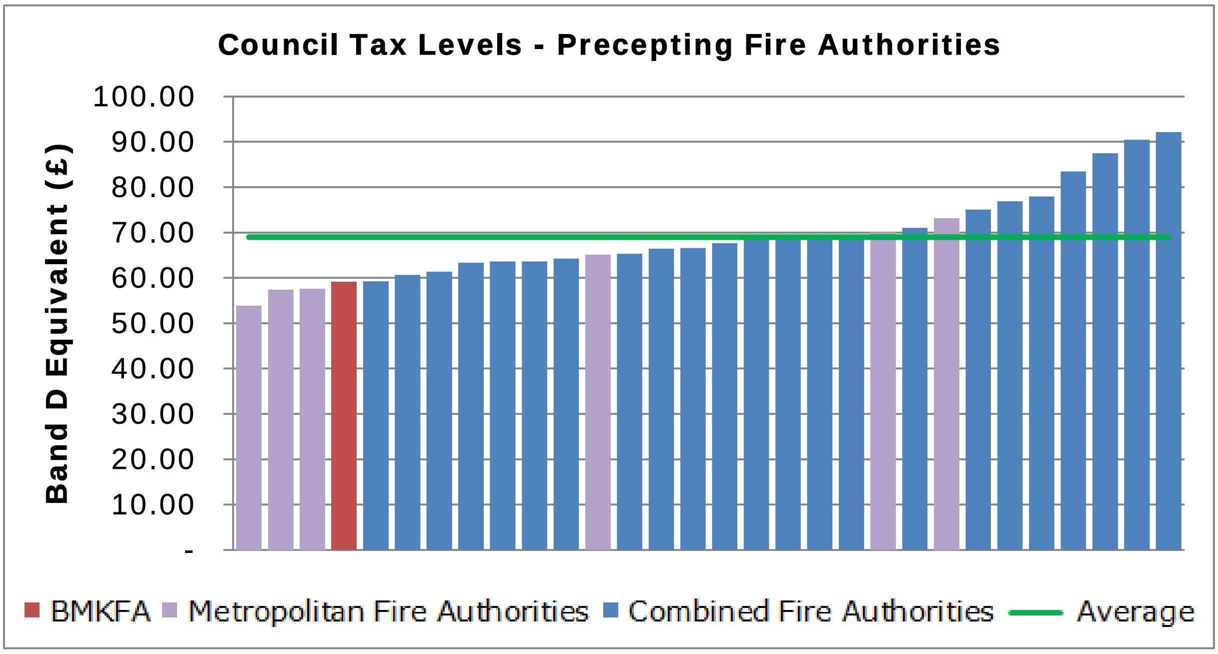
2.4. From 2014/15 to 2015/16, BMKFRS will experience a total spending power reduction of 2.13%. Due to the funding available to BMKFRS this reduction is the same regardless of which of the methods stated in sections 2.2 and 2.3 is used.

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

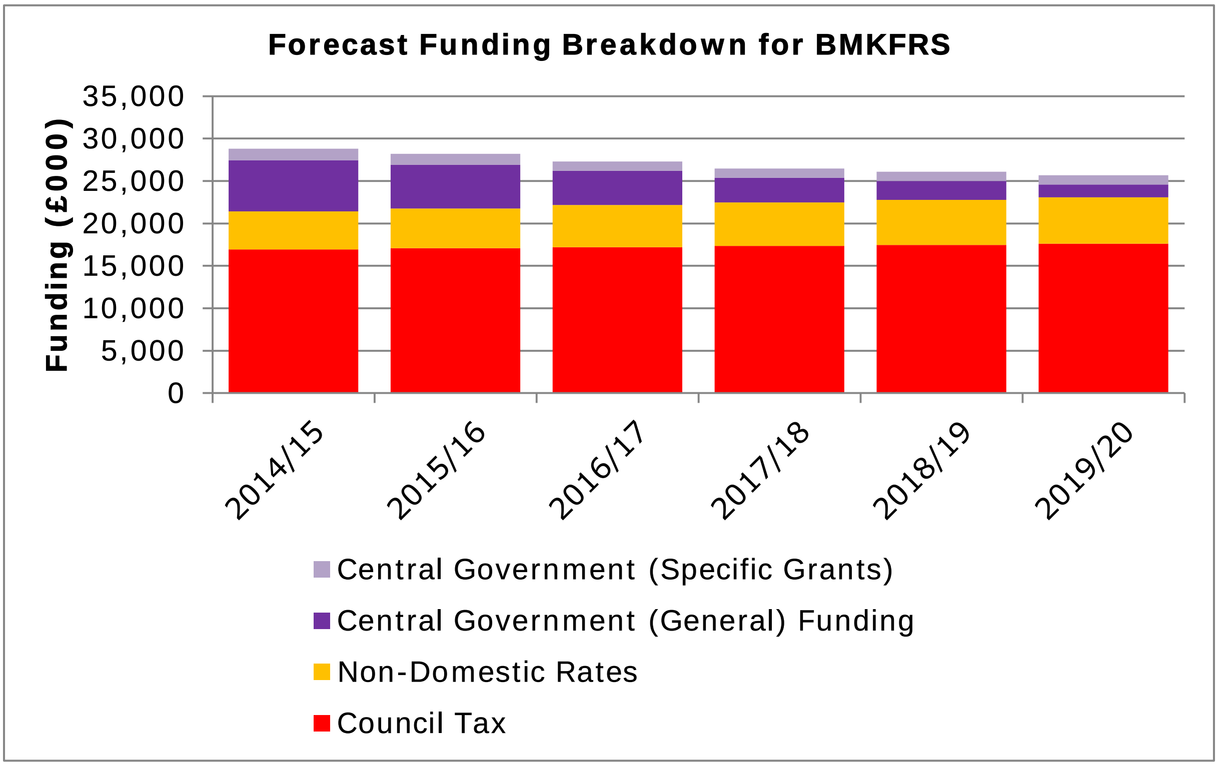


3.3. Nationally, fire authorities have received cuts of 20% between 2010/11 and 2014/15 in the amount of funding received from Central Government. Due to the funding formula this Authority has received cuts of 26% over the same period.

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 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 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					
Capital Grants					
Revenue Contribution to Capital		-2,349			-5,125
Capital Receipts		-46			-48
Control Room Capital Grant		-800			-800
Other Capital Grants		-326			
Total Funding Brought Forward		**-3,521**			**-5,973**
In Year Funding					
Capital Grants		-1,190			
Revenue Contribution to Capital		-3,466			-1,937
Transformation Grant					-2,841
Capital Receipts		-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					
Capital Grants					
Revenue Contribution to Capital	-5,125	-1,426	-1,718	-2,055	-2,392
Capital Receipts	-48				
Other Capital Reserves	-800				
Total Funding Brought Forward	**-5,973**	**-1,426**	**-1,718**	**-2,055**	**-2,392**
In Year Funding					
Revenue Contribution to Capital	-1,937	-1,937	-1,937	-1,937	-1,937
Transformation Grant	-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).

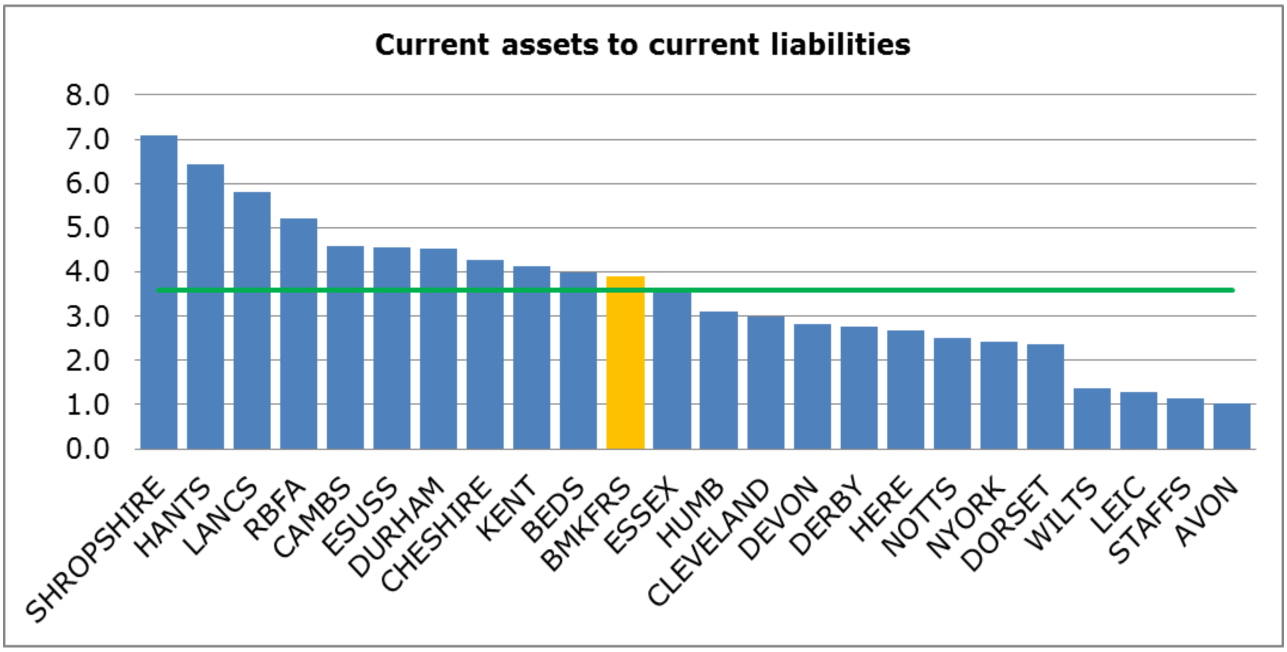


Chart 1

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.

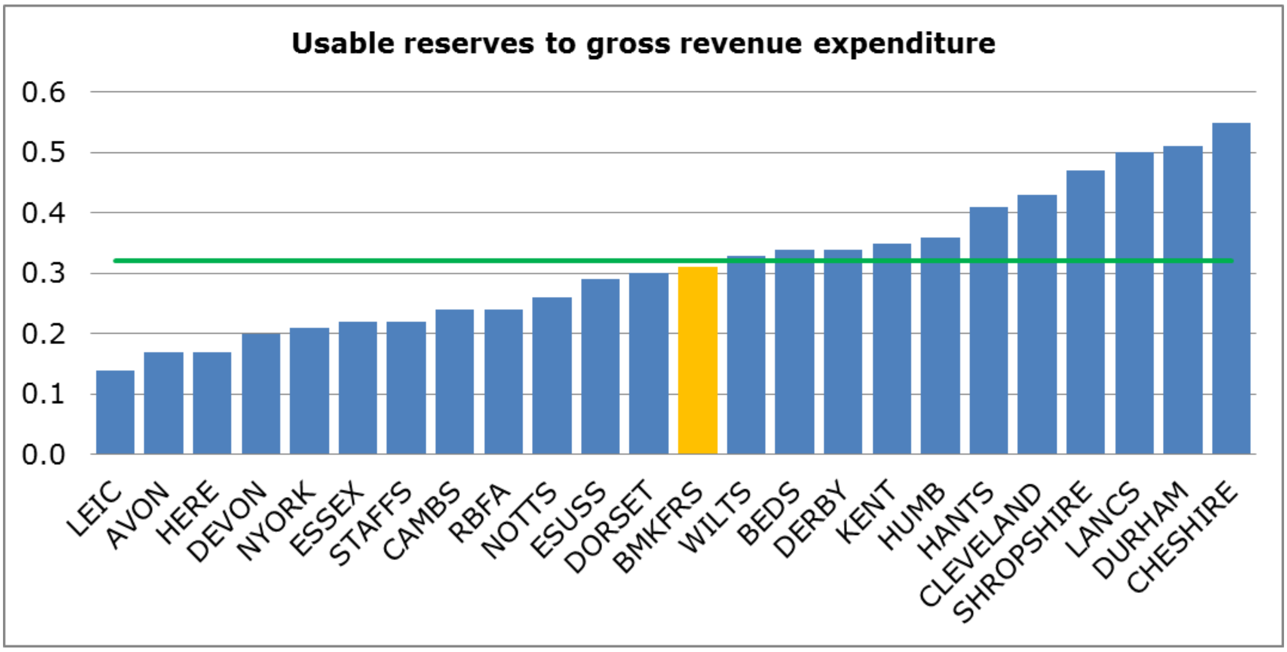


Chart 2

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).

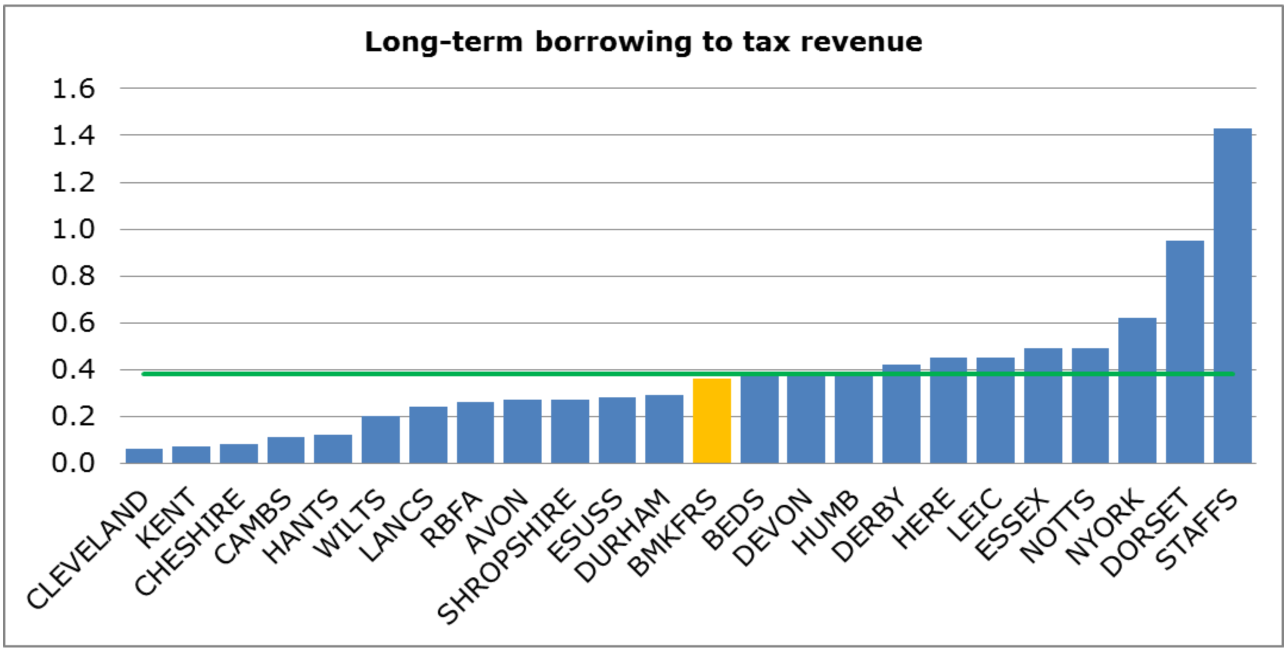


Chart 3

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.

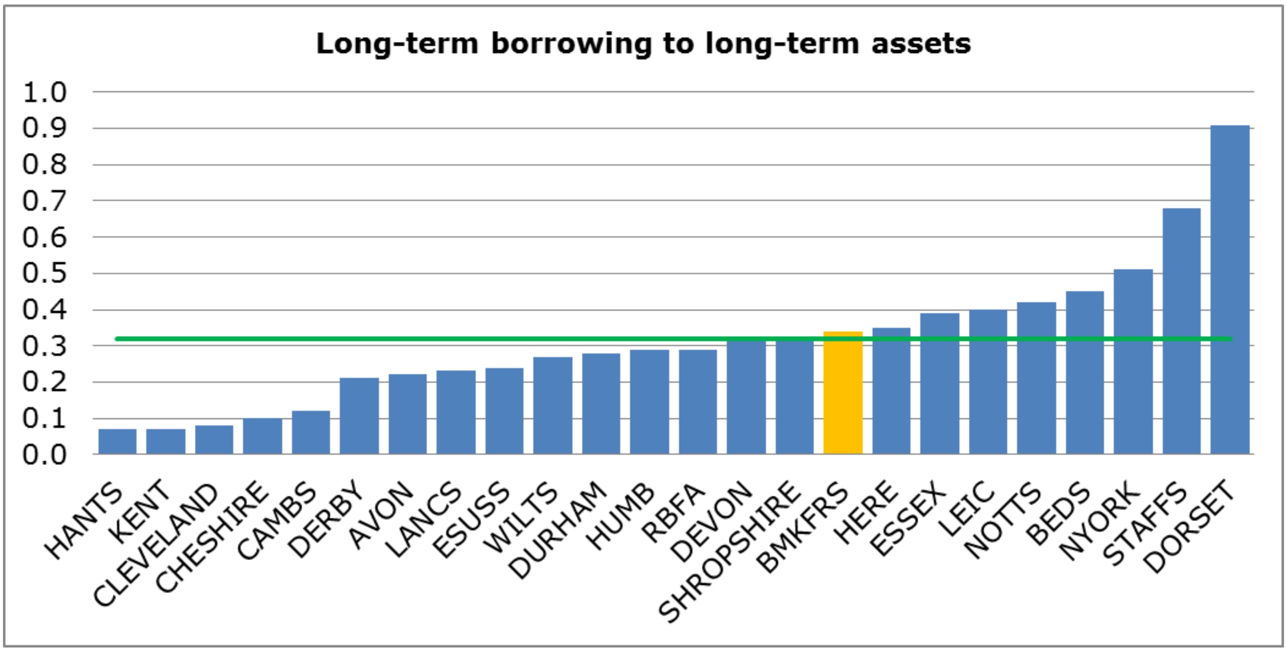


Chart 4

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	CLEVLAND
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

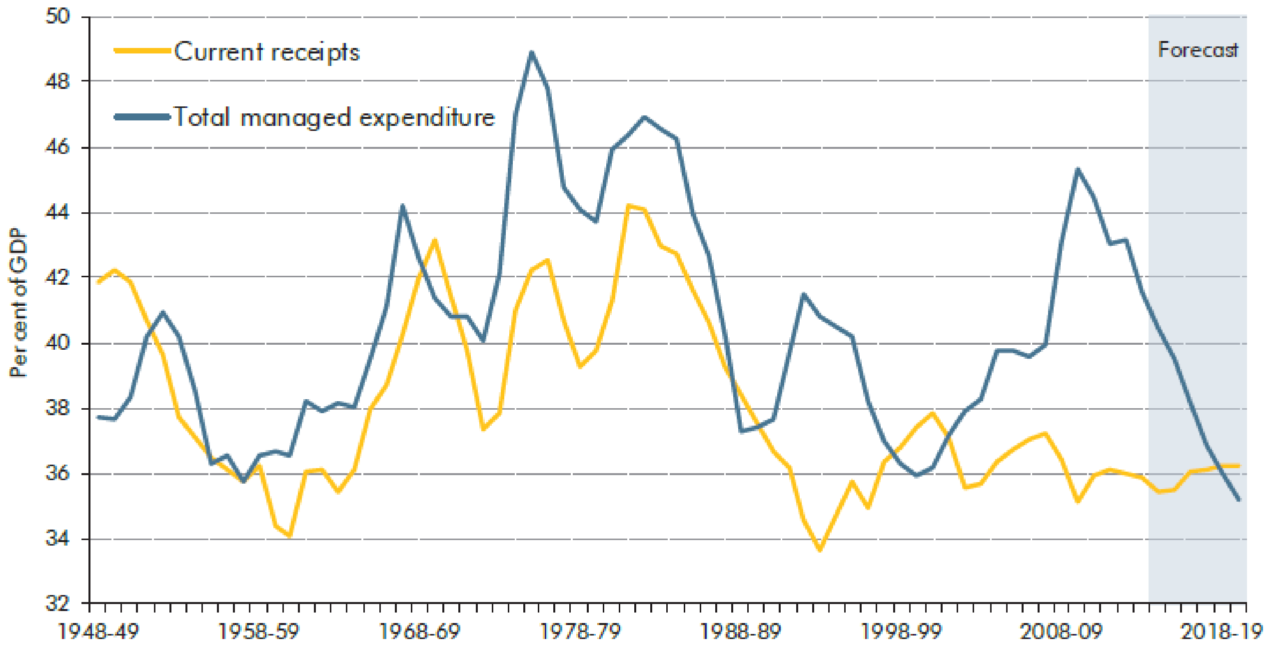
1.3.2. Public spending has been revised down by £2.0 billion in 2014/15 and by £7.7 billion in 2015/16, the final years for which the Government has set detailed spending plans. By 2018/19, the downward revision reaches £23.5 billion. This largely reflects lower debt interest payments, due to the fall 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

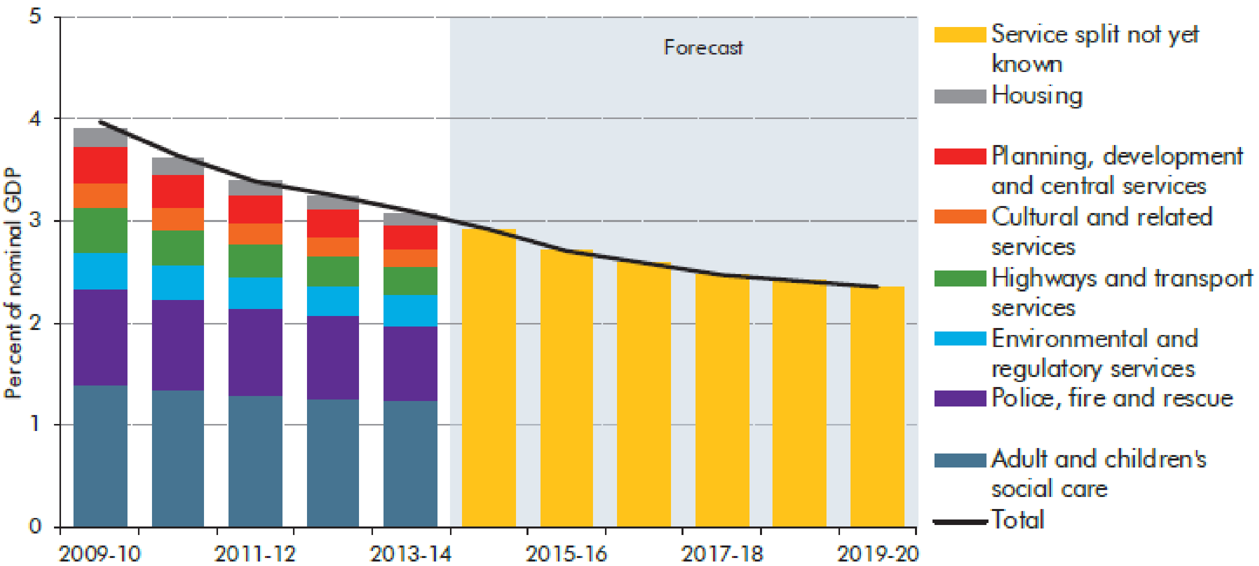
2.1. The OBR produce a forecast of local authority spending by forecasting the sources of income that local authorities use to finance their spending. They also make an assumption about the extent to which spending will be lower or higher than income, thereby adding or subtracting from local authorities' 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



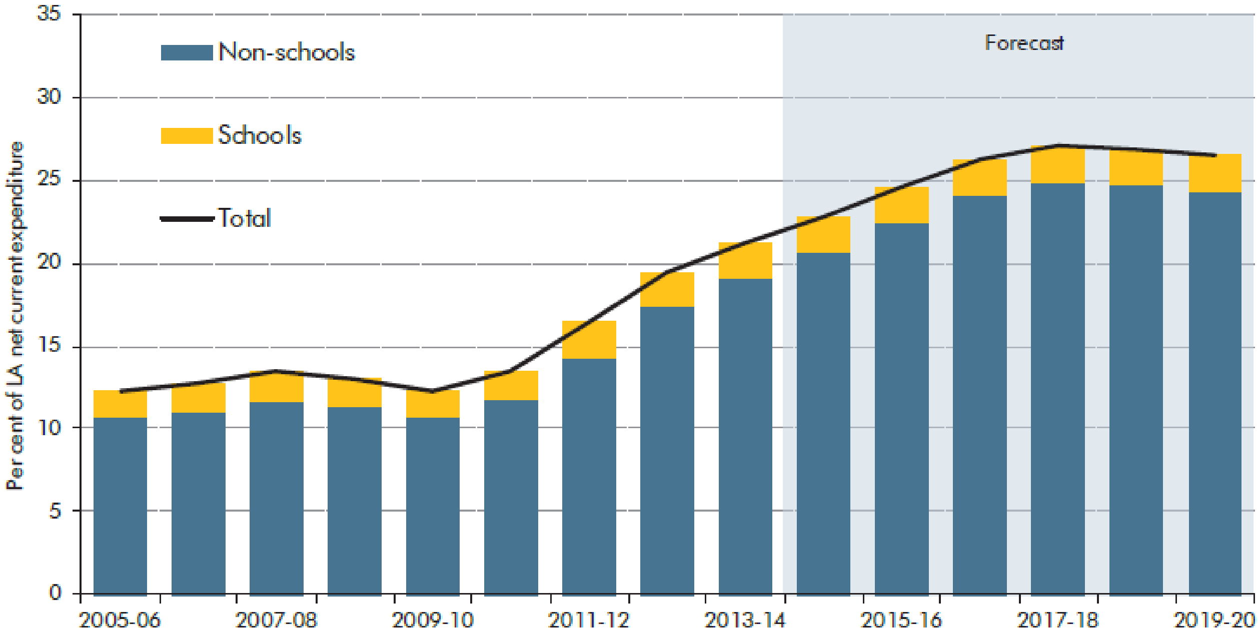
Source: DCLG, OBR

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.

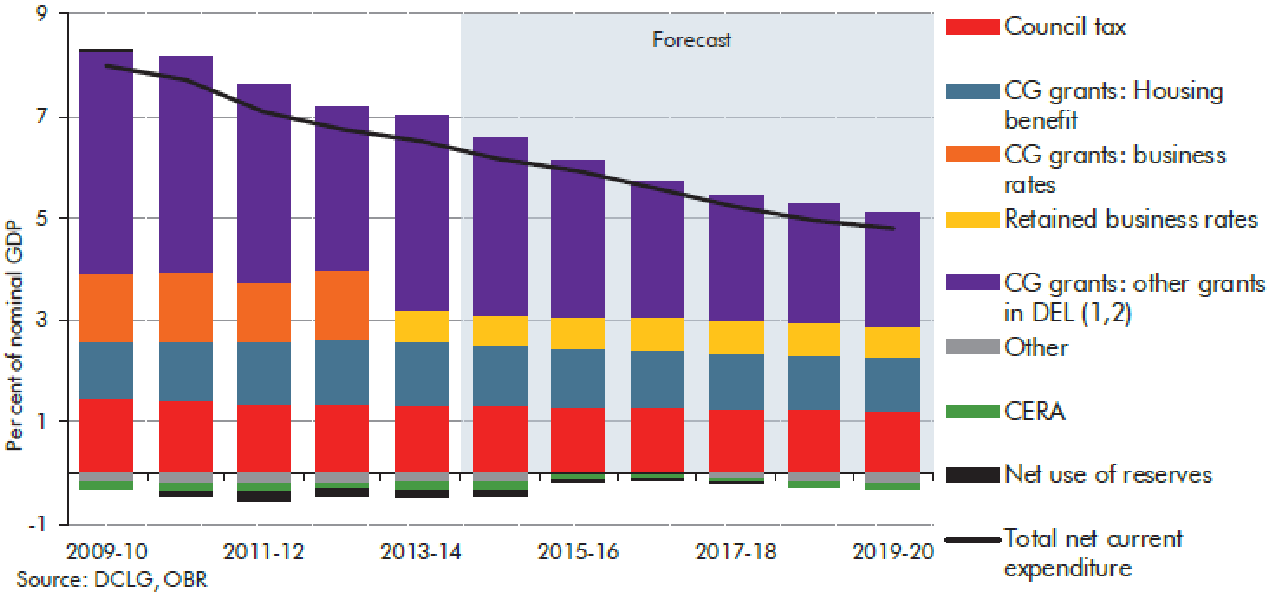
Chart C3 Local Authority Current Reserves in England, Relative to Net Current Expenditure



Source: DCLG, OBR

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



Source: DCLG, OBR

[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