

## **Agenda**

### **Councillors**

#### **Herefordshire:**

Mr JHR Goodwin, Brigadier P Jones, Mr D C Taylor

#### **Worcestershire:**

Mr T Bean (VC), Mr A I Hardman (C), Mr J Holden, Mr P Mould, Mr D Prodger, Mr C Smith, Mr R Udall, Mr G Yarranton

#### **1. Apologies for Absence**

To receive any apologies for absence.

#### **2. Named Substitutes**

To receive details of any Member of the Authority nominated to attend the meeting in place of a Member of the Committee.

#### **3. Declaration of Interests (if any)**

To invite any Councillor to declare any interest in any of the items on this Agenda.

#### **4. Confirmation of Minutes**

To confirm the Minutes of the meeting held on Monday 22 January 2007 (copy attached – pink pages).

#### **5. Revenue Budget Monitoring Report 2007/08 (p.1-3)**

To inform Members of the current position on Revenue Budgets for 2007/08.

#### **6. Capital Budget Review(p.4-7)**

To inform Members of the current position on Capital Budgets for 2007/08.

#### **7. Treasury Activities 2006/07(p.8-12)**

To review Treasury Activities and to report the Prudential Code indicators for 2006/07.

**Hereford & Worcester Fire and Rescue Authority**  
**Budget Committee**  
**Monday, 22nd January, 2007 Headquarters, 2 Kings Court, Charles Hastings**  
**Way, Worcester (11.30 am)**

## **Minutes**

### **Present**

#### **Herefordshire:**

Brigadier P Jones, Mr DC Taylor.

#### **Worcestershire:**

Mr Al Hardman, Mr PT Mills, Mr PA Mould (Chairman), Mr DW Prodger, Mr CT Smith, Mr GC Yarranton.

### **Available Papers:**

- A. The agenda paper and appendices referred to (previously circulated).
- B. The Minutes of the meeting of the Budget Committee held on 24th November, 2006 (previously circulated).

(A copy of the agenda papers will be attached to the signed Minutes)

#### **14. (Agenda item 1) Apologies for Absence**

Apologies were received from Mr TJ Bean.

#### **15. (Agenda item 2) Named Substitutes**

None

#### **16. (Agenda item 3) Declaration of Interests**

*Mr PA Mould advised the Authority that if the Firemen's Pension Scheme was discussed in such detail that it affected his personal position, he would declare a personal and a prejudicial interest. (That proving not to be the case, there was no need for Mr Mould to leave the room during the meeting.)*

#### **17. (Agenda item 4) Confirmation of Minutes**

**RESOLVED: that the Minutes of the meeting of the Budget Committee held on 24th November, 2006 be confirmed as a correct record and signed by the Chairman.**

#### **18. (Agenda item 5) Budget Preparation 2007/08**

The Committee considered an update on the 2006/07 budget position, a review of the current position in relation to Revenue and Capital Budgets for 2007/08 and beyond and the implications for the precept.

The Treasurer presented the report. He advised that the revenue budget out-turn for 2006/07 was expected to be in accordance with the revised Medium Term Financial Plan.

The 2007/08 grant settlement continued to be the lowest per-head for Combined Fire Authorities. In projecting the budget requirement for 2007/08 there were some risks, in particular those associated with the assumptions of a pay award provision in line with the Chancellor of the Exchequer's limit for public sector pay of 2% and an assumption of other inflation at 2%. It would therefore be important to maintain reserves and exercise caution during the year.

He noted the change in the net core budget requirement for 2007/08, compared with the 2006/07 core budget after allowing for in-year variations and the proposed budget allocation.

He drew attention to the proposed Capital Programme noting that the pace with which schemes were progressed would depend on approval of the individual business cases.

Turning to the Medium Term Financial Strategy he commented that the proposed level of reserves at 3.2% was adequate but reiterated the need for caution and the need to maintain the reserves given the increase in the rate of inflation.

He reported particular concern over the indications that grant levels might be frozen for 3 years after 2007/08 and the precept capping limit tightened. These reductions in the budget base could require radical changes to the Service beyond the routine efficiency savings. It was proposed to report to the Committee in July on possible options for the Authority.

In conclusion he said that the budget for 2007/08 was in line with assumptions but the future was uncertain and of concern.

**RESOLVED: that the report be approved in principle and that, subject to the grant settlement being confirmed, the Fire and Rescue Authority approve the budget and consequential precept.**

The meeting ended at 11.55 am

Chairman .....

## 5. REVENUE BUDGET MONITORING REPORT 2007-08

### Purpose of report

1. To inform Members of the current position on Revenue Budgets for 2007-08.
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### Background

2. In February 2007 the Fire and Rescue Authority (FRA) set a budget requirement for 2007-08 of £28.286m made up as below :

	£m
<b>Net Expenditure on Services</b>	<b>29.765</b>
Special Grants	(1.063)
Transfers from Ear-marked Reserves	(0.571)
Strengthening of General Balances	0.155
	<b>28.286</b>

3. This report provides information on expenditure to date against the profiled budget, and the current forecast out-turn position. It is based on actual expenditure for 3 months.

### Revenue Budget

4. At the end of the first 3 months there are no significant variations forecast by budget-holders.
5. The Uniform staff pay award has now been settled at 2.4%, which compares to the 2.0% provided in the base budget. It is estimated that the additional cost of this is £0.050m.
6. Members will recall that this issue was flagged as a budget risk and might have required a draw on balances. The Service Management Team are currently investigating the impact of containing this within the existing budget.
7. In the period at the end of June there has been a significant and sustained increase in activity arising from the localised flooding. Additionally significant cost was incurred in deploying resources to South Yorkshire.
8. The additional costs of the out of county deployment are currently estimated at £0.018m, and will be recharged to South Yorkshire FRA
9. The costs of responding to flooding incidents in the Service area, in terms of Retained Duty Staff pay and Whole Time overtime are still being collated but are currently estimated at around £0.025m.
10. The impact on the budget out-turn is dependent on the level of activity in the remainder of the year. In the period 18 - 28 June 2007 the estimated average daily cost of dealing with flooding incidents was equal to the average daily cost for all incidents in June 2006.

11. Members will be aware that an additional £0.100m was provided in the 2007/08 budget to provide for the increased activity being experienced in 2006/07 and not anticipated to decline. At this stage the budget still forecast as being neutral.
12. In response to the national impact of flooding the government has announced significant support for payment to Authorities under the Bellwin scheme. This arrangement will fund the full costs of dealing with the immediate impact (e.g rescues) beyond a threshold equal to 0.2% of an Authority's budget.
13. The threshold for the FRA is £0.056m, and as yet additional expenditure has not reached this level. However, the threshold applies only once in the financial year, so if there are further flooding incidents the maximum additional liability that the FRA would face is £0.056m..
14. In discussion of the 2007/08 proposals at the FRA, Members were very supportive of further use of Supplementary Crewing arrangements, subject to there being available budget, which at the time there was not.
15. A review of Regional Management Board (RMB) costs provision (in conjunction with the RMB Treasurers group) has now made it possible to reduce the 2007/08 allocation by £0.012m, and to release £0.024m from the RMB costs reserve.
16. It is proposed to use this additional sum of £0.036m to fund further trial of Supplementary Crewing to meet different operational scenarios.

### **Recommendation**

**The Treasurer recommends that the current budget position including the proposed virement to fund another supplementary crewing trial be noted.**

### **Background papers**

None

## 2007/08 REVENUE BUDGET MONITORING

	BUDGET TO DATE £m	ACTUAL TO DATE £m	VARIANCE TO DATE £m	ANNUAL BUDGET £m	FORECAST OUT-TURN £m	FORECAST VARIANCE £m
Wholetime Pay	2.924	2.884	(0.040)	13.769	13.819	0.050
Urban Search And Rescue - total Cost	0.148	0.181	0.033	0.723	0.723	0.000
Retained Duty Staff Pay	0.491	0.455	(0.036)	2.989	2.989	0.000
Control Pay	0.158	0.170	0.012	0.760	0.760	0.000
Support Pay	0.791	0.773	(0.018)	3.228	3.165	(0.063)
Temp Staff	0.012	0.045	0.033	0.048	0.108	0.060
Other Employee Costs	0.013	0.007	(0.006)	0.035	0.035	0.000
	<b>4.537</b>	<b>4.515</b>	<b>(0.022)</b>	<b>21.552</b>	<b>21.599</b>	<b>0.047</b>
Firefighter Pensions - Non Funded Costs	0.153	0.137	(0.016)	0.671	0.671	0.000
<b>TOTAL EMPLOYEE COSTS</b>	<b>4.690</b>	<b>4.652</b>	<b>(0.038)</b>	<b>22.223</b>	<b>22.270</b>	<b>0.047</b>
Policy Planning Performance Management	0.028	0.078	0.050	0.165	0.165	0.000
	<b>0.028</b>	<b>0.078</b>	<b>0.050</b>	<b>0.165</b>	<b>0.165</b>	<b>0.000</b>
Community Fire Safety	0.048	0.043	(0.005)	0.286	0.286	0.000
Other Service Delivery	(0.001)	(0.042)	(0.041)	0.052	0.052	0.000
	<b>0.047</b>	<b>0.001</b>	<b>(0.046)</b>	<b>0.338</b>	<b>0.338</b>	<b>0.000</b>
Personnel	0.042	0.038	(0.004)	0.249	0.249	0.000
Approved Centre	0.002	0.003	0.001	0.014	0.014	0.000
Training	0.090	0.041	(0.049)	0.540	0.540	0.000
	<b>0.134</b>	<b>0.082</b>	<b>(0.052)</b>	<b>0.803</b>	<b>0.803</b>	<b>0.000</b>
Fire and Rescue Authority Costs	0.040	(0.025)	(0.065)	0.242	0.242	0.000
Health & Safety	0.005	0.003	(0.002)	0.030	0.030	0.000
Equipment Support Group	0.177	0.188	0.011	0.834	0.834	0.000
Hydrant Maintenance	0.009	0.009	0.000	0.055	0.055	0.000
Fleet	0.085	0.086	0.001	0.506	0.506	0.000
Information Technology	0.172	0.163	(0.009)	0.470	0.470	0.000
Comms	0.101	0.079	(0.022)	0.380	0.380	0.000
Admin	0.027	0.032	0.005	0.160	0.160	0.000
HQ Catering	0.000	0.005	0.005	0.000	0.000	0.000
Property	0.206	0.181	(0.025)	1.201	1.201	0.000
	<b>0.822</b>	<b>0.721</b>	<b>(0.101)</b>	<b>3.878</b>	<b>3.878</b>	<b>0.000</b>
Insurances	0.000	0.000	0.000	0.299	0.299	0.000
Finance Service Level Agreements etc	0.009	(0.001)	(0.010)	0.132	0.132	0.000
Miscellaneous - DoF Monitoring	0.013	0.017	0.004	0.080	0.080	0.000
Capital Financing	0.000	0.000	0.000	1.607	1.607	0.000
Firelink Contingency	0.000	0.000	0.000	0.240	0.240	0.000
	<b>0.022</b>	<b>0.016</b>	<b>(0.006)</b>	<b>2.358</b>	<b>2.358</b>	<b>0.000</b>
<b>TOTAL OTHER COSTS</b>	<b>1.053</b>	<b>0.898</b>	<b>(0.155)</b>	<b>7.542</b>	<b>7.542</b>	<b>0.000</b>
<b>NET EXPENDITURE</b>	<b>5.743</b>	<b>5.550</b>	<b>(0.193)</b>	<b>29.765</b>	<b>29.812</b>	<b>0.047</b>
Special Grants	(0.720)	(0.821)	(0.101)	(1.063)	(1.063)	0.000
<b>EXPENDITURE AFTER GRANTS</b>	<b>5.023</b>	<b>4.729</b>	<b>(0.294)</b>	<b>28.702</b>	<b>28.749</b>	<b>0.047</b>
to/(from) EMR				(0.571)	(0.571)	0.000
to/(from) General Balances				0.155	0.108	(0.047)
<b>NET BUDGET REQUIREMENT</b>				<b>28.286</b>	<b>28.286</b>	<b>0.000</b>

## **6. CAPITAL BUDGET REVIEW**

### **Purpose of report**

1. To inform Members of the current position on Capital Budgets for 2007/08.
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### **Background**

2. During 2006/07 the Capital Programme was re-phased and this re-phasing was incorporated into the Capital Budget for 2007/08 and Programme to 2011/12 approved by the Fire and Rescue Authority in February 2007.
3. The Capital Budget for 2007/08 was set at £3.937m, with a further £0.735m for USAR works at Droitwich to be funded from accumulated special grant.
4. At the Fire and Rescue Authority meeting in June 2007 net slippage on 2006/07 capital budgets totalling £0.421m was approved, to be added to 2007/08 budgets, subject to Budget Committee confirmation.
5. The 2007/08 revenue budget was built on the basis that these slipped capital sums would have been spent in 2006/07. Therefore there are no adverse revenue consequences of the slippage
6. The impact of this slippage on the 2007/08 Capital Budget is shown in Appendix 1.

### **Situation Report**

7. Vehicle Programme – now provides for completion of work on the two narrow bodied 4-wheel drive vehicles, commencement of a rolling programme of pump replacement (3 vehicles), replacement of the Incident Support Unit (ISU) and the development of the foam strategy.
  - Pumping appliances must now be acquired through Firebuy, and that organisation is now advising a lead time of 12-18 months on chassis. It is unlikely that any appliances can now be purchased in 2007/08 and the Committee will need to consider recommending the placing of orders in advance of the year of acquisition to ensure that a replacement programme can be maintained.
  - At the end of 2006/07 the FRA received £0.022m from the Environment Agency towards the cost of a replacement Environmental Protection Unit (EPU). This replacement was not programmed and the grant conditions require a self propelled vehicle which is not consistent with the current FRA strategy. This will require a reconsideration of vehicle priorities.
  - Proposals to amend the capital budget accordingly, but with financial consequences contained within the existing revenue budget, will be brought to a future Budget Committee meeting.

8. Workshops – Following acquisition of the site in 2006/07, tenders are about to be issued for works to bring the building into use. Expenditure is expected to be complete by the end of the financial year, allowing release of the existing site to support the capital costs. A report on progress will be brought to the next meeting of this committee.
9. IRMP Proposals – Members will be aware that major schemes require FRA approval of specific business cases and that the present
  - Work on detail proposals for Redditch is continuing, particularly in relation to long term development plans for the area. A full Business Case will be brought to this Committee when appropriate.
  - FRA approval for works at Pebworth has already been given, but is delayed by continuing difficulty in identifying a suitable site at reasonable cost.

### **Current Progress**

10. Appendix 2 shows current expenditure of £0.083m against the budget of £4.288m.
11. This level of expenditure to date is however not unexpected given that £2.793m of the budget relates to the Workshops, IRMP and Pump replacement schemes as outlined above.

### **Recommendation**

**To confirm addition of budget slipped from 2006/07 (Paragraph 4)**  
**To recommend placing of advance orders for Pumping Appliances (Paragraph 7)**  
**To note the current position in relation to IRMP schemes (Paragraph 9)**  
**To note the current position on expenditure (Paragraph 10 and Appendix 2)**

### **Background papers**

None

**2007/08 CAPITAL BUDGET MONITORING**

	FRA APPROVED BUDGET 2007/08 £	SLIPPAGE FROM 2006/07 £	PMM 2007/08 ALLOCATION £	AMENDED BUDGET £
<b>Vehicle Programme</b>				
Routine Replacements (Pumps)	600,000			600,000
4WD CAF Equipped - balance		55,000		55,000
Water Rescue Boats		25,000		25,000
Specialist Replacements	375,000			375,000
	<b>975,000</b>	<b>80,000</b>	<b>0</b>	<b>1,055,000</b>
<b>Workshops Project</b>				
Workshop	1,300,000	(162,000)		1,138,000
	<b>1,300,000</b>	<b>(162,000)</b>	<b>0</b>	<b>1,138,000</b>
<b>IRMP Schemes</b>				
Pebworth	550,000	(7,000)		543,000
Redditch	512,000			512,000
	<b>1,062,000</b>	<b>(7,000)</b>	<b>0</b>	<b>1,055,000</b>
<b>Other Schemes</b>				
Property, Information Technology, Communications etc.	600,000	440,000		1,040,000
	<b>600,000</b>	<b>440,000</b>	<b>0</b>	<b>1,040,000</b>
<b>TOTAL</b>	<b>3,937,000</b>	<b>351,000</b>	<b>0</b>	<b>4,288,000</b>

<b>Funded from Reserves or (** from within Training Revenue Budget)</b>				
USAR Works	735,000	70,000		805,000
Kidderminster HVP Works (1)			12,400	12,400
Hot Fire Training Facility enhancements (2)			16,000	16,000
	<b>735,000</b>	<b>70,000</b>	<b>28,400</b>	<b>833,400</b>

(1) from DCLG grant

(2) from revenue contributions within Training Dept budget

**2007/08 CAPITAL BUDGET MONITORING**

	<b>AMENDED BUDGET 2007/08 £</b>	<b>EXPENDITURE TO DATE £</b>	<b>BALANCE £</b>
<b>Vehicle Programme</b>			
Routine Replacements (Pumps)	600,000		600,000
4WD CAF Equipped - balance	55,000		55,000
Water Rescue Boats	25,000		25,000
Specialist Replacements	375,000		375,000
	<b>1,055,000</b>	<b>0</b>	<b>1,055,000</b>
<b>Workshops Project</b>			
Workshop	1,138,000	4,151	1,133,849
	<b>1,138,000</b>	<b>4,151</b>	<b>1,133,849</b>
<b>IRMP Schemes</b>			
Pebworth	543,000		543,000
Redditch	512,000		512,000
	<b>1,055,000</b>	<b>0</b>	<b>1,055,000</b>
<b>Other Schemes</b>			
Property, Information Technology, Communications etc.	1,040,000	78,436	961,564
	<b>1,040,000</b>	<b>78,436</b>	<b>961,564</b>
<b>TOTAL</b>	<b>4,288,000</b>	<b>82,587</b>	<b>4,205,413</b>
<b>Special Funding Arrangements</b>			
USAR Works	805,000		805,000
Kidderminster HVP Works (1)	12,439	5,781	6,658
Hot Fire Training Facility enhancements (2)	16,000		16,000
<b>TOTAL</b>	<b>833,439</b>	<b>5,781</b>	<b>827,658</b>

## **7. TREASURY ACTIVITIES 2006/07**

### **Purpose of report**

1. To review Treasury Activities and to report the Prudential Code indicators for 2006/07.
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2. Current Fire and Rescue Authority (FRA) Financial Regulations require that Treasury Activities are reviewed by Members twice a year, and this is the first opportunity to provide Members with information on final Prudential Indicators for the year.

### **Treasury Management Activities**

3. Banking arrangements for the FRA, in respect of lending and borrowing, are carried out by Worcestershire County Council under a Service Level Agreement. At 31 March 2006 the FRA had long-term debt totalling £9.169m.
4. During the year additional borrowing to support the capital investment in 2006/07 has been taken as below:

<b>Date</b>	<b>Amount</b>	<b>Period</b>	<b>Rate</b>
25-Aug-2006	£ 550,000	30.5 years	4.30%
03-Nov-2006	£1,250,000	15.5 years	4.50%
11-Nov-2006	£ 345,000	5.5 years	4.90%

5. The borrowing, taken from Public Works Loans Board as with all existing debt, brings the total long term debt at 31 March 2007 to £11.314m.
6. Surplus cash is invested on a day-to-day basis, and the average interest rate achieved in 2006/07 was 4.88%. The benchmark rate, chosen by the FRA for performance comparison purposes; the "7-Day London Inter-bank Bid Rate" (LIBID), was 4.84% for the same period.

### **Prudential Code Indicators**

7. In considering the budget and precept for the year the FRA approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.
8. These are set, by the FRA, in February for the coming year, and until this year reporting of the out-turn position was made to the FRA in the following February. It is now considered appropriate to report this information earlier to the Budget Committee.
9. Appendix 1 sets out the relevant indicators as approved and as they out-turn and demonstrate that they are within the limits agreed in the Medium Term Financial Plan.

**Recommendation**

**Members are asked to note the contents of this report.**

**Background papers**

None

### **Prudential Indicators 2006/07 Out-turn**

#### **Introduction**

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the new system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the Fire and Rescue Authority (FRA) should operate to ensure the objectives of the Prudential Code are met.

#### **Prudential Indicators**

The Prudential Indicators for which the FRA is required to set limits are as follows:

##### **1. Capital Expenditure**

The actual amount of capital expenditure that was incurred during 2006/07 was as follows:

	<b>2006/07 Estimate £000</b>	<b>2006/07 Actual £000</b>
Capital Expenditure	3,513	2,611
Operationally Leased Assets	279	237
	<b>3,792</b>	<b>2,848</b>

##### **2. Ratio of Financing Costs to Net Revenue Stream**

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the FRA is required to set aside to repay debt, less interest and investments income.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, and the estimated figure is the FRA's budget net of any transfers to or from the balances.

The indicator only requires that the costs associated with capital expenditure are measured in this way. However the FRA has used, and may continue to use Operational Leasing as a cost effective method of acquiring vehicles. In the spirit of the Prudential Code these costs are included for comparative purposes.

	<b>2006/07 Estimate £000</b>	<b>2006/07 Actual £000</b>
Financing Costs	1,309	1,273
Net Revenue Stream	27,061	27,061
Ratio	4.84%	4.70%

### **3. Capital Financing Requirement**

The capital financing requirement is a measure of the extent to which the FRA needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The FRA arranges its treasury management activity via a Service Level Agreement (SLA) with Worcestershire County Council (WCC) which has an integrated treasury management strategy where there is no distinction between revenue and capital cash flow, and the day to day position of external borrowing and investments can change constantly.

The capital financing requirement concerns only those transactions arising from capital spending, whereas the amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

	<b>2006/07 Estimate £000</b>	<b>2006/07 Actual £000</b>
Capital Financing Requirement at 31st March	12,143	11,715

### **4. Authorised Limit**

The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable.

## 5. Operational Boundary

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

The limits for these indicators set for 2006/07 and the final out-turn are given below, and it can be confirmed that the out-turn figure represents the maximum borrowing at any point in the year. I.e. the Authorized limit was not exceeded.

	<b>2006/07</b>
	<b>£000</b>
Authorized Limit	20,000
Operational Boundary	18,000
Actual Borrowing at 31st March 2007	11,314

## 6. Fixed Interest Rate Exposures

The FRA set an upper limit on its fixed interest rate exposures as follows:

	<b>2007/08</b>
<b>Fixed Interest Rate Exposure</b>	<b>£000</b>
Upper Limit	19,500
Actual Borrowing at 31st March 2007	11,314

## 7. Variable Interest Rate Exposures

The FRA set an upper limit on its variable interest rate exposures, however all current borrowing is at fixed rates.

## 8. Maturity Structure of Borrowing

The upper and lower limits for the maturity structure of borrowings are as follows:

	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>At 31st March 2007</b>
<b>Period of Maturity</b>	<b>%</b>	<b>%</b>	<b>%</b>
Under 12 months	0	25	9
12 months and within 24 months	0	25	3
24 months and within 5 years	0	50	9
5 years and within 10 years	0	75	3
10 years and above	25	95	77