

6. BUDGET AND PRECEPT 2008/09 AND MEDIUM TERM FINANCIAL PLAN

Purpose of report

1. To determine Revenue and Capital Budgets for 2008/09 and the consequential Council Tax Precept.
2. To identify the consequences of the 3 year grant settlement on future years' budgets.

Background

3. The Budget Committee considered progress on the 2008/09 budget at its meetings in November and January, and also in January, a workshop was held for Members on the consequences of the grant settlement. The budget and council tax strategy outlined in this report are based on the recommendation from the Budget Committee meeting in January.
4. The disappointing provisional grant settlement announcement of £10.458m (2008/09), £10.556m (2009/10) and £10.668m (2010/11) was made on 6 December 2007, and was subject to the normal formal consultation procedure.
5. The headline grant increase for 2008/09 at 1% masks the inclusion of former special grants within the formula grant figure. The real net increase is only 0.02%.

	2007/08 £m	2008/09 £m	%
Formula Grant	10.355	10.458	1.00%
Special Grants #	0.101	0.000	
	10.456	10.458	0.02%

now within Formula grant

6. The headline figure of 1% is significantly below the CFA average of 3.3% for 2008/09, and continues below the CFA averages in 2009/10 and 2010/11 at 2.0% in both years, where HWFRA gains an increase of only 0.7% and 1.3% respectively.
7. The Authority's grant settlement continues to be the lowest per head for CFAs at 75% of the average in 2008/09 and decreases to 74% for 2009/10 and 73% for 2010/11.
8. The FRA has responded to the consultation and met with the Minister, John Healy on 18 December 2007.
9. However, the provisional settlement has now been confirmed without any change and there has been no reply from DCLG in answer to the specific technical questions raised.

10. The recommended Net Budget Requirement is £29.311m after the planned use of reserves of £0.217m. This is an increase of 3.6% over the previous year and requires a precept increase of 4.92%. Details are set out in appendices 1 to 4.

11. In summary the year on year changes are:

• One off impacts	+1.1%
• Cost pressures	+2.6%
• Capital programme	+0.3%
• Discounted grants	+0.4%
• Training challenges (provisional sum)	+0.8%
• Cash releasing efficiencies	-0.8%
• Use of reserves	-0.8%
Total	<u>3.6%</u>

12. It has not been possible to provide for any real growth in the budgets and therefore capacity for:

- improved flooding response
- extending supplementary crewing and
- progressing national projects beyond government funding provided

is dependent on releasing funds through greater cost efficiency

Efficiency Savings

13. Over the past three years the FRS has been expected to achieve improved cost efficiency and the government set a target of £105m or just over 5% of the baseline set in 2004/05. The FRA has improved its cost efficiency by over 8% during this period. However for each of the next three years the government expects each FRA to generate 1.5% cash releasing efficiencies. For the Authority, the target over three years is in the region of £1.275m. Past over-performance does not contribute towards meeting future efficiency targets.

14. It should be recognised that efficiency measures have to be carefully planned and implemented in a sensible way. An illustrative phasing of efficiency measures would suggest that the government's target could be achieved as follows:

• 2008/09	£0.225m
• 2009/10	£0.525m
• 2010/11	£0.525m
Total	<u>£1.275m</u>

15. Looking well ahead to 2011/12 it is reasonable to assume that the FRS must be committed to continuous improvement and a target of £0.250m might be considered.

16. The achievement of cash releasing efficiencies can be seen as vital to creating from within the Service, resources to meet a number of challenges. Enhanced water rescue training and changes to working practices could well be necessary as a result of the lessons learnt from last year in responding to summer floods and the major incident in Warwickshire where four Firefighters lost their lives.

17. The savings/service delivery changes listed below illustrate the kinds of fundamental changes that would be required to generate cashable efficiencies on the scale necessary both to meet budget demands and address safety critical issues. However, before any changes on this scale could be recommended to the Authority they would need to be thoroughly researched. They would also need to be subject to full and satisfactory consultation through the existing IRMP process before implementation. As a fundamental review of the IRMP is already planned for completion by June 2008 this would appear to be the most appropriate mechanism through which the resolutions of such medium term finance and risk planning issues might be achieved.

18. Potential areas of efficiency/saving:

Efficiency/Saving	Indicative Range £m
Support service reduction	0.100 to 0.180
Reduction in whole time Firefighter posts	0.210 to 0.420
Rationalisation of district structure	0.100 to 0.130
Removal of retained duty systems from whole-time stations	0.060 approx per pump
Closure of a one appliance retained duty system station	0.060 to 0.100
Removal of a whole time appliance and reduction of 28 fire-fighter posts	0.750 to 1.000
Combination with Warwickshire or another regional service - but will take at least three years to realise	0.500 to 0.750

19. The table above is illustrative only and included only to demonstrate that the review required for the 2008 IRMP will need to be to be fundamental as implementation can be seen to be clearly challenging.

18. **Capital Programme**

20. Appendix 5 shows a proposed capital programme to the end of 2011/12. Schemes are based on the Asset Management Plan and Fleet Strategy subject to their approval by the FRA, elsewhere on this Agenda.

20. The phasing in of station improvements is indicative and remains flexible, in order to accommodate amendments as opportunities arise and in line with capacity to deliver the projects.

21. For these schemes a business case for each proposal will be taken to Budget Committee on a case by case basis before any expenditure is incurred.

22. The vehicle replacement element of the budget includes both the routine replacement of life-expired pumps and the replacement of the more costly specialist equipment. In the latter cases a business case would be made to Budget Committee prior to any commitment of resources.

23. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 1, 2 and 4.

Budget Risks

24. Setting a budget requirement at £29.311m as referred to in paragraph 10 still presents risks; for example:
- Pay award – each 0.5% increase over 2% represents £0.080m
 - Utilities inflation – each 1% over 2% represents £0.020m
 - Diesel fuel – each 1% over 2% represents £0.025m
 - RDS pension take up – only 35% of staff have taken up the option to join the new pension scheme (in line with budgeted expectations) however an additional 10% take up would cost £0.042m
 - Fire Control / Fire Link – final costs are still unknown
 - The need to respond to the Health and Safety, and Training outcomes, following the operational reviews of the 2007/08 flooding and the Warwickshire incident.
25. These risks highlight the need to maintain prudent levels of balances.

Business Consultation

25. In accordance with established practice, statutory consultation with business rate-payers has been initiated by correspondence, with appropriate representatives of business. (The Chamber of Commerce, the local branches of the Confederation of Small Businesses and the National Farmers Union). To date no responses have been received.

Precept Implications

26. Having regard to the government's grant allocation and the council tax base figures supplied by the billing authorities, the budget requirement results in a Band D council tax of £68.21. This is an increase of £3.20 or 4.92% on 2007/08.
27. The detailed calculation of precepts is shown in Appendix 6 and is summarised as follows:

Core Budget	£
Use of other ear-marked reserves	29,528,000.00
Net Budget Requirement	(217,000.00)
	29,311,000.00
Share of National Non-Domestic Rates (Business Rates)	9,180,180.00
Revenue Support Grant	1,277,956.00
Total Financing Grants	10,458,136.00
Gross Precept Requirement	18,852,864.00
Collection Fund Surpluses	(12,795.00)
Net Precept Requirement	18,840,069.00
Tax-base - Band D Equivalent	276,203.66
Precept - Band D Equivalent	£ 68.2108
	£ 68.21

Council Tax Capping

28. Local Government Minister John Healy has stated government policy in the following terms:
"Keeping council tax under control remains a priority for the Government. We expect the **average** council tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases."
29. The government's policy towards council tax could be seen in the context of increases in the National Non Domestic Rate. The National Non Domestic Rate is increased each year in line with the annual change in the Retail Price Index measured at September each year. The increase over the 12 months to September 2007 was 3.9% although the annual increase rose to 4.3% in November 2007, but declined to 4% in December 2007.

Medium Term Financial Strategy (MTFS)

29. It is important to update the MTFS to facilitate prudent operational and financial planning. Appendix 7 is a revised strategy reflecting:
- best estimates of trends in pay and price inflation together with other emerging cost pressures
 - potential enhanced training challenges
 - the possible impact of national projects
 - the revenue consequences of capital investment
 - the scope for cash releasing efficiencies
 - maintaining a contingency to sustain service delivery during a period of significant change and increasing uncertainty.

Revenue Balances Strategy

30. Although the summer floods resulted in abnormal and unbudgeted expenditure this has been funded for the most part through government grant in accordance with the Bellwin Scheme. Financial performance in the current financial year is likely to be close to target. General balances are likely to be around £1.2m at 31 March 2008. It is proposed to retain this sum over the medium term. This will mean the Authority's general balance will be equivalent to around 4% or so of estimated net budget requirements for the period up to 31 March 2012.
31. Whilst the maintenance of balances is desirable to provide a buffer to meet unexpected costs, there is an opportunity cost of holding balances. They could be used to finance expenditure or reduce the council tax precept. The risk is, however, that any unforeseen expenditure could not be met.

32. Ear-marked balances are held for the following uses, and based on the 2008/09 budget proposed, will stand as below:

	2008/09	2009/10	2010/11	2011/12
	£m	£m	£m	£m
<u>Earmarked Balances</u>				
Pensions Reserve	0.237	0.167	0.167	0.167
RMB Costs Reserve	0.024	0.024	0.024	0.024
Rank to Role Reserve	0.205	0.058	0.058	0.058

Prudential Code Indicators

33. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).
34. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.
35. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.
36. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under section 4 of the Local Government Act 2003 (Government reserve powers).
37. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them in this way would be likely to be misleading and counter productive. In particular, Local Authorities had widely differing debt positions at the start of the Prudential system and the differences are likely to increase over time as a result of the exercise of local choices. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

38. In setting or revising the prudential indicators, the FRA is required to have regard to the following matters:
- Affordability, e.g. implications for Council Tax;
 - Prudence and sustainability, e.g. implications for external borrowing;
 - Value for money, e.g. options appraisal;
 - Stewardship of assets, e.g. asset management planning;
 - Service Objectives, e.g. strategic planning for the Authority; and
 - Practicality e.g. achievability of the forward plan.
39. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 8

Budget Calculations: Personal Assurance Statement by Treasurer

40. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (council tax). The Authority is required to take this report into account when making its budget and precept (council tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.
41. The Treasurer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:
- The Fire and Rescue Authority budget policy;
 - The need to protect the Fire and Rescue Authority's financial standing and to manage risk;
 - This year's financial performance;
 - The financial policies of the Government;
 - The Fire and Rescue Authority's Medium Term Financial Strategy and Planning framework;
 - Capital programme obligations;
 - Treasury Management best practice;
 - The strengths of the Fire and Rescue Authority's financial control procedures including audit consideration;
 - The extent of the Fire and Rescue Authority's balances and reserves; and
 - The prevailing economic climate and future prospects.

Recommendation

The Authority is asked to:

- **Approve the Revenue Budget, Net Budget Requirement and consequential precept as set out in Appendix 6**
- **Approve the Capital Budget and Programme as set out at Appendix 5**
- **Approve the Medium Term Financial Strategy set out in Appendix 7**
- **Approve the Statement of Prudential Code Indicators set out in Appendix 8**

Appendices

- Appendix 1 Revenue Budget 2008/09**
- Appendix 2 Explanation of variations in Appendix 1**
- Appendix 3 Personnel Budget**
- Appendix 4 Revenue Budget 2008/09**
- Appendix 5 Capital Programme**
- Appendix 6 Precept Calculation**
- Appendix 7 Medium Term Financial Firecasts**
- Appendix 8 Statement of Prudential Code**
- Appendix 9 Worcestershire County Council Treasury Management Strategy 2008/09**

Background papers

- Report: Budget Preparation 2008/09 – FRA Budget Committee 24-Jan-2008
- Report: Budget Preparation 2008/09 – Fire and Rescue Authority 13-Dec-2007
- Report: Budget Preparation 2008/09 – FRA Budget Committee 23-Nov-2007
- Report: Budget Preparation 2008/09 – FRA Budget Committee 12-Oct-2007
- Report: Formula Grant Distribution – FRA Budget Committee 12-Oct-2007

Hereford & Worcester Fire and Rescue Authority Budget 2008/09 : Revenue Budget 2008/09

	£m	%
2007/08 Net Budget Requirement	28.286	
<u>one off impacts</u>		
IRU Training Grant 2006/07 (from Reserve)	0.070	
Un-earmarking of Reserve	0.195	
Pensions Reserve - use 2007/08	0.047	
Transitional Grant Repayment Reserve	0.164	
Build up of Reserves - completed 2007/08	(0.155)	
	0.321	1.1%
Recurring Base Budget	28.607	
<u>Cost Pressures</u>		
Pay Awards 2007 FYC	0.170	
Pay Awards at 2%	0.328	
LGPS - Increased Contribution Rate	0.017	
Completion of Rank to Role Implementation	0.069	
Support Staff Increments	0.010	
Other Inflation	0.106	
Fire Cover Information - Data Integrity	0.028	
Fleet Apprenticeship Scheme	0.025	
Audit Commission Inspection Charges	0.025	
Net Other	(0.037)	
	0.741	2.6%
<u>Training Challenges - subject to identification of resources</u>		
Retained Training	0.100	
Wholetime Training	0.100	
Water Rescue Enhancements	0.025	
	0.225	0.8%
<u>Cash Releasing Efficiencies</u>		
Future efficiencies to be identified	(0.225)	
	(0.225)	-0.8%
<u>Capital Programme</u>		
Impact of Asset Management Plan & Fleet Strategy	0.079	
	0.079	0.3%
<u>Discontinued Grants</u>		
Home Fire Safety Grant 2007/08	0.064	
Fire Prevention Grant 2007/08	0.037	
	0.101	0.4%
CORE BUDGET	29.528	4.4%
<u>Planned Use of Reserves</u>		
from Pensions Reserve	(0.070)	
from Rank to Role Reserve	(0.147)	
	(0.217)	-0.8%
RECOMMENDED NET BUDGET REQUIREMENT	29.311	3.6%

Hereford & Worcester Fire and Rescue Authority

Budget 2008/09 : Explanation of Variations in Appendix 1

One off Impacts

Core expenditure in 2007/08 funded from one -off use of reserves

Pay Awards 2007 FYC

The full year cost of the Fire-fighters Jul 2007 pay award, including the impact of the settlement at 2.4% being higher than the 2% included in the 2007/08 budget. This figure also includes the impact of the Support pay settlement at April 2007 being 0.47% higher than the 2% in the 2007/08 budget.

Pay Awards at 2%

The budget provides for a 2% pay award, in line with government strategy on public sector pay.

LGPS - Increased Contribution Rate

The latest valuation of the Worcestershire Pension Fund requires an increase in employer contributions from 15.6% to 16.1%

Completion of Rank to Role Implementation

During 2007/08 the final stages of the conversion of the FRS structure from one based on rank to one based on role were progressed. This was an outcome of the November 2003 pay agreement and has involved an element of job-sizing. This represents the additional cost of finalising this structure.

Support Staff Increments

The base budget provides for the actual employment costs of current staff with an allowance for the impact of vacancies. Specific provision is included here for staff who, subject to satisfactory performance, would qualify for a pay increment.

Other Inflation

Inflation has been provided for at 2%, from April 2008.

Fire Cover Information - Data Integrity

Provision to ensure that the Service Vehicle Mounted Data System, an integral part of fire-fighter safety arrangements, are enhanced.

Fleet Apprenticeship Scheme

Provision to allow the service to participate in the new national Fire-service Fleet maintenance apprenticeship scheme, to ensure that, over time, there are sufficient trained staff available

Audit Commission Inspection Charges

The Commission is proposing a 41% increase in Audit and Inspection fees for 2008/09. Although this is only £0.025m, it represents activity previously undertaken by the former Fire Services Inspectorate which was funded by DCLG. There has been no identifiable transfer of funds to match the additional cost burden.

Capital Financing

The changes reflect the overall additional capital financing charges arising from the capital programme. The impact is shown includes interest, provision for repayment and vehicle lease rentals.

Discontinued Grants

Two grants that were paid in 2007/08 have now been rolled up within the Formula Grant, and are no longer available to fund expenditure in 2008/09. However, Fire Service Circular 58/2007 makes it clear

Hereford & Worcester Fire and Rescue Authority
Budget 2008/09 : Personnel Budget

	Wholetime Firefighters FTE	Retained Firefighters H/C	Control Room Staff FTE	Non- Uniformed Support FTE	TOTAL
Core Budget 2007/08	329.0	369.0	23.0	121.7	842.7
Principal Officer Restructuring	(1.0)				(1.0)
ADC Restructuring	(1.0)			1.0	0.0
Further Resilience provision			2.0		2.0
VMDS Technician				1.0	1.0
Fleet Apprentice				1.0	1.0
Included in Budget 2008/09	327.0	369.0	25.0	124.7	845.7

Hereford & Worcester Fire and Rescue Authority
Budget 2008/09 : Revenue Budget 2008/09

	2007/08 Revised Budget £m	change £m	2008/09 Proposed Budget £m
Wholetime Pay	13.769	0.283	14.052
Retained Duty Staff Pay	2.989	0.072	3.061
Supplementary Crewing	0.036	(0.036)	0.000
Control Pay	0.760	(0.010)	0.750
Support Pay	3.276	0.272	3.548
Other Employee Costs	0.035	0.001	0.036
	20.865	0.582	21.447
FF Pensions - Non Funded Costs	0.671	0.001	0.672
SUB-TOTAL : Employee Costs	21.536	0.583	22.119
Urban Search & Rescue (USAR) - total cost	0.723	0.123	0.846
SUB-TOTAL : USAR	0.723	0.123	0.846
Policy, Planning & Performance	0.165	0.004	0.169
Risk & Business Continuity	0.015	0.000	0.015
Committee Services	0.135	0.003	0.138
Legal Services	0.060	0.000	0.060
FRA Costs	0.170	0.015	0.185
Health & Safety	0.030	0.001	0.031
Insurances	0.299	0.006	0.305
	0.874	0.029	0.903
Community Safety - Prevention	0.287	0.005	0.292
Community Safety - Intervention Policy	0.052	0.001	0.053
	0.339	0.006	0.345
Personnel	0.249	0.004	0.253
Approved Centre	0.014	0.000	0.014
Training	0.540	0.010	0.550
	0.803	0.014	0.817
Equipment Support	0.889	0.016	0.905
Fleet	0.505	0.009	0.514
IT	0.470	0.008	0.478
Comms	0.380	0.007	0.387
Facilities Management	1.211	0.022	1.233
	3.455	0.062	3.517
Finance	0.212	0.022	0.234
Capital Financing	1.607	0.079	1.686
Firelink Contingency/Fire Control	0.296	(0.240)	0.056
	2.115	(0.139)	1.976
SUB-TOTAL : Other Running Costs	7.586	(0.028)	7.558
Special Grants			
Home Fire Safety Initiative Grant	(0.064)	0.064	0.000
Fire Prevention Grant	(0.037)	0.037	0.000
New Dimensions Grants (IRU Training)	(0.080)	0.000	(0.080)
New Dimensions Grants (USAR)	(0.737)	(0.122)	(0.859)
New Burdens Grants (Fire Control Project)	(0.201)	0.145	(0.056)
	(1.119)	0.124	(0.995)
SUB-TOTAL :	28.726	0.802	29.528
Use of Reserves			
from Transitional Grant Repayt Earmarked Reserve	(0.164)	0.164	0.000
from New Dimensions IRU Training Earmarked Reserve	(0.070)	0.070	0.000
from Fire Control New Burdens Earmarked Reserve	(0.095)	0.095	0.000
from Pensions Earmarked Reserve	(0.047)	(0.023)	(0.070)
from RMB Earmarked Reserve	(0.024)	0.024	0.000
from of Rank to Role Earmarked Reserve	0.000	(0.147)	(0.147)
from USAR Earmarked Reserve	(0.195)	0.195	0.000
Strengthening General Balances	0.155	(0.155)	0.000
	(0.440)	0.223	(0.217)
NET BUDGET REQUIREMENT	28.286	1.025	29.311

Hereford & Worcester Fire and Rescue Authority Budget 2008/09 : Capital Programme

	BUDGET	PROGRAMME			TOTAL £m
	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	
Vehicle Leasing					
Replacing expiring leases - Cars	0.044	0.382	0.199	0.224	0.849
Replacing expiring leases - Vans	0.130	0.081	0.030	0.055	0.296
	0.174	0.463	0.229	0.279	1.145

	BUDGET	PROGRAMME			TOTAL £m
	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	
Vehicle Programme					
Routine Replacements (Pumps)	0.459	0.612	0.459	0.612	2.142
Routine Replacements (Other)	0.150		0.165		0.315
Specialist Replacements (CARP - stage payments)	0.450				0.450
Specialist Replacements (ISU)	0.250				0.250
	1.309	0.612	0.624	0.612	3.157
IRMP Schemes					
Pebworth	0.543				0.543
Redditch	0.500	1.000	0.980		2.480
Malvern	0.500	0.500			1.000
District Training	0.180	0.180			0.360
Hereford		0.500	1.350	1.350	3.200
Worcester			0.400	0.500	0.900
	1.723	2.180	2.730	1.850	8.483
Other Schemes					
Property, Information Technology, Communications etc.	0.600	0.600	0.600	0.600	2.400
	0.600	0.600	0.600	0.600	2.400
Annual Total	3.632	3.392	3.954	3.062	14.040
Capital Receipt Funded - IRMP					
Pebworth		(0.025)			(0.025)
Redditch				(0.514)	(0.514)
	0.000	(0.025)	0.000	(0.514)	(0.539)
Net Annual Total	3.632	3.367	3.954	2.548	13.886

Excludes impact of any other slippage from 2007/08.

The IRMP programme is indicative only, as referred to in the FRA Asset Management Plan.

13.501

Hereford & Worcester Fire and Rescue Authority
Budget 2008/09 : Precept Calculation

Tax-base : Band D Equivalent		
Bromsgrove		36,214.70
Herefordshire		69,374.10
Malvern Hills		29,817.70
Redditch		27,017.61
Worcester		32,354.00
Wychavon		46,772.55
Wyre Forest		34,653.00
		276,203.66
		£
Core Budget		29,528,000.00
Use of other ear-marked reserves		(217,000.00)
Net Budget Requirement		29,311,000.00
Share of National Non-Domestic Rates (Business Rates)		9,180,180.00
Revenue Support Grant		1,277,956.00
Total Financing Grants		10,458,136.00
Gross Precept Requirement		18,852,864.00
Collection Fund Surpluses		(12,795.00)
Net Precept Requirement		18,840,069.00
Tax-base - Band D Equivalent		276,203.66
Precept - Band D Equivalent		£ 68.2108
		£ 68.21
Total Precept on Billing Authorities		£
Bromsgrove		2,470,233.19
Herefordshire		4,732,061.95
Malvern Hills		2,033,888.78
Redditch		1,842,892.44
Worcester		2,206,891.80
Wychavon		3,190,392.44
Wyre Forest		2,363,708.40
		18,840,069.00

Equivalent to Tax at Band	Ratio to Band D	£
A	6/9	£ 45.47
B	7/9	£ 53.05
C	8/9	£ 60.63
D	9/9	£ 68.21
E	11/9	£ 83.37
F	13/9	£ 98.53
G	15/9	£ 113.68
H	18/9	£ 136.42

2007/08 Tax	change
£ 43.34	4.91%
£ 50.56	4.92%
£ 57.79	4.91%
£ 65.01	4.92%
£ 79.46	4.92%
£ 93.90	4.93%
£ 108.35	4.92%
£ 130.02	4.92%

Hereford & Worcester Fire and Rescue Authority

Medium Term Financial Forecasts

	2008/09 Forecast £m	2009/10 Forecast £m	2010/11 Forecast £m	2011/12 Forecast £m
Prior Year Net Budget Requirement	28.286	29.311	30.320	31.394
Add-back 2007/08 one-off effects	0.321			
Add-back One-off use of Ear-marked Reserves in 2008/09				
Pensions Earmarked Reserve		0.070		
Rank to Role Earmarked Reserve		0.147		
	0.321	0.217	0.000	0.000
	28.607	29.528	30.320	31.394
Pay Awards and Inflation				
Pay Awards at 2%	0.498	0.453	0.478	0.504
Support Staff Increments	0.010	0.010		
Other Inflation	0.106	0.106	0.108	0.110
	0.614	0.569	0.586	0.614
Other cost pressures				
Completion of Rank to Role Implementation	0.069			
Pensions Build Up		0.041	0.025	0.025
LAPS Increase in Employer's Contributions	0.017	0.013	0.017	0.017
Graff Travel - HQ Relocation		(0.008)		
Burden Transfer		0.050		
Audit Commission Inspection Charges	0.025	0.004	0.003	
Public Surveys - cyclical			0.010	(0.010)
Net Other	0.016			
	0.127	0.100	0.055	0.032
Training Challenges				
Retained Training	0.100	0.100		
Wholetime Training	0.100	0.150		
Water Rescue Enhancements	0.025	0.075	(0.050)	
	0.225	0.325	(0.050)	0.000
Consequences of National Projects				
Firelink - net new cost		0.037	0.102	
FireControl - net new cost			0.428	
	0.000	0.037	0.530	0.000
Capital Programme				
Impact of Asset Management Plan & Fleet Strategy	0.079	0.236	0.228	0.246
	0.079	0.236	0.228	0.246
Discontinued Grants				
Home Fire Safety Grant 2007/08	0.064			
Fire Prevention Grant 2007/08	0.037			
	0.101	0.000	0.000	0.000
Cash Releasing Efficiencies				
Future efficiencies to be identified	(0.225)	(0.525)	(0.525)	(0.250)
	(0.225)	(0.525)	(0.525)	(0.250)
Contingency to sustain service delivery				
		0.050	0.250	0.400
	0.000	0.050	0.250	0.400
CORE BUDGET	29.528	30.320	31.394	32.436
Use of Reserves				
Pensions Earmarked Reserve	(0.070)			
Rank to Role Earmarked Reserve	(0.147)			
	(0.217)	0.000	0.000	0.000
PROJECTED NET BUDGET REQUIREMENT	29.311	30.320	31.394	32.436
	3.6%	3.4%	3.5%	3.3%

	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Band D Increase	4.92%	4.75%	4.50%	4.25%
Band D Tax	£ 68.21	£ 71.45	£ 74.67	£ 77.84
Tax-base	276,204	276,894	277,586	278,280
Council Tax Yield	£m (18.840)	(19.784)	(20.726)	(21.661)
Government Grants	£m (10.458)	(10.536)	(10.668)	(10.775)
Collection Fund Surpluses	£m (0.013)	0.000	0.000	0.000
Gross Resources	£m (29.311)	(30.320)	(31.394)	(32.436)
	3.6%	3.4%	3.5%	3.3%

Statement of Prudential Indicators

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. Since 1 April 2004, Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation.

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 FRA should operate to ensure the objectives of the Prudential Code are met.

Prudential Indicators

The Prudential Indicators for which the Fire and Rescue Authority is required to set limits are as follows:

1. Net Borrowing and the Capital Financing Requirement

This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years”.

The Treasurer reports that the Fire and Rescue Authority had no difficulty meeting this requirement since 2002/03, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2008/09 Budget.

2 Capital Expenditure

The actual amount of capital expenditure that was incurred since 2004/05, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2008/09 Budget are as follows:

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Capital Expenditure	8,746	2,611	966	5,524	3,392	3,954	3,062
Operationally Leased Assets	427	237	176	199	463	229	279
	9,173	2,848	1,142	5,723	3,855	4,183	3,341

The Leased Asset figure from 2005/06 onwards refers to the replacement of expiring leases.

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 Fire and Rescue Authority 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 Fire and Rescue Authority's budget net of any transfers to or from the balances.

The prediction of the Net Revenue Stream in this Prudential Indicator for future years assumes increases in the Fire and Rescue Authority's funding from government and the local taxpayer consistent with expectations in the Medium Term Financial Plan. This is indicative only and in no way meant to influence the actual future years funding or in particular the funding from Precepts.

The indicator only requires that the costs associated with capital expenditure are measured in this way. However the Fire and Rescue Authority 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.

The rise in this ratio is partially due to the fact that capital expenditure prior to the formation of the FRA is not charged to the Fire and Rescue Authority. In other words, the Fire and Rescue Authority inherited all its assets without any cost.

This represents the position that all of the Fire and Rescue Authority's authorised external borrowing may be at a fixed rate at any one time.

10. Variable Interest Rate Exposures

It is recommended that the Fire and Rescue Authority sets an upper limit on its variable interest rate exposures as follows.

Upper limits for net principal sums outstanding at variable rates

Variable Interest Rate Exposure	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Upper Limit	4,000	5,000	6,000	7,000

This is the maximum external borrowing judged prudent by the Treasurer that the Fire and Rescue Authority should expose to variable rates.

11. Maturity Structure of Borrowing

It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	95	25

12. Investments for longer than 364 days

It is recommended that the upper limits of total principal sums invested for periods longer than 364 days are £5 million for each year.

Thus, as investment is made in vehicles, for example the increased costs are in the Fire and Rescue Authority accounts but the savings are elsewhere.

The estimates of the ratio of financing costs to net revenue stream are as follows:

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Financing Costs	968	1,273	1,539	1,686	1,922	2,160	2,396
Net Revenue Stream	27,289	27,061	28,286	29,318	30,327	31,402	32,390
Ratio	3.55%	4.70%	5.44%	5.75%	6.34%	6.88%	7.40%

3. Capital Financing Requirement

The capital financing requirement is a measure of the extent to which the Fire and Rescue Authority 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 Fire and Rescue Authority 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 flows, 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.

The estimates of the end of year capital financing requirement are as follows:

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Capital Financing Requirement at 31st March	9,389	11,221	11,548	16,302	18,783	21,720	23,100

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. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary.

These limits are higher than set in previous years to reflect the decisions taken by the Fire and Rescue Authority to switch from leasing to more cost effective borrowing for the acquisition of operational vehicles.

The Fire and Rescue Authority should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).

The following Authorised Limits for external debt, excluding temporary investments are recommended:

Authorized Limit	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
External Borrowing	21,227	24,227	27,227	28,727

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 Treasurer reports that procedures are in place to monitor the Operational Boundary on a daily basis, via the SLA with WCC and that sufficient authorisation is in place to take whatever action is necessary to ensure that, in line with the Treasury Management Strategy, the cash flows of the Fire and Rescue Authority are managed prudently.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

Both the Authorised Limit and the Operational Boundary include an element relating to debt restructuring where, for the short term only, external borrowing may be made in advance of the repayment of loans. In this circumstance External Borrowing is increased temporarily until the replaced loans are repaid. The converse can also apply where loans are repaid in advance of borrowings.

The following limits (shown overleaf) for each year's Operational Boundary, excluding temporary investments are recommended:

Operational Boundary	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
External Borrowing	18,727	21,227	24,227	25,727

6. Actual External Debt

The Fire and Rescue Authority's actual external debt as at 31 March 2007 was £11.314 million; comprising £11.314 million External Borrowing and £0 (zero) Other Long Term Liabilities.

7. The Incremental Impact of Capital Investment Decisions on the Council Tax

This indicator identifies specifically the additional cost to the taxpayer of the **new** capital investment proposed in the 2008/09 – 2011/12 Capital Programme. As the indicator deals only with new investment the impact of the previously approved programme was included in the equivalent report provided to the FRA in Feb 2007.

The incremental impact identifies transactions that will occur **over and above** what has already been provided for in the 2007/08 revenue budget and assumes the funding available in 2007/08 will be carried forward in the future year's base budgets.

The incremental impact has been calculated using forward estimates of funding consistent with expectations in the Medium Term Financial Plan.

The impact on the revenue budget, and therefore the Council Tax, is felt by a combination of the following: debt costs of the new borrowing, the amount set aside from revenue to repay the principal element of external borrowing (Minimum Revenue Provision) and the revenue impact of a capital project

It should be noted that borrowing itself does not fund capital expenditure since the loans have to be repaid eventually. The actual funding comes from the Minimum Revenue Provision which is statutorily charged to revenue each year.

The estimate of the incremental impact of the capital investment detailed in the 2008/09 Budget on the Council Tax is as follows:

	2009/10 £000	2010/11 £000	2011/12 £000
Incremental Impact on Band D Council Tax	£0.00	£0.00	£0.00

Although the Capital Programme has been amended to move forward this is largely regarding timing of major projects. There is no new investment planned, that was not already contained within the Medium Term Financial Plan, hence there is no incremental impact of decisions taken now.

PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT

8. Treasury Management Code of Practice

The Fire and Rescue Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services.

The Treasury Management function is carried out on behalf of the Authority by Worcestershire County Council, who have also adopted the Treasury Management Code of Practice, and an extract of the relevant parts of their 2008/09 strategy is attached for information.

9. Fixed Interest Rate Exposures

It is recommended that the Fire and Rescue Authority sets an upper limit on its fixed interest rate exposures as follows.

Upper limits for net principal sums outstanding at fixed rates

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Fixed Interest Rate Exposure				
Upper Limit	21,227	24,227	27,227	28,727

Worcestershire County Council Treasury Management Strategy 2008/2009

Background

1. In accordance with the Council's Treasury Management Practices (TMPs) and The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice the Council is required to approve the Treasury Management Strategy and Annual Investment Strategy for 2008/2009. The Treasury Management Strategy is reflected in the Personal Assurance Statement by the Director of Financial Services concerning the 2008/2009 budget calculations.

Treasury Management Strategy

2. The Prudential Code for Capital Finance requires the Council to set a number of Prudential Indicators (see Appendix 6). The Treasury Management Strategy has been developed in accordance with these indicators.
3. For borrowing currently long-term fixed Public Works Loan Board (PWLB) rates are around 4.45% and short-term PWLB rates are slightly higher at 4.6%.
4. Economic forecasts suggest that both medium and long-term PWLB rates will remain at similar levels through 2008/2009 at around 4.5%. Short-term rates are expected to be higher than this level at around 4.65% but falling towards the end of the year. The strategy will be to take medium or long term loans in order to fit in with the Council's debt maturity profile whilst taking advantage of the lowest borrowing rates available. However if shorter period loans can be borrowed at a level similar to those of the longer term rates then these will also be considered ensuring an optimum portfolio of debt.
6. The management of the Council's debt will be exercised in the most efficient manner taking into account maturing debt. The opportunity will be taken to reschedule any outstanding debt if rates are favourable, and make savings in the revenue budget
7. The Council borrows the majority of its long term loans from the PWLB. In November 2007 this organisation changed the way it operates in respect of the premature repayment of loans. This will result in a substantial reduction in the number of rescheduling opportunities that will be available.
8. The bank rate was reduced to 5.50% in December 2007 after five consecutive rate increases since August 2006. Current forecasts suggest that there could be further cuts in the bank rate in 2008.
9. Opportunities will be taken to lock into longer-term investments at higher rates before this predicted fall starts. However cashflow requirements will always require some investments to be made on a shorter-term basis. Ultimately current market conditions will influence investment decisions as evidenced by the bank credit crisis where rates for short term investments have been higher than long term.

10. The investment strategy will continue to be monitored and updated where market conditions change.

Annual Investments Strategy

12. The general policy objective for the Council is the prudent investment of its cash balances. The investment priorities are the security of capital and liquidity of investments. The aim is to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.
13. The Council will not borrow money purely to invest.
14. The investments which the Council are able to use for the prudent management of cash balances are categorised as 'Specified Investments' and 'Non-Specified Investments'. A specified investment offers high security and high liquidity, must be in sterling and have a maturity date of less than a year. The general policy is for the County Council to have all its investments in this category.
15. Non specified investments have a range of vehicles, which are set out in the Treasury Management Practices (TMPs) and generally carry more risk. The only type of non-specified investment that will normally be considered is a routine Money Market investment with a credit-rated counterparty, for a period of more than one year. This type of investment will be considered when rates are favourable and cash balances allow, and the normal procedures for specified investments will be followed.
16. Exceptional economic circumstances and professional advice may mean other non-specified vehicles may be appropriate. The Director of Financial Services will only enter into these investments when there is no risk to the capital invested and they are justified by the rate of return.
17. All investments will be made with counterparties who satisfy the credit ratings in the Council's TMPs. Details of credit ratings, frequency of monitoring and action to be taken when ratings change are included in the relevant TMP.