

**LEICESTER, LEICESTERSHIRE AND RUTLAND
COMBINED FIRE AUTHORITY**

Subject: Final Medium Term Financial Strategy 2009/12

Officer to Contact: Trevor Peel, Treasurer to the CFA (0116 2872241)

Purpose Information

1. Introduction

- 1.1 The 2004/05 budget was the first the Combined Fire Authority (CFA) set using its new precepting powers. From the 1st April 2004 the CFA receives its funding from two main sources. The Formula Grant (which includes the Revenue Support Grant (RSG) and redistributed Business Rates income) comes direct from the Department for Communities and Local Government (CLG). Its precepting income, the Council Tax, comes via the seven district and two unitary Authorities.
- 1.2 The purpose of this report is to update Members of the Final Annual Budget, Council Tax and Treasury Management Strategy for 2009/10, the Final Capital Programme for 2009/12 and the Final Medium Term Financial Strategy for 2010/12. The report reflects the decisions made by the CFA on the 11th February 2009 and those made by Policy Committee on the 18th March 2009.

2. Background

- 2.1 The final Local Government Finance Settlement for 2008/09 was announced on the 24th January 2008. The final Formula Grant for 2008/09 was £18,207,109, an increase of £512,894 compared to the adjusted 2007/08 Formula Grant of £17,694,215. This was a 2.9% increase in the formula grant. The national increase for CFAs was 3.2%
- 2.2 As in previous years, the CLG included floor-damping arrangements that ensured that all groups of Authorities received a minimum grant increase. For 2008/09 21 Fire Authorities set to receive a grant increase above the level of the floor had their grant scaled back to pay for the costs of those 10 Authorities below the floor. The floor for Fire and Rescue Authorities in 2008/09 was 1.0%. Leicestershire's formula grant was reduced by £594,256 through this process. This was the equivalent of a 4% increase in Council Tax.
- 2.3 Council tax levels for the CFA were set at the meeting held on the 13th February 2008. After carefully considering all of the options available to it, the CFA set its fifth Council Tax at £49.83 for a Band D property (a 4.94% increase). The property tax base for 2008/09 was 311,292.98. In

total a sum of £15,511,294 was raised from the Council Tax in 2008/09 with a further £33,861 arising from the Collection Fund Surplus.

- 2.4 In 2001 the Chartered Institute of Public Finance and Accountancy (CIPFA) published the Code of Practice for Treasury Management in the Public Sector incorporating cross-sectoral and sector-specific guidance notes. This Code was originally produced in 1992 and updated in 1996 to take account of changes in the financial markets. The Code requires an annual report on Treasury Management Strategy and performance. An Annual Investment Strategy is also required to be approved by the CFA.
- 2.5 Whilst the two strategies could be considered separately, the overlap is such that the production of a single strategy report is sensible. This report includes the agreed Treasury Management Strategy for 2009/10. The term Treasury Management encompasses all borrowing, capital financing, lending and cash management activities. A report on Treasury Management activities during 2007/08 was incorporated in the Statement of Accounts Report produced for the CFA on the 25th June 2008.

3. How Strategic Aim(s) Are Supported

- 3.1 It is important to ensure that the budget set by the CFA reflects and enables progress to be made against the CFA's corporate objectives. The Medium Term Financial Strategy for 2009/12 reflects the CFA's strategic plan, "Our Plan". It also reflects national and regional strategies and policies.
- 3.2 Given that debt-financing costs of £953,180 and investment income of £143,790 are included within the 2009/10 revenue budget, the performance of the Treasury Management function could have a significant impact onto the Authority's overall financial position, and performance is monitored as part of the monthly budget monitoring process.

4. Corporate Risk / Impact on Service Continuity

- 4.1 The CFA has set a budget for 2009/10 within available resources which ensures that the CFA has sufficient reserves to meet financial risks that might occur. The Authority has to live within its financial resources and there is a serious financial risk if the revenue budget is not managed appropriately. The CFA has to agree the use of any of the Financial Reserves set aside for this purpose in the Annual Budget.
- 4.2 The term Treasury Management is defined as: -

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

Treasury Management activities are a speculative risk. The purpose of the Treasury Management Strategy is to define the acceptable level of risk.

5. Staffing Implications

- 5.1 81.0% of the revised net budget for 2008/9 was allocated on employees, with a further 2.5% allocated on indirect employee expenses. The agreed budget for 2009/10 has just over 81.4% being spent on employees, with a further 2.5% being spent on indirect employee expenses.

6. Equal Opportunities / Equality Impact Assessment Undertaken

- 6.1 An equality impact assessment was undertaken on the Council Tax leaflets in 2006/07 and it is now held on the Authority's website and can be accessed as required. The leaflets can also be produced in other languages, Braille, large print and other formats if requested.

7. Legal Implications

- 7.1 As this report deals with next year's budget, section 106 of the Local Government Finance Act 1992 applies to Members in arrears of Council Tax. All other legal implications are contained within the main body of the report.

8. Financial Implications/Value for Money Considerations

Revenue Support Grant Settlement 2009/10

- 8.1 The final Local Government Finance Settlement for 2009/10 was announced on the 21st January 2009. The final Formula Grant for 2009/10 is £18,525,875, an increase of £318,766 compared to the adjusted 2008/09 Formula Grant of £18,207,109. This is a 1.75% increase in the formula grant. The national increase for CFAs is 2.02%.
- 8.2 As in previous years, the CLG have included floor-damping arrangements that will ensure that all groups of Authorities receive a minimum grant increase. For 2009/10 22 Fire Authorities set to receive a grant increase above the level of the floor have had their grant scaled back to pay for the costs of those 9 Authorities below the floor. The floor for Fire and Rescue Authorities in 2009/10 is 0.5%. Leicestershire's formula grant was reduced by £457,472 through this process. This is the equivalent of a 2.9% increase in Council Tax.
- 8.3 The Minister for Local Government in a letter to Local Authority Leaders on the 9th December 2008 stated that "the Government expects the average council tax increase in England to be substantially below 5% in 2009/10 and we will not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases, including requiring

Authorities to rebill if that proves necessary. This message applies to all classes of Authority – including Police and Fire Authorities”. In the same letter he also stated, “as last year, I do not propose to send any further reminders about the risks of capping. The decisions are yours and the Government has now set out clearly the context in which you must take these decisions.”

Volume Standstill Budget

8.4 A detailed budget for 2009/10 is attached at Appendix 1. This budget is based on the volume standstill budget for 2009/10, which provides a neutral starting point for the production of the budget and is detailed below. The volume standstill budget updates the 2008/09 original budget for:

- Required efficiency savings (1.6%)
- Ongoing implications of previously agreed growth and savings
- Ongoing implications of the 2008/09 Revised Estimate
- Inflation to estimated 2008/09 outturn prices;
- Anticipated inflation for 2009/10;
- Pay Increments;

A summary table for 2009/10 is shown below: -

	£
Original budget 2008/09	33,763,290
Less - Below average inflation increases (<3%)	-10,650
Add - Ongoing effects of 2008/09 growth and savings	53,030
The implications of the 2008/09 Revised Estimate	115,040
- Additional Pay inflation 2008/09	324,670
- 2009/10 Inflation	632,810
- April Pay increments	49,690
- Above average inflation increases (>3%)	58,840
 Volume Standstill Budget 2009/10	 <u>34,986,720</u>

Inflation

8.5 The volume standstill budget for 2009/10 indicates that £324,670 is required to meet the estimated effects of pay inflation outstanding from 2008/09. The major part of this figure (£307,960) is to meet the full year cost of the fire-fighters pay award of 2.45% agreed from the 1st July 2008, the remainder (£16,800) is the additional cost of the interim pay award for Support Staff agreed from the 1st April 2008. The firefighters award was higher than that allowed in the 2008/09 budget (2%) and the short-term effects were included within the 2008/09 Revised Estimate.

8.6 The 2009/10 budget includes inflation of £632,810 to 2009/10 outturn prices on the following basis:

£

Firefighters	2.0% from July 2009	297,430
Retained	2.0% from July 2009	39,070
Control	2.0% from July 2009	17,190
Chief Officers	2.0% from Jan 2010	11,740
Support Staff	2.0% from April 2009	76,470
Running Costs	3.0% from April 2009	190,910
Total inflation estimate		<u>632,810</u>

- 8.7 Below average inflation increases have been identified in three areas; the actual cost of operational leases (£4,400) which do not increase with inflation; the decision of the East Midlands Regional Management Board agreeing to a no inflation increase (£4,940), and the Audit Commission have proposed a 1.25% increase in external audit fees (£1,310). Above average inflation increases have been experienced in energy costs (£58,840).

Service Pressures / Improvements

- 8.8 In order to arrive at the 2009/10 budget requirement the volume standstill budget has been decreased to reflect the growth and additional savings identified in Appendix 2. These are covered in more detail below.

Efficiency Savings

- 8.9 Fire Service Circular 58/2007 stated that an efficiency target of £110m (equivalent to 1.6% per annum) over the three 2007 Comprehensive Spending Review (CSR07) years has been set for the Fire and Rescue Service. Moving forward with this will be essential if Fire and Rescue Authorities are to continue with modernisation improvements and provide value for money to the taxpayer. Fire and Rescue Authorities (FRAs) are required to continue to report efficiencies on an individual Authority basis; but CLG will also provide a facility and guidance for Authorities to report collectively on efficiency savings delivered through the Regional Management Board.
- 8.10 Over a period of three years this Authority is expected to provide 1.6% savings per annum. As in Local Government, these must be attained without reducing the service provided, but by using more cost effective means, or by increasing output for the same input. An auditable statement has to be provided each year to the CLG. From returns already submitted this Authority has made ongoing cashable savings of £1.904m between 2005/6 and 2007/8, ahead of the CLG's previous targets. The policy of this Authority has been to reinvest any savings made into new services. In 2008/09 the Authority has achieved savings of 0.8% to date which will be reported on the Council Tax Bill and accompanying leaflets.
- 8.11 In total efficiency savings of £540,210 are required. (1.6% of the 2008/09 Original Budget). £386,260 have been identified and these are listed in

Appendix 2, with a further £153,950 efficiency savings to be identified and implemented in 2009/10 in order to meet the target in full. All are cashable efficiency savings and include the removal of long term operational leases, reduced training costs; efficiencies made by the Regional Management Board, reduced finance lease charges, better management control of pre-arranged overtime at stations, reductions in response to Unwanted Fire Signals and reduced insurance charges arising from better procurement. Another £236,840 of savings due to the delay in the 2008/09 Capital Programme are in excess of this target. However, the delays in the Capital Programme will not be accepted by the CLG in the Annual Efficiency Statement.

Direct Grants

- 8.12 CLG decided in 2008/09 not to add the Fire Prevention grant to the Formula Grant. Their view was that “the Fire Prevention grant was a pump priming grant and it was always clear that there was no commitment to continue these grants. They have been successful in creating a step change in the way Authorities work and in highlighting best practice. However Fire Prevention was about using resources more efficiently, balancing prevention, protection and response to reduce the number of fires and deaths. Authorities were told that the savings from modernisation should be reinvested in this work”. Members will also be aware £99,329 of capital funding for Home Fire Risk Checks (Smoke Alarms) was carried forward into 2008/09 but is now almost depleted. £152,750 has been included in the growth proposals in Appendix 2 for 2009/10 to cover this loss of grant and to extend the Home Fire Risk Checks to a further 37,622 households over the next 3 years.
- 8.13 An update on the New Dimension Long Term Capability Management (LTCM) Project and a three year funding allocation was announced by the CLG on the 28th July 2008 in Fire Service Circular (FSC) 36/2008. Leicestershire will receive the following funding for 2009-2011 with the possibility of further funding once the LTCM Project is completed:-

<u>Area</u>	<u>2009/10</u>	<u>2010/11</u>
Incident Response Unit Training	£36,414	£37,142
Urban Search and Rescue (USAR) Crewing	£795,000	£811,000
USAR Personal Protective Equipment Maintenance	£18,800	£18,800
USAR Timber Replenishment	£10,000	£10,000
USAR Canines	£6,600	£6,600
USAR Local Training Facility Consumables	£20,000	£20,000
USAR Oxygen	£555	£555
Total	£887,369	£904,097

- 8.14 The FiReControl National Project issued a three year New Burdens circular (FSC 5/2008) on the 17th January 2008. The circular contained information about the expected implementation funding for the FiReControl Project for the three financial years (FY) covered by CSR

2007 (i.e. FYs 2008/09, 2009/10 and 2010/11). Funding specifically allocated to Leicestershire in its own right amounted to £81,618 in 2009/10. In light of the recent announcement on the delay in implementation by a further nine months this allocation is currently being reviewed by the CLG.

- 8.15 On the 15th December 2008 CLG announced the distribution of Fire Capital Grant for 2009/10 and 2010/11. The method the CLG have chosen is to allocate £500,000 per Authority per year with the remainder distributed according to relative population. This method gives Leicestershire a total of £1,624,200 over the next 2 years. It is currently proposed to allocate this to the Central Refurbishment Project and reduce the overall costs of this to the CFA. A further capital allocation is being made available to support Authorities that choose more challenging equality and diversity targets. The CFA endorsed stretch targets at its meeting on the 10th December 2008 but these have subsequently been refused by the CLG.
- 8.16 Leicester City Council has previously provided additional grant funding for the Arson Task Force but this expired on the 31st March 2008. This loss of funding was replaced by ongoing revenue funding in 2008/09. As members are aware the City Council is expected to receive a Local Public Service Agreement (LPSA) Reward Grant and it is anticipated that the CFA will receive £60,000 of Reward Grant in 2009/10 and 2010/11. However to date no official confirmation of this has been received from the City Council and this has not been included in the 2009/10 Annual Budget. A separate report will be submitted to Policy Committee when official notification is received with detailed proposals as to how the grant will be spent.

Growth Requests

- 8.17 Members will be aware that the Authority with its tight government settlement and ongoing requirements from existing policies has limited capability of delivering any growth without it impacting upon the Council Tax bill for 2009/10. Both Policy Committee and Overview and Scrutiny Committee have been presented with modest growth requests and these are included in Appendix 2 and detailed below:-.

Retained Review – Retained Support Officers

- 8.18 Members will be aware that the Retained Review is ongoing and both it and the Integrated Risk Management Plan have identified how shortage of retained resources can impact upon the day to day operational delivery of the Service, It was agreed to fund an additional four posts to support the Retained Service on a trial basis within the Southern Group to determine if this level of additional support will enhance existing retained resources on an ongoing basis.

Carbonaceous Fire Training

- 8.19 The Capital Programme for 2008/09 and 2009/10 included the provision of Carbonaceous Fire Training (Real Fire Training). In order to support this essential training it was agreed to employ a 8 dual contract Watch Managers to support the Training Department to ensure that this facility can be fully utilised without a detrimental impact upon other essential training. It also includes an extension of the external recruit training course.

October Increments

- 8.20 Members will be aware that as part of the Support Staff review, a system of accelerated incremental progression was agreed for support staff. A provision of £38,850 has been allowed in the 2009/10 budget to recognise this ongoing commitment from the CFA.

Loss of smoke detector grant

- 8.21 £152,750 has been included in the growth proposals for 2009/10 to cover this loss of grant and to extend the Home Fire Risk Checks to a further 37,622 households over the next 3 years. These checks will be targeted using the top 5 types of identified need.

Occupational Health

- 8.22 Following the loss of the County Council Occupational Health Contract a full review has been commenced of all Occupational Health's activities. Until this review is completed it is proposed to fund the anticipated shortfall in 2009/10. A separate report will be presented to the Overview and Scrutiny Committee and the CFA proposing the future of the Occupational Health Unit.

Reduction in Investment Income

- 8.23 The CFA is not immune to the current "Credit Crunch" and as the Bank of England has reduced base rates it has led to a reduction in investment income generated by Treasury Management activities. Following a full cash flow forecast for 2009/10 it is anticipated that the CFA will see reduced investment income of £134,310

Water Hydrant Technician

- 8.24 The Retained Review has identified that in retained areas due to resource availability it has not been possible to meet targets for checking Hydrants. As this issue cannot be resolved it is proposed to employ a further Hydrant Technician to focus in this area.

Document Scanning

- 8.25 As part of the 2007/08 carry forwards approved by the CFA in June 2008 a document scanning project was initiated. This has been successful but has highlighted the need for ongoing document scanning to continue. It is proposed to create an ongoing budget of £25,000 to meet this requirement.

Positive Action

- 8.26 In order to assist in meeting the stretch equality and diversity targets required by the CLG, it is proposed to introduce a series of community based initiatives. The £10,000 proposed will be added to existing budgets to enable station based staff to fully participate in the initiatives.

Robustness of Estimates and adequacy of reserves

- 8.27 The Local Government Act 2003 requires the Authority's Treasurer to report on:
- a) The robustness of the estimates included in the budget; and
 - b) The adequacy of the proposed financial reserves

Robustness of Estimates

- 8.28 The Treasurer and the Corporate Management Board have worked closely in producing this budget. As well as agreeing certain assumptions such as inflation, all estimates have been reviewed by appropriate staff. In addition, the Corporate Management Board have identified the main risk areas in the budget and the Treasurer has evaluated these and used this information to determine the overall level of the general reserve.

Reserves and Balances

- 8.29 The budget proposed has a number of inherent risks; the risks of savings not being achieved; the possibility of all of the pay awards being greater than 2.0% (each additional 0.5% will cost the CFA £110,360 in 2009/10); charges for cross border arrangements, spending on retained services and possible further pension demands from the retained service with the ongoing appeal against exclusion from the 1992 firefighters pension scheme. In light of all of these factors it is proposed to retain the reserve at its current level of 5%. This will require no growth in 2009/10 as the current reserve is higher than this at present. The balance will be held in the unallocated General Reserve.
- 8.30 At present the CFA holds a number of earmarked reserves for other specific purposes and these are detailed below: -

Specific reserves and balances estimated as at 31st March 2009

	£
<u>CFA Reserves</u>	
Unallocated General Reserve	521,734
Occupational Health	0
Rank to Role	300,000
Insurance – Employees	129,577
Workshops renewals	1,274
Firebreak	17,523
Training Reserves	55,000
CPD Reserve	72,000
Ill Health Retirement Reserve	180,750
Relocation Reserve	34,120
FRAML Reserve	75,000
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	1,386,978
<u>Other Reserves</u>	
Prince's Trust	203,602
Total specific reserves and balances estimated as at 31 st March 2009	<u>1,590,580</u>

8.31 A brief description on the use of each of the reserves is given below: -

Occupational Health: The Occupational Health Unit operates as a business unit and any surplus made is carried forward for future developments and to offset any large one-off costs. This reserve has been used in full in meeting the Unit's anticipated deficit in 2008/09.

Rank to Role: A £300,000 reserve was created by the CFA on the 28th June 2006 to meet potential back payments arising from the rank to role exercise. This exercise has now been fully completed and it is proposed to transfer the reserve into the unallocated general reserve.

Insurance – Employees: Sufficient provision needs to be made to cover the CFA's self-insurance levels. The amount that will be required to settle claims in any one year varies significantly and therefore, is highly unpredictable. The level of reserve required is also likely to be influenced by the insurance market. In light of experience to date it is considered that the current balance is sufficient

Workshops Renewal: The workshops make an annual provision for equipment replacement. The reserve represents the balance on the fund and changes on a year-to-year basis.

Firebreak: A surplus had arisen in running the old Firebreak scheme and this had been carried forward to fund future schemes. At the CFA meeting on 17th December 2003, a report was presented on mini-firebreak schemes and it is

proposed to use this reserve to fund these and other Community Safety Schemes for young people from 2004/05 onwards. It is anticipated that the balance of £17,523 outstanding at 31st March 2009 will be used to support community safety initiatives in 2009/10.

Training: £85,000 was transferred into a specific training reserve in 2004/05 to cover two specific areas of one-off training in 2005/06. £50,000 was to be spent on management training to continue to develop the skills of the existing workforce. £35,000 was allocated to allow the Technical Rescue Team the specialist training they required at the Fire Service college and which had been funded by the CLG. Both sets of training requirements have now been completed and it is proposed to hold the balance to support the 2009/10 training budget if required.

CPD Reserve: Members will be aware that the LSI payments were reduced from 1st October 2006. The introduction of CPD has now been agreed and it is proposed to transfer the reserve into the unallocated general reserve.

Ill Health Retirement Reserve: This was created as part of the 2007/08 budget and is required to support the costs to the CFA following ill health retirements. At present the reserve is still sufficient but may need to be replenished in 2010/2011.

Relocation Reserve: This was created as part of the 2007/08 budget and will be used in 2009/10 to support the relocation of newly appointed staff. At present the reserve is still sufficient but may need to be replenished in 2010/2011.

Fire and Rescue Authorities Mutual Limited (FRAML) Reserve: This was created by the CFA as part of the 2007/08 Revised Estimate. It protects the CFA in the event of higher than anticipated funding demands by FRAML. At present it is not anticipated that this will be required in 2009/10 as FRAML is currently dormant.

Prince's Trust: The Prince's Trust has run as a separate entity for a number of years and any surpluses have been carried forward to protect the Trust against future losses.

Council Tax

- 8.32 In the final settlement announcement the taxbase (Band D equivalents) provided by CLG was 317,794 compared to the figure used for 2008/09 of 311,292.98 (2.09% higher). Information has now been received from the 2 Unitary Authorities and the 7 District Councils, which have allowed a more accurate calculation of the Property Tax Base for 2009/10 to be calculated, and this is detailed in Appendix 3. The total, 313,311.07 is less than the CLG estimate but is still an increase of 0.65%. This still equates to an increase of 2,018.09 and would generate an additional £100,559 of Council Tax without any increase in the rate.

- 8.33 Additional funding is available through the CFA benefiting from surpluses on the collection funds of the billing authorities. This is expected to generate additional one-off funding for the CFA of £21,214 in 2009/10. This is £12,647 lower than in 2008/09.
- 8.34 The agreed budget for 2009/10 has been compared to the actual council tax for 2008/9 and these are detailed below.

	<u>2008/09</u>	<u>2009/10</u>
	£	£
Total budget requirements	33,763,290	34,937,090
Funded by: -		
Formula Grant	18,207,109	18,525,875
Collection Fund Surplus	33,861	21,214
Precept	15,511,294	16,236,313
Use of reserves	11,026	153,688
	<u>33,763,290</u>	<u>34,937,090</u>
Property Tax Base	311,292.98	313,311.07
Band D Council Tax	£49.83	£51.82
Proposed Council Tax Increase	4.94%	4.00%

- 8.35 The agreed increase meets the governments desire to achieve a council tax increase of below 5%. In absolute terms, the level of the council tax is low compared to other CFAs and any proposal to cap the increase would not produce a significant reduction in council tax bills. It is therefore considered that if any action were taken by the CLG then it would probably designate the CFA whereby it would prescribe the level of council tax in 2010/11, although this is considered extremely unlikely.

Medium-Term Financial Plan

- 8.36 The 2004/05 budget setting process had to take account, for the first time, of the medium-term financial position. This has been continued in 2009/10 and is required under the Prudential Code and helps to support the CFA's corporate planning process. In order to look at the likely position for future years it has been necessary to make a number of assumptions in respect of both income and expenditure. Appendix 4 sets out projected expenditure and income for 2010/11 and 2011/12 for the CFA. This has not been assisted in 2009/10 as the CLG has only announced a provisional settlement for 2010/11 only.
- 8.37 The Minister for Local Government announced his intention in 2008 "to take advantage of the next three years to conduct a full review of the area cost adjustment" and "to conduct a thorough review of the formula". On the 21st January 2009 the CFA was given a provisional increase of 1.7% (£320,411) in 2010/11. Appendix 4 assumes that this figure will be

reflected in practice and assumes a 0.5% increase in 2011/12 (the current floor).

8.38 In terms of expenditure, an allowance has been included for increments and for pay and price inflation. 2% has been used for estimated pay inflation. For all other running costs 3% has also been used for the medium term financial plan.

8.39 The medium-term plan reflects the future year's effect of the proposed growth for 2009/10 and the Capital Programme for 2009 - 2012. In addition to this the significant cost and demand increases and service developments over the medium term are forecast to be: -

- Firefighters Pension Scheme: This is due to be revalued in April 2010. At present CLG anticipate an increased employers contribution. This could cost £229,100 in a full year.
- Birstall: At present the crewing options and running costs for Birstall have not been identified. The Medium Term Financial Strategy assumes Wholtime Crewing of 4 watches of 7 firefighters. Running costs are assumed to be similar to Coalville Station.
- National Insurance: The Chancellor has announced increased Employer's National Insurance Contributions of 0.5% from April 2011.
- North Review: The medium term financial plan assumes that any additional expenditure will be funded through increased efficiencies.
- Cross Border Arrangements. It has not been possible to anticipate the cost in 2009/10 and this will have to be met from reserves. A more detailed allocation will need to be included in the 2010/11 and 2011/12 budgets.
- Firelink / FiReControl: It is anticipated that there may be additional ongoing costs arising from these projects in 2010/11 and 2011/12 but that these will be offset in full by increased CLG funding.
- General Reserve: The medium term financial plan assumes that the General Reserve will be maintained at 5% until 2011/12.
- Other Growth and savings: Requirements will emerge in this period, from national requirements, legislation and local initiatives. No allocation has been made for these in 2010/11 or 2011/12.

These can only really be considered 'best estimate' at this stage.

8.40 CSR07 provided for savings to be made both in central and local government from efficiencies. Over CSR07 an annual sum equal to 1.6% of each Fire and Rescue Authority's expenditure budget will have to be found as cashable efficiency savings. The medium-term financial plan

indicates that additional efficiency savings will have to be made in 2010/11 and 2011/12 to balance the books.

- 8.41 It has been assumed that the Council Tax Base will continue to grow in the medium term. The CLG have assumed increases of 0.8% per year. However, as stated earlier, their view of the Council Tax base is over ambitious. For the medium term financial plan the growth assumed 0.5% has been based on the current growth in 2008/09 reported by the Districts and Unitaries.
- 8.42 These uncertainties make it difficult to forecast over the medium term. However, there will be strong national and local pressures for council tax increases to continue to be at a reasonable level. At present it is envisaged that future Council Tax increases will be in the region of 5%. These forward estimates are not fixed and do not commit the Authority.

Capital Programme

- 8.43 A final capital programme for 2009/10 to 2011/12 is attached as Appendix 5. The final programme reflects previous CFA decisions on a number of projects. In 2008/09 the programme was funded through a mixture of Supported Capital Expenditure, Prudential Borrowing and Capital Receipts. Leicestershire's allocation of Supported Capital Expenditure for 2009/10 is £1,031,000 and was announced as part of the revenue support grant settlement. The allocation increases to £1,061,000 in 2010/11. This figure has also been assumed for 2011/12.
- 8.44 The prudential code for capital finance was introduced in April 2004. The code abolishes detailed central government controls on capital expenditure and replaces these with a requirement to ensure that capital expenditure plans are affordable, prudent and sustainable. The Capital Programme assumes there will be unsupported Capital Expenditure that will be funded through prudential borrowing and that there will be an impact on Council Tax resulting from the unsupported capital expenditure over the three year life of the programme and this is shown in Appendix 6. The medium-term financial plan reflects that the capital programme is affordable, prudent and sustainable in 2009/10 but may require efficiency savings in 2010/11 and 2011/12.

Vehicles

- 8.45 In December 1999, the Authority approved a ten-year plan for replacing the Service's fleet of fire appliances. Currently, there are 37 operational appliances, 30 front line with the remaining in training or reserve. The ten-year plan has been implemented in full and for 2009 – 2012 replaces vehicles in line with the Asset Management Plan based on current estimated costs increased by 5% inflation in future years.
- 8.46 In 2009/10 it is intended to purchase a specialist training vehicle to meet the Driving Standards Agency's new requirements. In 2011/12 it is

planned to replace a Heavy Rescue Unit in line with the Asset Management Plan. A further £50,000 will be required for the Hose Layer in 2010/11 to meet increased costs due the value of the Euro.

Property

- 8.47 At the CFA in December 2008 members agreed to carry forward funding for the refurbishment work at Central Fire Station. The amounts included in the final Capital Programme for this year reflect the actual costs reported to Policy Committee on the 18th March 2009 following the completion of the ongoing tender.
- 8.48 Members will be aware of the current proposals for the Birstall development and the Capital Programme is based on estimated capital costs provided by Pick Everards. These have been reworked to reflect the changed design. In order to proceed with the development the Medium Term Financial Strategy clearly indicates that a number of efficiencies will have to be achieved as it cannot be funded entirely by increased funding levels.
- 8.49 As part of the FiReControl Project a number of enabling works have been identified that need to be made at Stations, including the provision of lightening protection. Pressure is being sustained at a national level that these costs are new burdens to FRAs and it is hoped that CLG funding will be forthcoming for this work.
- 8.50 There are a number of stations that are clearly in need of refurbishment. The constant pressure on the maintenance budget has highlighted this. A scheduled station refurbishment programme was agreed in 2004/05 to address these issues. Provision is also made for the development of community facilities at stations. A further station refurbishment is now planned for 2010/11 following the work at Central and Birstall, although this may need to be reviewed in line with the Northern Review.

Replacement Finance System

- 8.51 The CFA agreed in December 2008 to carry forward funding of £120,000 for the replacement finance system. This project is for the procurement and implementation of a suitable system for Leicestershire, Nottinghamshire and Derbyshire. It is anticipated that this will be fully operational by December 2009.

IT Infrastructure

- 8.52 To continue building upon the improvements to the Service's ICT infrastructure it is proposed to provide a further capital allocation of £50,000 for this work to be ongoing in 2009/10. It is also proposed to allow £50,000 per year throughout the remainder of the capital programme. Where opportunities for external funding are identified to

assist this process, any funds obtained would also be utilised for this purpose.

Operational Equipment

- 8.53 There are a number of items of operational equipment that need to be purchased and reflect the continuing modernisation of the fire service. The replacement of gas tight suits is planned over a five year period and an annual provision of £14,130 has also been made in 2009/10 and 2010/11. The provision has been increased to £15,580 in 2011/12. In addition £50,000 has been allocated for the provision of hand held lamps in 2010/11.

Training

- 8.54 £96,550 has been allocated in the 2008/09 Capital Programme to introduce Carbonaceous Fire Training within the Service. In order to make this unit fully operational £43,000 of essential equipment is required (notably breathing apparatus and a compressor). In December the CFA agreed to carry forward £186,183 into 2009/10 to introduce a New Dimensions training rig as required by the Government. This cost has been met in full through a capital grant already provided by the CLG.

Capital Receipts

- 8.55 Provision is also made in the draft Capital Programme for capital receipts totalling £2.8m towards the cost of the new Headquarters at Birstall. However, if the capital receipts are delayed, any balance of the programme still requiring funding will be met from borrowing under the prudential code provided that it is affordable within the approved estimate or if not this could necessitate a re-approval of the programme.

Prudential Code

- 8.56 The code requirement for all Authorities to produce a medium-term financial plan has been addressed through the budget process and a draft financial plan is attached in Appendices 1, 4 & 5. A number of key indicators are required by the prudential code, along with limits on borrowing levels. These are detailed in full in Appendix 6.

Treasury Policy

- 8.57 Attached, as Appendix 7 to this report is the proposed Treasury Policy Statement. This is based in parts on the County Council's Policy Statement, which was agreed in March 2005 as part of their budget setting process.
- 8.58 Due to the timing of receipts and payments the CFA will have cash available for temporary investment. The available cash will be relatively small (in market terms) but it can be placed on the overnight money

market and competitive rates of interest and corporate accounts have been opened at the Bank of Scotland, Bank of Ireland and the Allied Irish Bank to enable this to happen. In 2009/10, where it is possible to place the cash at a more attractive rate, either overnight or for a longer period with the institutions included in the proposed Treasury Policy Statement, this will be pursued.

- 8.59 The guiding principle of the current CFA policy is that security of the sum invested must be of paramount importance and any future changes will not compromise this principle.

Annual Investment Strategy 2009/10

- 8.60 In general the policy will be to invest with the approved institutions set out in the Treasury Policy Statement and to attempt to secure the best possible return for the period consistent with cash flow requirements. Short-term borrowing to cover temporary shortfalls may occasionally be necessary.
- 8.61 On the 12th March 2004 the then Office of the Deputy Prime Minister issued guidance, which effectively increased the range of investment options available for local authorities, including Combined Fire Authorities. It is clear from the guidance that it is expected that the full Authority should agree an Annual Investment Strategy in advance of the financial year.
- 8.62 Other than increasing the options in respect of investment opportunities, the most significant aspect of the guidance is to split investments into 'specified' and 'non-specified' categories. In general specified investments can be classified as investments that have a high credit rating, are extremely liquid and have a maturity date of less than one year. Non-specified investments carry a higher degree of risk, although it is clearly stated in the guidance that 'there is no intention of discouraging Authorities from using non-specified investments ... simply to ensure that proper procedures are in place for undertaking risk assessments'.
- 8.63 There are a number of additional areas where it is anticipated that attractive investment opportunities may, on occasions, become available. In both of these cases there is no meaningful increase in risk, and the investment could not be considered as anything other than prudent. The additional opportunities that are suggested are described, in summary form, below.

Money Market Funds (MMFs)

- 8.64 The County Council has used MMFs effectively for the last five financial years, and the ones used have had the highest possible credit rating and daily liquidity. Some providers also run MMFs that require a short notice period (usually next day redemption), as their underlying investments are marginally less liquid due to the higher performance objective of the

Fund. It is these slightly less liquid, but still highly credit rated, MMFs for which approval is now sought – within the table shown later in this report both ‘types’ of MMFs are listed as a single investment category.

Loans over 1 year

- 8.65 As a non-debt free authority it has never been possible previously to lend for more than 364 days. Exposure to highly credit rated counterparties for periods of over 1 year does not bring any meaningful increase in risk and, therefore, the availability of the option may on occasions prove a useful tool to carry out effective treasury management.

Full list of Investments for which Approval is sought

Investment	Repayment with 12 months	Level of Security	Maximum Period	(1) Maximum % of Investment
Term deposits with UK Local Authorities with maturities up to 1 year	Yes	LAs do not have credit ratings, but high security	1 year	50
Term deposits with credit-rated institutions with maturities up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100
Money Market Funds	Yes	At least as high as acceptable credit-rated Banks	Dependent on cash flow requirements	75
* Term deposits with credit-rated institutions with fixed maturities greater than 1 year (includes forward deals)	No	Varied acceptable credit ratings but high security	3 years	25

*Non-specified investments

(1) As value of investments is variable, limit applies at time of agreeing investment. Subsequent changes in the level of investment will not be classed as breach of any limits.

Treasury Management Strategy for 2009/10

- 8.66 The suggested strategy for 2009/10 is, in common with previous years, based on the premise that the minimisation of long-term net interest costs is best achieved by retaining sufficient flexibility to react to changes in short, medium and long-term interest rates.

- 8.67 Investment markets have a tendency to over-exaggerate the long-term impact of short-term economic data. The anomalies thrown up by this over-emphasis on short-term trends can create opportunities, and it would be counter-productive to set any strategy, which made it difficult to act on these opportunities.
- 8.68 The Strategy covers:
- Current portfolio position
 - Prospects for interest rates 2009/10
 - Borrowing strategy 2009/10
 - Extent of debt rescheduling opportunities
 - Investment strategy

Current Portfolio Position

- 8.69 At the 31st March 2008 the CFA had an external debt portfolio of £4.972m. All of this debt was raised via the Public Works Loan Board (PWLB) and is at fixed rates. The average interest rate is 4.907%. The majority of this debt (£4.632m) (93.2%) will not mature for at least 15 years, thereby giving a very stable debt financing position. In addition finance leases totalling £0.753m were agreed in 2007/08. With a further capital financing requirement of £0.876m in 2008/09, further borrowing may need to be entered into during 2008/09.
- 8.70 The Fire Authority holds cash balances as a result of in-year reserves and provisions and the timing of cash flows. These cash balances are variable, with the timing of the raising of loans in relation to capital expenditure being of particular importance, and between 1st April 2008 and 31st January 2009 the balances were at a maximum of £11.042m and an average of £7.310m.

Prospects for Interest Rates

- 8.71 Bank base rates are currently at a historical low level of 1.50%, having decreased in rapid steps from their April 2008 point of 5.25%. The last rate change was in January 2009 which reduced rates to their current level and economic commentators believe that rates will fall further during the current cycle and the current consensus is that rate will remain within a very tight band of the current level for at least the next year.
- 8.72 Current rates at which the Authority can borrow money for different maturity periods are very different, with a 1-year loan being at 1.06% and a 50-year loan standing at 4.55%. These are higher than anticipated considering the current base rate. It is anticipated that these will fall once the financial markets are stabilised.

Sensitivity to Interest Rates

- 8.73 The Fire Authority's external debt portfolio is all at fixed rates of interest and is, therefore, not influenced by either long or short-term interest rate

movements. Cash available for lending is at variable rates with the degree of variability linked closely to bank base rates.

- 8.74 In reality the raising of new loans will be almost entirely dependent on how attractive interest rates are and it is possible that no new debt will be raised, as the Authority's cash flows are sufficient to cover the capital expenditure in the short-term – the effective cost in this circumstance being the loss of interest in investments. Alternatively, interest rates available may be particularly attractive and all financing for the year may be raised.

Borrowing Strategy 2009/10

- 8.75 The critical factor of the borrowing strategy is the view on interest rates and how they are likely to move in the future. The strategy will therefore be to continuously review the position on interest rates, in order to determine whether and, if so, when it is beneficial to borrow up to the limit of available funding. The relative level of interest rates between short and long-term loans will ultimately influence the borrowing strategy. All borrowing decisions will be taken in the best long-term interests of the Authority. Potential short-term savings that will bring unduly high risks will not be considered.
- 8.76 The most likely source of borrowing will be the PWLB, although short/long term borrowing from financial institutions via the London Money Market will be considered in the unlikely event that the terms offered are advantageous. If operating or financial leases continue to be an attractive option for either financial or operational reasons, they will be actively considered.

Extent of Debt Rescheduling Opportunities

- 8.77 Debt rescheduling involves repaying existing debt and replacing it with new debt with a different maturity period. It is most likely to take place when there are sizeable differences in the 'yield curve' – for example when medium-term borrowing is much more expensive than long term borrowing.
- 8.78 The long period to maturity that the majority of the debt portfolio has, means that debt rescheduling is only likely to be attractive at times that longer term rates increase. The increase that would be required from current levels means that debt-rescheduling opportunities do not currently appear likely.

Investment Strategy

- 8.79 The policy will be to invest with the approved institutions set out in the Treasury Policy Statement, and in line with the instruments agreed as part of the Annual Investment Strategy. Attempts will be made to secure the best possible return for the period that is consistent with cash flow

requirements, although short-term borrowing to cover temporary shortfalls may occasionally be necessary

Changes in Strategy

8.80 The implementation of the Treasury Management Policy is delegated to the Treasurer. Any material changes in the Strategy will be agreed by the Treasurer and reported subsequently, usually in the annual report on Treasury Management activities.

9. Recommendation(s)/Proposal(s)

9.1 It was agreed that:

- i) The volume standstill budget for 2009/10 is set at £34,986,720. Paragraph 8.4 shows the budget calculation in detail.
- ii) The total budget requirement of £34,937,090 is based on the Volume Standstill budget adjusted for the growth and savings items listed in Appendix 2.
- iii) The Combined Fire Authority's Band D Council Tax for 2009/10 is set at £51.82. Appendix 3 sets out the figure for all bands.
- iv) The Treasurer be authorised to issue the necessary precepts to billing Authorities in accordance with the budget requirement above and the tax base notified by the billing Authorities, and to take any other action, which may be necessary to give effect to the precepts.
- v) The medium term financial position, shown in Appendix 4, be noted
- vi) That approval is given to the capital programme as set out in Appendix 5.
- vii) That the financial indicators required under the prudential code set out in Appendix 6 are noted and that the following limits will need to be approved.

	<u>2009/10</u> <u>£000</u>	<u>2010/11</u> <u>£000</u>	<u>2011/12</u> <u>£000</u>
Authorised limit for external debt: -			
i) Borrowing	19,205	20,827	20,656
ii) Other long term liabilities	5,246	4,894	5,330
Operational boundary for external debt: -			
i) Borrowing	18,301	19,920	17,856
ii) Other long term liabilities	5,246	4,894	5,330

The following borrowing limits are approved for the period 2009/10 to 2011/12.

- a) Upper limit on fixed interest exposures 100%
- b) Upper limit on variable rate exposures 30%
- c) Maturity of borrowing

	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- viii) The Treasurer is allowed to enter into such loans as necessary to finance capital payment in 2009/10, subject to appropriate prudential limits.
- ix) That approval is given to the proposed Treasury Management Strategy for 2009/10, outlined in the report.
- x) That £300,000 is transferred from the Rank to Role Reserve and £72,000 from the CPD Reserve into the unallocated General Reserve

10. Background Papers/Meetings

- 10.1 Medium Term Financial Strategy 2008/11 (Paper 11 CFA 13th February 2008)
- 10.2 Statement of Accounts for 2007/08 (Paper 14 CFA 25th June 2008).
- 10.3 2008/09 Revenue Budget Revised Estimate (Paper 11 CFA 10th December 2008).
- 10.4 2009/10 Annual Budget (Paper 12 Policy Committee 14th January 2009).
- 10.5 2009/10 Annual Budget (Paper 8 Overview and Scrutiny Committee 29th January 2008).
- 10.6 Medium Term Financial Strategy 2009/12 (Paper 11 CFA 11th February 2009)
- 10.7 2009/10 Annual Budget (Paper 12 Policy Committee 18th March 2009)
- 10.8 Contract Award – Refurbishment of Central Fire & Rescue Station (Paper 18 Policy Committee 18th March 2009)

LEICESTER, LEICESTERSHIRE AND RUTLAND COMBINED FIRE AUTHORITYREVENUE ESTIMATE 2009/10

	VOLUME STANDSTILL 2009/10 £	SAVINGS £	GROWTH £	PROVISIONAL ESTIMATE 2009/10 £
EMPLOYEES	28,432,050	-165,220	313,860	28,580,690
FIRE PENSIONS	125,290	0	0	125,290
INDIRECT EMPLOYEES	962,160	-71,920	0	890,240
PREMISES	1,623,330	0	0	1,623,330
TRANSPORT	1,350,540	-64,060	0	1,286,480
SUPPLIES AND SERVICES	2,584,070	-207,420	279,250	2,655,900
SUPPORT SERVICES	190,490	0	0	190,490
SERVICES TO THE CFA	92,390	0	0	92,390
CAPITAL FINANCING	1,191,610	-268,430	0	923,180
GROSS EXPENDITURE	36,551,930	-777,050	593,110	36,367,990
INCOME	-1,565,210	0	134,310	-1,430,900
TOTAL EXPENDITURE	34,986,720	-777,050	727,420	34,937,090
CONTRIBUTION TO GENERAL RESERVE	0	0	0	0
TOTAL BUDGET REQUIREMENT	34,986,720	-777,050	727,420	34,937,090
TOTAL GENERAL RESERVE				1,746,850

CFA Growth and Savings 2009/10**Appendix 2**

	2009/10	2010/11	Establishment
	£	£	Changes
<u>CLG Efficiency Savings</u>			
Appliance Leasing	29,590		
Training	50,000		
Regional Management Board Contribution	53,470		
Capital Finance Lease Charges	31,590		
Reduced vehicle insurance costs	34,470		
Reduced employee insurance costs	21,920		
Reduction in Unwanted Fire Signals	37,000		
Devolved pre arranged overtime	128,220		
	<u>386,260</u>		
Plus balance of 1.6% efficiency savings	153,950		
	<u>540,210</u>	0	<u>0.0</u>
Capital Financing Charges	<u>236,840</u>		
	<u>777,050</u>		
<u>Other Service Pressures / Improvements</u>			
Retained Review - Retained Support Officers	140,010		4.0
Carbonaceous Fire Training	100,000		1.0
October Increments	38,850		
Loss of Smoke Detector Grant	152,750		
Occupational Health	101,500	-101,500	
Reduction in Investment Income	134,310		
Water Hydrant Technician	25,000		1.0
Document Scanning	25,000		
Positive Action	10,000		
	<u>727,420</u>	<u>-101,500</u>	<u>6.0</u>
Net saving	-49,630		6.0

Effect of CFA's Budget Decision on 2009/10 Council Tax (4%)

Band (April 1991 Value)	Proportion of Band D	CFA Council Tax £
A (Up to £40,000)	6/9	34.5478
B (£40,001 to £52,000)	7/9	40.3058
C (£52,001 to £68,000)	8/9	46.0637
D (£68,001 to £88,000)	1	51.8217
E (£88,001 to £120,000)	11/9	63.3376
F (£120,001 to £160,000)	13/9	74.8536
G (£160,001 to £320,000)	15/9	86.3695
H (Over £320,000)	2	103.6434

Precept Levels 2008/09

Authority	Tax Base	Precept £
Blaby	31,222.28	1,617,992
Charnwood	53,391.30	2,766,828
Harborough	31,961.20	1,656,284
Hinckley & Bosworth	36,773.10	1,905,645
Leicester City	78,299.00	4,057,587
Melton	18,260.00	946,264
North West Leicestershire	31,121.00	1,612,743
Oadby & Wigston	17,883.28	926,742
Rutland	14,399.91	746,228
Total	313,311.07	16,236,313

CFA Draft Financial Plan 2010/11 to 2011/12**Appendix 4**

	2010/11 £	2011/12 £
Initial Budget	34,937,090	36,870,310
Efficiency Savings (1.6%)	-558,990	-589,920
Full year effect of growth and savings	-101,500	0
Increments	88,540	88,540
Estimated Inflation	772,280	784,720
Capital Programme	1,006,100	183,280
Firefighters Pension Revaluation	229,100	0
Appliance leasing	-63,650	-44,550
Birstall Staffing	561,340	481,240
National Insurance Contributions	0	55,410
	<u>36,870,310</u>	<u>37,829,030</u>
Contribution to General Reserve	96,670	47,930
Total Budget Requirements	<u>36,966,980</u>	<u>37,876,960</u>
Funded by:-		
Formula Grant	18,839,778	18,933,977
Council Tax	17,123,581	18,095,286
Unallocated General Reserve	901,074	0
Funding deficit	102,547	847,697
	<u>36,966,980</u>	<u>37,876,960</u>
5% General Reserve @ 1 April	1,843,520	1,891,450
Unallocated General Reserve	0	0
Council Tax Base	314,877.63	317,081.77
Band D Council Tax	54.3817	57.0682

CFA Draft Capital Programme 2009/10 - 2011/12

	2009/10	2010/11	2011/12
	£	£	£
Replacement Tenders	909,041	0	751,663
Specialist Vehicles	36,500		143,325
Hose Layer	50,000	0	0
Central Fire Station Refurbishment	4,100,461	0	0
Birstall Development - Station	3,674,940	1,028,120	0
Birstall Development - Headquarters	4,545,060	1,271,880	0
Replacement Finance System	120,000	0	0
ICT Developments	50,000	50,000	50,000
Firelink Control Enabling Works	100,000	0	0
Operational Equipment (Gas Tight Suits)	14,130	14,840	15,580
Operational Equipment (Hand Held Lamps)	0	50,000	0
Carbonaceous Fire Training	45,000	0	0
New Dimensions Training	186,328	0	0
Station Refurbishment	0	0	1,000,000
	<u>13,831,460</u>	<u>2,414,840</u>	<u>1,960,568</u>
 <u>Funded by:</u>			
Supported Capital Expenditure	1,871,262	1,061,000	1,061,000
Capital Receipts	0	0	2,800,000
CLG Grant - New Dimensions Accommodation	186,328	0	0
CLG Capital Grant	717,237	906,963	0
	<u>2,774,827</u>	<u>1,967,963</u>	<u>3,861,000</u>
 <u>Prudential Borrowing</u>			
Finance Lease	995,541	0	894,988
Other prudential borrowing	10,061,092	446,877	-2,795,420
Total prudential borrowing	11,056,633	446,877	-1,900,432

PRUDENTIAL CODE

1. The Capital Programme and the key indicators that highlight both the affordability and sustainability of the Programme are shown in the table below: -

	<u>2007/08</u> <u>Actual</u> <u>£000</u>	<u>2008/09</u> <u>Estimate</u> <u>£000</u>	<u>2009/10</u> <u>Estimate</u> <u>£000</u>	<u>2010/11</u> <u>Estimate</u> <u>£000</u>	<u>2011/12</u> <u>Estimate</u> <u>£000</u>
Capital Programme	2,028	3,159	13,873	2,415	1,961
Capital financing requirement	7,986	10,578	23,306	24,025	22,397
Ratio of financing costs to net revenue stream	1.54%	1.74%	2.72%	3.94%	3.94%
Impact of Prudential Borrowing on Band D Council Tax	£1.58	£1.90	£3.04	£4.58	£4.71

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. This is different from the Authority's borrowing requirement as no distinction can be made between revenue cash and capital cash when undertaking day to day cash management. As a result external borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending.

2. The capital financing requirement is increasing in absolute terms over the period 2007/08 to 2011/12. This is a reflection of the relatively large carry forward of expenditure in the capital programme for 2009/10 and reflects the CFA's desire to invest beyond the supported capital expenditure levels in the medium term.

As a ratio of revenue stream the capital financing requirement is projected to increase over the period reflecting the CFA's desire to apply prudential borrowing. The overall ratio remains within acceptable limits for an Authority of this size.

A key indicator of affordability is the impact of capital expenditure on Council Tax. This indicator shows the marginal impact of unsupported borrowing (borrowing that is not supported by Central Government resources) on Council Tax. For the period 2007/08 to 2011/12 the Authority plans to enter into prudential borrowing and by 2011/12, £4.71 of the CFA's Council Tax for a Band D property will potentially be attributable to prudential borrowing.

3. CIPFA's Prudential Code of Capital Finance in Local Authorities includes the following as a key indicator of prudence:

'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 Authority will have no difficulty meeting this requirement for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

4. In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. The CFA is asked to approve these limits. Any changes made will be reported to the CFA at its next meeting following the change.

Authorised limit for external debt

	<u>2008/09</u> <u>£000</u>	<u>2009/10</u> <u>£000</u>	<u>2010/11</u> <u>£000</u>	<u>2011/12</u> <u>£000</u>
Borrowing	12,328	19,205	20,827	20,656
Other long term liabilities	3,163	5,246	4,894	5,330
TOTAL	15,491	24,451	25,721	25,986

These authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example, delay in the completion of asset sales. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

5. The Authority is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow, for example, for unusual cash movements, and equates to the maximum of external debt projected by this estimate. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Any changes will be reported to the Authority at its next meeting following the change.

Operational boundary for external debt

	<u>2008/09</u> <u>£000</u>	<u>2009/10</u> <u>£000</u>	<u>2010/11</u> <u>£000</u>	<u>2011/12</u> <u>£000</u>
Borrowing	10,496	18,301	19,920	17,856
Other long term liabilities	3,163	5,246	4,894	5,330
TOTAL	13,659	23,547	24,814	23,186

The Authority's actual external debt at the 31st January 2009 was £5.728m; comprising totally of long-term borrowing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the CFA is asked to note that the authorised limit determined for 2009/10 (see paragraph above) will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Treasury Management Indicators

6. The Local Government Act 2003 requires the CFA to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as required indicators in respect of treasury management: -

- a) Upper limits on fixed interest and variable rate exposures.
- b) Upper and lower limits for the maturity structure of borrowings.
- c) Upper limit for principal sums invested for periods longer than 364 days.

7. After reviewing the current situation and assessing the likely position next year, the following limits are recommended: -

- a) An upper limit on fixed interest rate exposures for 2009/10, 2010/11 and 2011/12 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2009/10, 2010/11 and 2011/12 of 30% of its net outstanding principal sums.

This means that the Treasurer will manage fixed interest rate exposures within the range 70% to 100% and variable interest rate exposures within the range 0% to 30%. This is a continuation of current practice.

- b) Upper and lower limits for the maturity structure of its borrowings 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:

	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	70%	0%
10 years and above	100%	25%

The Combined Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

TREASURY POLICY STATEMENT 2009/10

1. **SCOPE**

This policy statement encompasses the following activities, which together comprise the Treasury Management function:

- Short and Long-Term Borrowing.
- Short and Medium-Term Lending.
- Capital Financing other than borrowing (including leasing and other credit arrangements).
- Overall management of cash resources.

2. **ROLES IN RELATION TO TREASURY MANAGEMENT**

The Combined Fire Authority will agree the overall Treasury Management policy. It will also agree the Annual Treasury Management Strategy and Annual Investment Strategy, which will be incorporated into a single Strategy document. The Treasurer and his staff will implement the strategy and act in accordance with the policy except in exceptional circumstances, which will be reported to the Combined Fire Authority.

3. **APPROVED SOURCES AND METHODS OF BORROWING/ FINANCING**

- Public Works Loan Board (PWLB).
- All Banking Institutions on the Bank of England's official list using loan instruments and other credit arrangements.
- All leasing companies.

4. **APPROVED ORGANISATIONS FOR LENDING**

<u>Institution</u>	<u>Maximum Loan / Period of Loan</u>
UK Clearing Banks	£5m/36 months (subject to acceptable credit rating)
Subsidiaries of Clearing Banks	£5m/6 months (limit of £15m to any Clearing Bank Group)
Foreign Banks (subject to a £5m Country limit)	£5m/36 months depending on credit rating (which in all cases must be at least as good as the UK Clearing Banks)
Building Societies (mainly largest)	£5m/3 months depending on size of asset base/credit rating
Money Market Funds	£10m limit Very highly credit rated funds only

UK Local Authorities £10m/12 months

Institutions will be removed from the list where there are any doubts about their security.

5. **POLICY ON DELEGATION**

The implementation of all Treasury Management activities is delegated (under the current Scheme of Delegation) to the Treasurer. The policies set out in this statement will be observed other than in exceptional circumstances when changes in policy will be approved by the Treasurer of the Fire Authority.

6. **REPORTING ARRANGEMENTS**

A review of the Treasury Management policy and the proposed strategy for the forthcoming year will be undertaken and reported to the Combined Fire Authority.

There will be an annual report of Treasury Management activities of the previous financial year produced for the Policy Committee before the end of May.

7. **POLICY ON EXTERNAL MANAGERS**

The current policy will be not to employ external managers other than to the extent that a Money Market Fund could be classified as an external manager.