REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY**
DATE:	**21st FEBRUARY, 2008**
REPORT NO.	**CFO/52/08**
REPORTING OFFICER:	**EXECUTIVE DIRECTOR OF RESOURCES**
CONTACT OFFICER:	**MR. KIERAN TIMMINS, EXT. 4202**
OFFICERS CONSULTED:	**EXECUTIVE LEADERSHIP TEAM**

Merseyside Fire and Rescue Authority Budget and Financial Plan 2008/2009- 2012/2013

Merseyside FIRE & RESCUE SERVICE

Beacon Authority 2004-2005 Services for Older People

Beacon Authority 2006-2007 Early Intervention (Children at Risk)

Purpose of Report

1. To present information to allow members to set a medium term financial plan – both capital and revenue – that allocates resources in line with the Authority's strategic aims and ensures that the Authority delivers an efficient, Value for Money service. This will also allow the Authority to determine a budget for 2008/2009 and a precept level in line with statutory requirements.

Recommendation

2. Members consider this report and:-

   a) Confirm their strategy on balances and the level of balances and reserves they consider appropriate for the forthcoming and future financial years.
   b) Decide the level of precept they wish to set for 2008/2009 and any strategy for precepts they wish to adopt for future years
   c) Choose the growth and savings options they wish to support to deliver a balanced Medium Term Financial Plan.
   d) Confirm the capital strategy and investment strategy they wish to adopt for 2008/2009 and future years.
   e) Note the prudential indicators relating to the proposed capital programme and agree the Treasury management indicators set out in the Treasury Management Strategy for

      i. External Debt
      ii. Operational Boundary for Debt
      iii. Upper limits on fixed interest rate exposure
      iv. Upper limits on variable rate exposure
      v. Limits on the maturity structure of debt
      vi. Limits on investments for more than 364 days

Information

3. The Authority is required to determine its budget and precept level for 2008/2009 by 1 March 2008.

4. This report will present all the necessary financial information in a single report. This report considers:-

   Forecast Estimates
   The proposed Capital Programme
   Savings and Growth Options
   The Treasury Management Strategy

5. Enabling all the financial issues to be taken into account in a single report ensures that the Authority can:-

   a) Consider the borrowing freedoms available under the prudential code
   b) reflect best practice
   c) provide value for money
   d) focus on the link between capital investment decisions and revenue budgets
   e) continue developing their strategic financial planning

6. The following report structure will be adopted:-

A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1 March 2008.

8. The budget and financial plan should allocate resources in line with corporate priorities. The key aims of Merseyside Fire and Rescue Authority are set out in its Integrated Risk Management Plan and may be summarised as

Our Vision - **To make Merseyside a safer, stronger, healthier community.**

Our Mission - **To work in partnership to provide an excellent, affordable service to all the diverse communities of Merseyside that will:**

Reduce risk throughout the community by protective community safety services.

Respond quickly to emergencies with skilful staff who reflect all the diverse communities we serve.

Restore, maintain and improve the quality of life in our communities.

Revenue Forecasts

9. A five year financial revenue estimate has been prepared based upon the assumptions set out in the report. This is set out over the page.

2008/09 - 2012/13 Medium Term Financial Plan	2008/09	2009/10	2010/11	20011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Base Budget position	75,866	75,866	75,866	75,866	75,866
Inflation contingency 2009/10 unallocated	1,550	1,550	1,550	1,550	1,550
Inflation contingency 2009/10 unallocated		1,600	1,600	1600	1,600
Inflation contingency 2010/11 unallocated			1,600	1600	1600
Inflation contingency 2011/12 unallocated				1600	1600
Inflation contingency 2012/13 unallocated					1600
Impact of Capital Prog	658	794	962	1162	1,408
PFI	300	550	550	550	550
Increase in LGPS 1% point in super rate p.a.2007/08 to 2010/11		80	160	160	160
	78,374	**80,440**	**82,288**	**84,088**	**85,934**
Addiditional New Expenditure Pressures					
2008/09 IRMP Growth:					
Modernise procedures for th Acetylene cylinders	30	15	10	10	10
IRMP 08.1.12 promotion of inland water safety	37	29	29	29	29
Flexible Response Vehicle	1	1	1	1	1
Wild Land Response Vehicle	25	4	4	4	4
Continue Embedding Healthy Living	50	50	50	50	50
CLT Growth items					
Chargeable special services income correction	43	43	43	43	43
Maintenance call out contract for the Audio/Visual Equip	4	4	4	4	4
Fire Gateway Contribution mandated by CLG	15	15	15	15	15
Long Serv Awards	9	9	9	9	9
Firebuy Subsidy	50	50	50	50	50
Centre of Excellence Subsidy		50	50	50	50
CPD Payment	30	30	30	30	30
Attendance Incentive Awards - tax provision	12	12	12	12	12
Construction Design Management Co-Ordinator for building projects.	10	10	10	10	10
Recuitment drive / publicity to help deliver equality & diversity targets	20	20	20	20	20
Expenditure Before Saving Target	78,710	80,782	82,625	84,425	86,271
Forecast Income:					
Government Grant (per CSR07 & +2% 2011/12 & 2012/13)	-45,845	-46,074	-46,305	-47,231	-48,176
Precept Income levels 2007/08	-24,519	-24,519	-24,519	-24,519	-24,519
Revised Taxbase	77	77	77	77	77
4% Council Tax Increaase	-978	-1,995	-3,053	-4,153	-5,297
Collection Fund Deficit	64				
Forecast Income in Financial Plan	-71,201	-72,511	-73,800	-75,826	-77,915
Forecast Deficit Before Action	7,509	8,271	8,825	8,599	8,356

10. This forecast identifies a deficit for 2008/2009 and ongoing years of approximately £7.5million rising to £8.8million. If this deficit were to be covered by precept increases alone this would require precept increases of 31% to 36% over the period over and above the 4% increase already assumed in the financial plan.

11. Key assumptions in this base forecast include

Provision for pay increases 2% p.a.
Provision for grant increases of 1% in 2008/09, 0.5% in 2009/10 & 2010/11, and 2% in 2011/12 & 2012/13.

12. Members will recall that of the £7.5million to £8.8million forecast deficit £6.5m of it represents the underlying problem that that Authority faced last year and £2.3m results from new budgetary pressures. In order to solve the budget position over the last two years the Authority:-

- Developed a detailed plan to deliver over £5.2m of staff savings over a three year period
- Planned for further savings in ICT costs (working with its partner Telent).
- Approached the Secretary of State with this plan to ask permission to capitalise exceptional pensions expenditure in 2005/06 as a short term measure. The capitalisation would mean the Authority borrowing

money which it could use as to create a “cost smoothing” reserve which would be used up over two years (2006-2008) to ‘buy time’ to deliver staff savings through natural retirement rates and avoid compulsory redundancy.

13. The Secretary of State approved the Authority’s medium term financial plan and on that basis gave the Authority special permission to borrow (capitalise pensions) £6.1m on the 27th February 2006.

14. It should be noted that the Authority’s Revenue Support Grant is now entirely awarded on the basis of population topped up for by a number of relative risk factors. It is clear that the Authority’s overall spending levels are considerably higher than its grant income and capacity to generate income from council tax. In very crude terms the Authority has compared to its grant income too many staff given its overall population and the level of risks facing the community of Merseyside. Whilst it has lobbied the Government to change the formula for grant and/or provide additional resources, the prospects for a significant improvement in cash terms is not considered good. The Authority must therefore take action to address its underlying cost base in the medium term as part of the financial strategy it adopts.

Reserves and Balances

15. In the light of the financial risks facing the Authority the Executive Director of Resources recommends that the Authority should aim to, in the medium term, maintain the following reserves as part of its financial plans

	31.03.08 £'000	31.03.09 £'000	31.03.10 £'000	31.03.11 £'000	31.03.12 £'000	31.03.13 £'000
General Reserve	2,000	2,000	2,000	2,000	2,000	2,000
Earmarked Reserves						
Bellwin Reserve	147	147	147	147	147	147
Insurance Reserve	220	220	220	220	220	220
Emergency planning Reserve	75	75	75	75	75	75
FB Modernisation Reserve	745	745	745	745	745	745
Smoothing Reserve	0	0	0	0	0	0
F/F Games Reserve	63	63	63	63	63	63
Regional Reserve	170	170	170	170	170	170
PFI GAP Reserve	680	680	680	680	680	680
	2,100	2,100	2,100	2,100	2,100	2,100
	4,100	4,100	4,100	4,100	4,100	4,100

16. It should be noted that this report is compiled upon the basis that the overall financial neutral position in 2007/2008 reported elsewhere on the agenda CFO/46/08 is realised and the General Reserve remains at £2.0 million

17. The modernisation reserve was created using savings arising from changes on accounting policies. It is intended to be used on projects with an initial cost that deliver long term savings or modernise the service – predominantly the voluntary redundancy and service investment programme. If any of the reserve is used to meet the costs of VER/VS then members will receive a report on the full implications of any proposal.

18. **Members should bear in mind that reserves and balances and one-off savings should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.**

Options for Bridging the Gap

Savings options

19. Officers have developed a range of savings options for members to allow them to set a budget at a variety of different levels. These are set out in detail in section G. The table below shows the options taken from that list that are proposed to produce a budget in line with the Authority's previously stated medium term ambition :-

SAVINGS IDENTIFIED						
		2008/09	**2009/10**	**2010/11**	**20011/12**	**2012/13**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Complete the Delivery of 2006/07 3 year Savings Plan						
S1	Dynamic Staff Saving	-5,200	-5,200	-5,200	-5,200	-5,200
S2	ICT Saving	-426	-426	-426	-426	-426
		-5,626	-5,626	-5,626	-5,626	-5,626
New Savings						
	CLT Proposed Savings					
S3	Re-phase PFI payments to reflect scheme commencement	-300	-500	-50	0	0
S4	Review non-pay inflation provision	-50	-50	-50	-50	-50
S5	Increase level of targeted secondment Income	-125	-125	-125	-125	-125
S6	Interest Income - increase by £0.1m	-100	-100	-100	-100	-100
S7	CPD future years payment on monthly basis w.e.f. July 2008.	-180				
S8	Capital of Culture Consultancy - 3 year approval ends 07/08		-50	-50	-50	-50
S9	Early termination of BA lease 2007/08	-40	-40	-40	-40	-40
S10	Revised LGPS rates below increases assumed in 2007/08	0	-72	-152	-152	-152
		-795	-937	-567	-517	-517
Additional Dynamic Staff Saving Targets (*assuming 4% Ctax increase*)		-1,088	-1,708	-2,632	-2,456	-2,213
Total All Savings		-7,509	-8,271	-8,825	-8,599	-8,356

Council Tax Increase

20. The forecast produced already assumes a 4% precept increase in line with Authority plans. The Authority may choose to use a further precept increase to bridge the gap. However John Healey the minister for Local Government made it clear in a letter to local authority leaders on 17 December 2007, that the Government expects:-

"the average council tax increase in England to be substantially below 5% in 2008/09…. and warned the Government would …..not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases. This applies to all authorities – including police and fire authorities"

21. Government has used its powers in recent years and capped a number of authorities.

<u>The ready reckoners below show the impact of potential Council Tax increases.</u>

22.

Council Tax Increase

	0%	1%	4%	5%
Band D Tax	57.75	58.33	60.06	60.32
District Precept	£'m	£'m	£'m	£'m
LIVERPOOL	7.419	7.493	7.715	7.790
WIRRAL	6.006	6.067	6.247	6.307
ST.HELENS	3.209	3.241	3.337	3.369
SEFTON	5.370	5.423	5.584	5.638
KNOWSLEY	2.439	2.464	2.537	2.561
	24.443	24.688	25.420	25.665

Members must choose a portfolio of savings and growth options, a strategy for reserves (in the light of the advice of the Executive Director of Resources) and a Council Tax level for 2008/2009 that sets a balanced budget in line with the statutory timetable.

Capital

23. The updated approved 5 year programme (as detailed in the October – December 2007 Financial Review report CFO/48/08) together with the proposed capital New Starts are summarised below

Updated 2007/08 Approved & New Starts Capital Progamme for 2007/08 - 2012/13

Type of Expenditure	Total Cost	Estimated Payments					
		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£	£	£	£	£	£	£
Building/Land							
Updated 5 Year Approved Prog	8,613,600	2,090,600	4,298,000	875,000	675,000	675,000	0
New Starts	1,440,000	0	175,000	0	50,000	0	1,215,000
Non Operational Equip & Hydrants							
Updated 5 Year Approved Prog	175,000	35,000	35,000	35,000	35,000	35,000	0
New Starts	35,000						35,000
Fire Safety							
Updated 5 Year Approved Prog	6,296,000	1,358,000	1,257,000	1,227,000	1,227,000	1,227,000	0
New Starts	1,217,000						1,217,000
ICT							
Updated 5 Year Approved Prog	1,928,500	784,500	703,000	157,000	147,000	137,000	0
New Starts	1,600,000	0	446,000	228,000	228,000	333,000	365,000
Operational Equipment							
Updated 5 Year Approved Prog	1,148,200	779,400	274,600	49,600	44,600	0	0
New Starts	678,000	0	295,000	52,000	92,000	32,000	207,000
T.D.A.							
Updated 5 Year Approved Prog	207,000	133,000	74,000	0	0	0	0
New Starts	0						
Vehicles							
Updated 5 Year Approved Prog	7,245,700	1,747,700	2,244,000	1,190,000	1,133,000	931,000	0
New Starts	839,000	0	190,000	0	0	315,000	334,000
Fire World							
Updated 5 Year Approved Prog	7,035,000	0	0	3,560,000	3,475,000	0	0
New Starts	0						0
TOTAL Updated Approved	32,649,000	6,928,200	8,885,600	7,093,600	6,736,600	3,005,000	0
TOTAL New Starts	5,809,000	0	1,106,000	280,000	370,000	680,000	3,373,000
TOTAL	**38,458,000**	**6,928,200**	**9,991,600**	**7,373,600**	**7,106,600**	**3,685,000**	**3,373,000**

Financing Available:	**Total**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
		£	£	£	£	£	£
Capital Receipts							
Sale of Low Hill FS	250,000		250,000				
External Contributions							
Toxteth fire station - LCC	250,000		250,000				
Fire World contributions	6,035,000			3,060,000	2,975,000		
R.C.C.O.	74,416	74,416					
(Capital Grant) Kensington	300,000		300,000				
Capital Grant (Smoke Alarms)	338,000	338,000					
Total Non Borrowing	7,247,416	412,416	800,000	3,060,000	2,975,000	0	0
Borrowing Requirement							
Supported Borrowing	18,600,360	2,662,000	2,829,000	3,160,000	3,251,000	3,316,020	3,382,340
Unsupported Borrowing	12,610,224	3,853,784	6,362,600	1,153,600	880,600	368,980	-9,340
Borrowing	31,210,584	6,515,784	9,191,600	4,313,600	4,131,600	3,685,000	3,373,000
Total Funding	38,458,000	6,928,200	9,991,600	7,373,600	7,106,600	3,685,000	3,373,000

24. This capital programme has a borrowing requirement of £9.191m in 2008/2009.

25. The programme does contain significant prudential borrowing – as approved last year. The total of unsupported/prudential borrowing is £12.610 million across the life of the programme. The revenue impact of this is forecast to be £1.261 million.

26. Whilst there has been a relatively large increase in authority debt levels in recent years, debt servicing costs will still make up a relatively small portion of the Authority's overall costs. This is considered affordable, prudent and sustainable in the light of the prudential indicators calculated for the Authority as long as such a decision is combined with action to tackle the underlying budgetary deficit.

Treasury Management

27. The Prudential Code requires the Authority to set a number of Indicators, certain of which replace the borrowing/variable interest limits previously determined as part of the Treasury Management strategy statement.

28. In the light of these issues and views taken on interest rates a strategy has been prepared that sets limits for the next three years on:-

    Overall Level of External Debt
    Operational Boundary for Debt
    Upper limits on fixed interest rate exposure
    Upper limits on variable rate exposure
    Limits on the maturity structure of debt
    Limits on investments for more than 364 days

29. The strategy is set out in detail in the report.

B) BACKGROUND INFORMATION

30. This section provides general financial information on Authority finances and the financial health of the Fire Authority.

Corporate Strategy

31. If any organisation wants to be successful, its budget setting and medium term financial plan need to reflect the allocation of resources to support the key strategic aims and priorities.

32. For the many years now the Fire Authority has maintained a comprehensive five year financial plan and capital programme. This report will build upon this strategic approach to financial matters.

33. Members will recognise that this report is prepared at a time when the fire service faces a period of tremendous change and challenge. A number of key issues will need to be addressed as part of any financial strategy and in particular cater for the modernisation of the fire service and the Integrated Risk Management Plan (IRMP).

34. The Integrated Risk Management Plan (IRMP) is the key driver in the allocation of the Authority's resources in response to the risks facing Merseyside

35. The first IRMP 2004/07 (available on the website http://www.merseyfire.gov.uk/) was published on 25 March 2004. The plan reiterates the main strategic themes that the Authority has been progressing and acknowledges that the Authority has been at the forefront of driving forward the modernising agenda for the fire service for a number of years now. The second IRMP was approved by the Authority for 2007/10 last year and that IRMP has now been updated by the annual action plan for 2008-2009. Elsewhere on today's agenda is the proposed IRMP Action Plan 2 for 2008/2009 CFO/54/08.

36. The Authority's key visions and aims as set out in the IRMP are set out overleaf. Any financial plan should aim to allocate resources to deliver these key aims.

Our Vision - **To make Merseyside a safer, stronger, healthier community.**

Our Mission: **To work in partnership to provide an excellent, affordable service to all the diverse communities of Merseyside that will:**

Reduce risk throughout the community by protective community safety services.

Respond quickly to emergencies with skilful staff who reflect all the diverse communities we serve.

Restore, maintain and improve the quality of life in our communities.

37. These are not new aims for Merseyside. The Authority has moved well in advance of central direction and has had a very similar strategy for several years now based upon focussing resources on community fire safety.

Is the overall Strategy Working?

38. The Fire Authority has achieved very great success in its aims to make Merseyside a safer community. Projects and their outcomes and delivery against strategy are reported in more detail to members in a variety of formats but very briefly:-

- We are the first fire authority in the world to visit 100,000 households in a single year
- Fitted more than 500,000 free smoke alarms
- Received Beacon Status for Early Intervention (Children at Risk) and for working with Older People
- Short listed for Beacon Status for Reducing Health Inequalities
- Formed Joint Police Fire Service ASB Task Force
- Reduced fire deaths from an average of 20 in 1999 to 11 in 2005 and to just 7 so far this year (year ends March). Almost a 60% reduction
- Employed advocates in such diverse areas as age, disability, deafness, drugs, alcohol, arson and anti-social behaviour, as well as multilingual specialists.

The table below summarises some key performance over the last 4 years:

Year	Accidental Dwelling Fires	Injuries in Accidental Dwelling Fires	Fatalities in Accidental Dwelling fires	Anti Social behaviour Fires
2003 - 2004	1612	171	9	18985
2004 - 2005	1470	173	11	12258
2005 - 2006	1456	155	11	11689
2006 - 2007	1336	126	9	12721
2007 - 2008	1209	92	8	12926
% Change	-25%	-46%	-11%	-32%

Financial Strategy and where are we now?

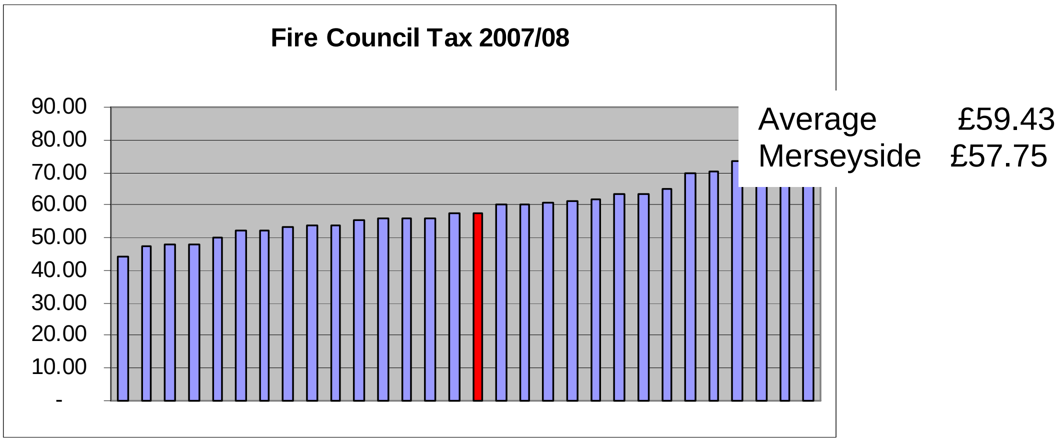
39. In recent years the Authority has adopted a financial strategy that

- Sought to minimise Council Tax increases with a target increase of less than 4% that it has adhered to despite severe financial constraints
- Recruited to meet the Authority's high performance standards and budgeted for staff actually in post.
- Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy
- Made significant investment in Community Fire Safety and preventative work. (REDUCE)
- Invested to maintain emergency response standards and to modernise working arrangements for dealing with a whole host of emergency incidents. (RESPONSE)
- Developed arrangements for restoration with the private sector and the Fire Support Network. (RESTORE)
- Made significant investment in IT and computing (including outsourcing).
- Provided further investment in equality and health and safety.
- Attempted to plan prudently for medium term costs by making provision for varying expenses.
- Maintained a revenue reserve of £2m following assessments of risk .
- Because of pressures on revenue budget generally avoided funding capital expenditure from revenue through leasing or RCCO
- Invested in the capital infrastructure of the Authority in line with Asset Management Plan, Vehicle Replacement strategies and corporate objectives

40. These strategies have allowed the Authority to make significant strides in reducing cost and maintaining relatively low levels of Council Tax increase despite very tight grant settlements.

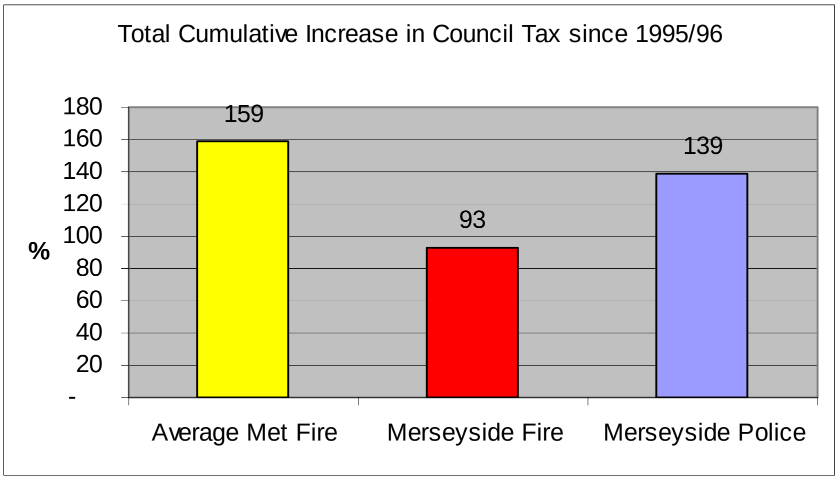
41. It should especially be noted that in 2006/07 the Authority adopted a significant three years savings plan to address an underlying gap between expenditure and income. This is discussed in more detail later in the report

42. The Authority is below the national average council tax for fire services.

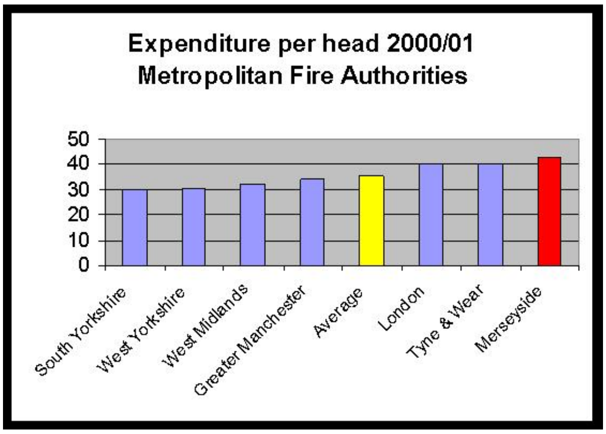


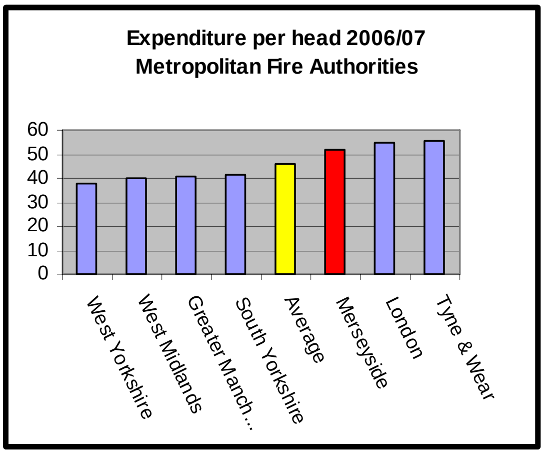
In 1996/97 Merseyside Fire & Civil Defence Authority Council Tax was more than 50% above the average of Metropolitan Fire Authorities.

- *Since then we have increased Council Tax 93%.*
- *Metropolitan Fire Authorities average increase is over 159%.*

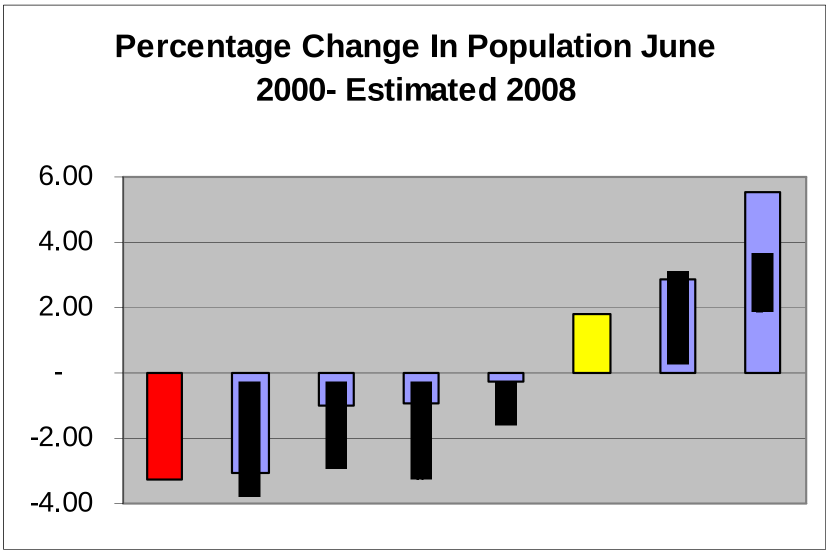


43. The significant improvements in efficiency by the Fire Authority and a large scale savings plan have meant that from being the most expensive Fire Authority in the country in 2000/01 the Authority has moved to being only the third most expensive metropolitan Fire Authority by 2006/07.



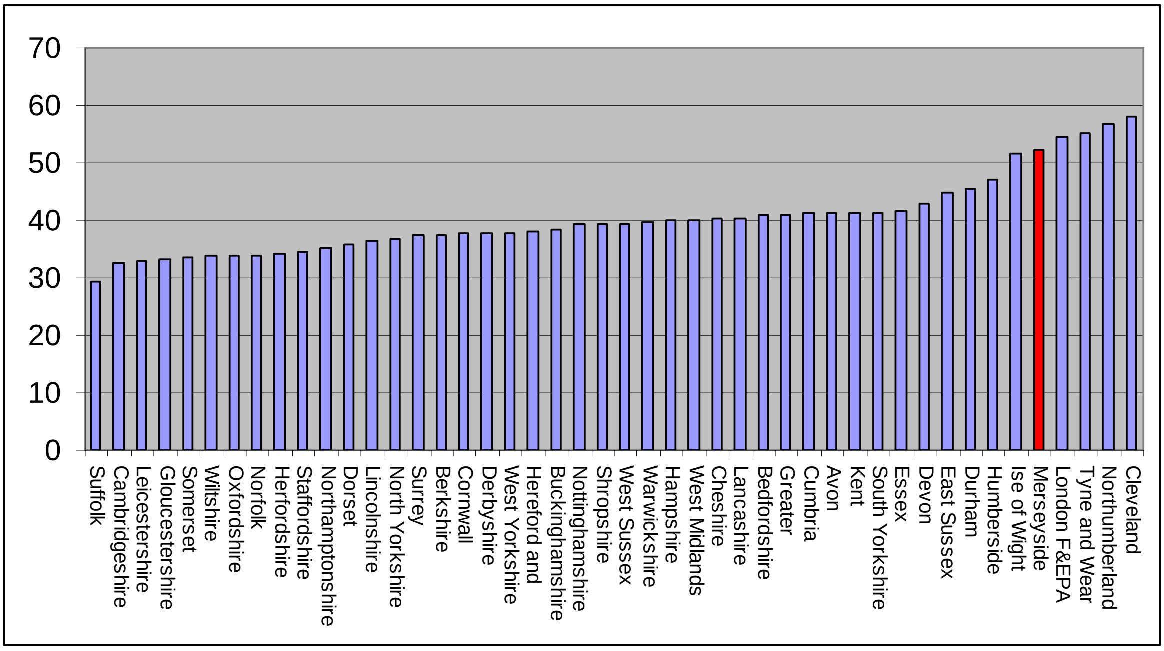


This performance has been especially encouraging when it is considered that across the same time period the population of Merseyside has been reducing significantly whilst other Authorities populations have grown. *If all other things has been equal it might have been expected that Merseyside's position might have worsened on this comparator rather than improved.*

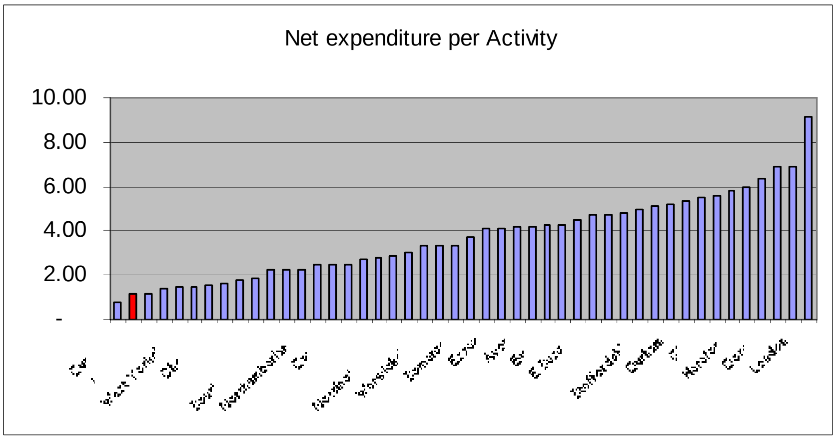


44. However, despite the recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending authority on a direct expenditure per head basis.

<u>Net Expenditure per head (£) 2006/07</u>

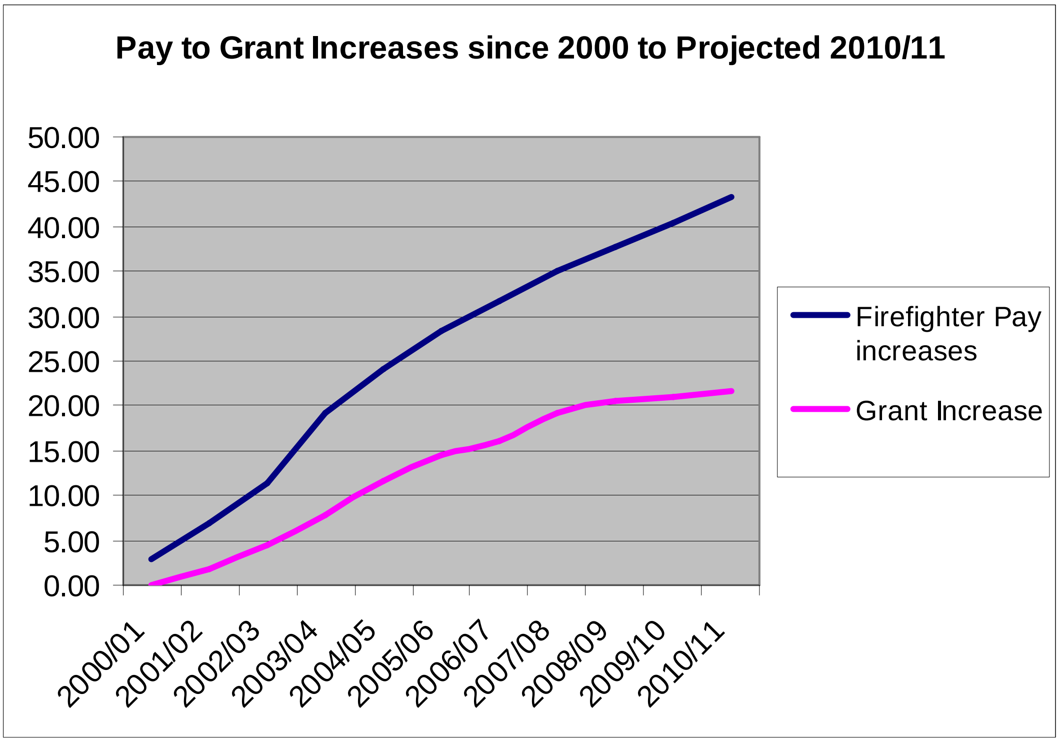


However it is noted that that this is only one measure of the relative need to spend (population basis). The Executive Director of Resources has analysed available data and compiled a comparison of cost per output for Fire services which is show in the table below. Output is based upon the total of fire calls and home fire safety checks. This clearly shows a very different picture



45. In addition, Merseyside continues to invest significantly in community fire safety, over £5.5 million in 2006/07. (This does not include the massive investment in smoke alarms and the fire safety work undertaken by stations)

46. These improvements in Council Tax level and expenditure has been achieved when the Authority's grant increases have been at the floor (minimum) level for many years whilst inflation including firefighters' pay awards have been very much higher. The table below highlights the actual position since 2000 and the projected 2008 -20011 position (in line with the medium term financial assumptions around pay increases of 2%p.a. and actual grant increases).



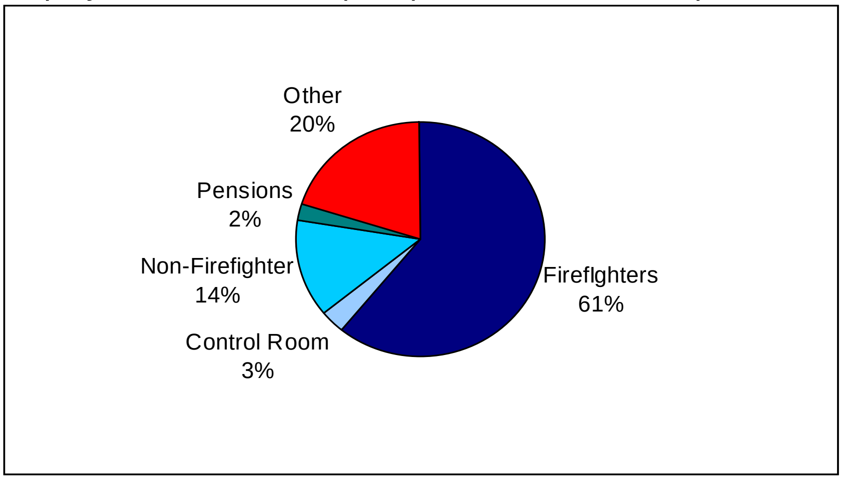
Overall Financial Health

47. The overall financial position of the Authority appears relatively good on the basis of the following key indicators:-

- Excellence in CPA – Use of Resources Score Jan 2007 (4), one of only 4 fire authorities in the country to achieve this.
- Authority accounts 2006/2007 audited without qualification again.
- Annual Audit letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- IRMP Recognised as innovative
- The Authority has maintained a general revenue reserve of over £2.0m in recent years
- Cost centre budgeting now well established
- Have maintained a five year financial plan and capital programme and most importantly a consistent medium term strategy
- The Authority has delivered huge efficiency savings (see detailed revenue section)

Current Allocation of Resources

48. Members will be aware that Fire Service expenditure is predominantly on employee related costs (80%) as is shown in the pie chart below

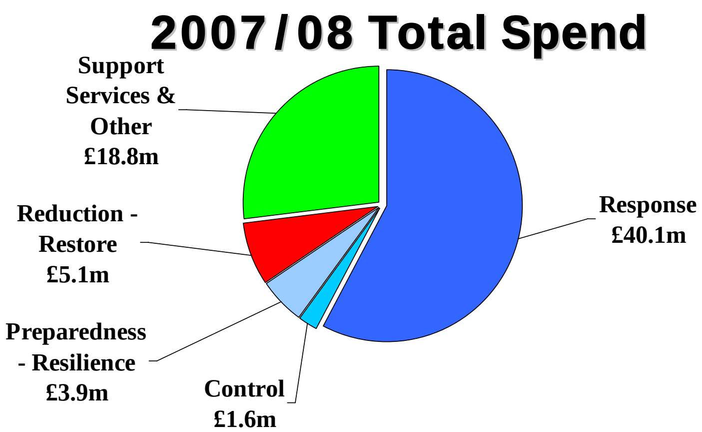


49. A full subjective analysis of the budget is set out in **Appendix 1**

50. A subjective analysis is only part of the overall view on spending and in order to assist members the same data is shown in a "thematic" view below based upon the strategic objectives.

Allocation of Resources in line with Corporate Objectives

51. The Authority has an excellent track record of investing in line with its corporate priorities and this was reflected in the CPA and UoR scoring process. The pie chart below gives some indication of current investment on a thematic basis. It can be seen that over 57% of expenditure goes on emergency and specialist response. 2% on Control Rooms and 13% on Resilience & Preparedness. Fire Reduction, and Restore initiatives accounts for over 72% of spend, Support costs making up the remaining 28%.



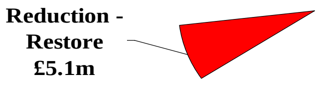
•**Invested a total of £69.5m**

•**Employ a total of 1540 employees**

52. Looking in more detail at each area the following investments are included :-

Reduce & Restore

Reduce & Restore



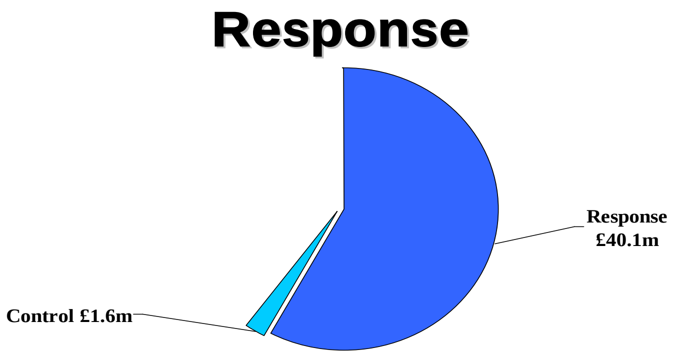
•**Investment of £5.1m**

•**Employ 151 staff**

53. Investing over £5m p.a in fire safety including:

- Employment of 40 specialist Advocates (£0.6m)
- Purchase of £0.7m worth of smoke alarms.
- Continuation of the Princes Trust and Free Programmes (£0.5m).
- Investment in Fireworks Team (FIRST) (£0.1m)
- Investment in District Fire Safety Teams over £3.7m.
- Fire Service Direct (£0.2m)
- Working with young people, including school liaison.
- Invested in Volunteers with the Fire Support Network (£0.1m)
- Working with the private sector to deliver speedier restoration of property

54. <u>Responding & Control</u>



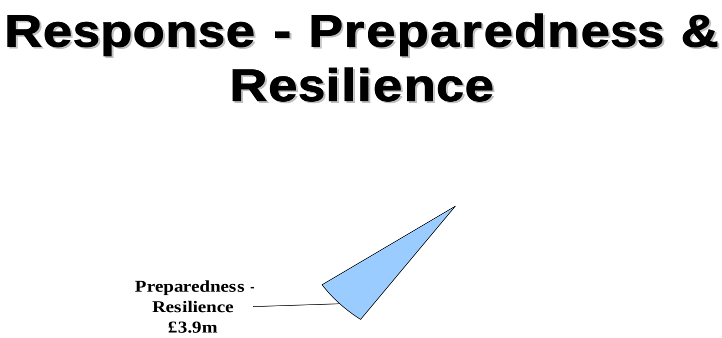
•**Investment of £41.7m**

•**Employ 1067 staff in Response & 43 Control staff**

- Service delivery and emergency response through its 26 fire stations (these staff do increasing amounts of preventative work as well).
- Specialist teams like Search and Rescue Team, Targeted response group, Hazmats team and Emergency response dogs
- Invests in two small fires unit, targeting antisocial fires.
- Invests £0.6m on the Incident Management Team.
- Developed the unique quick response motorcycle unit.
- Operating the brand new Command and Control system (£2m)
- Deliver 100,000 HFSC’s p.a.

<u>Preparedness & Resilience</u>

55.



• **Investment of £3.9m**

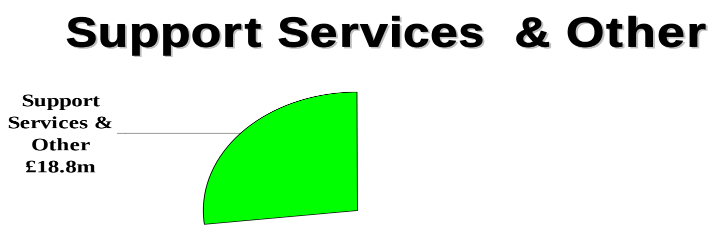
• **Employ 84 staff**

56. The investment of £3.9m delivers a variety of services which helps support and complement the front line response investment and ensure firefighter safety.

- Operational Planning and Policy
- Contingency Planning
- New Dimensions to cope with major disasters and terrorist threats
- Operational Equipment Team
- Water Section
- Health and Safety Department
- Transport/Fleet Management – to keep vehicles operating effectively
- Workshops
- Marine Rescue Unit to support the airport and safety on the river
- Standard Operating Procedure Review Team

Support Services & Other

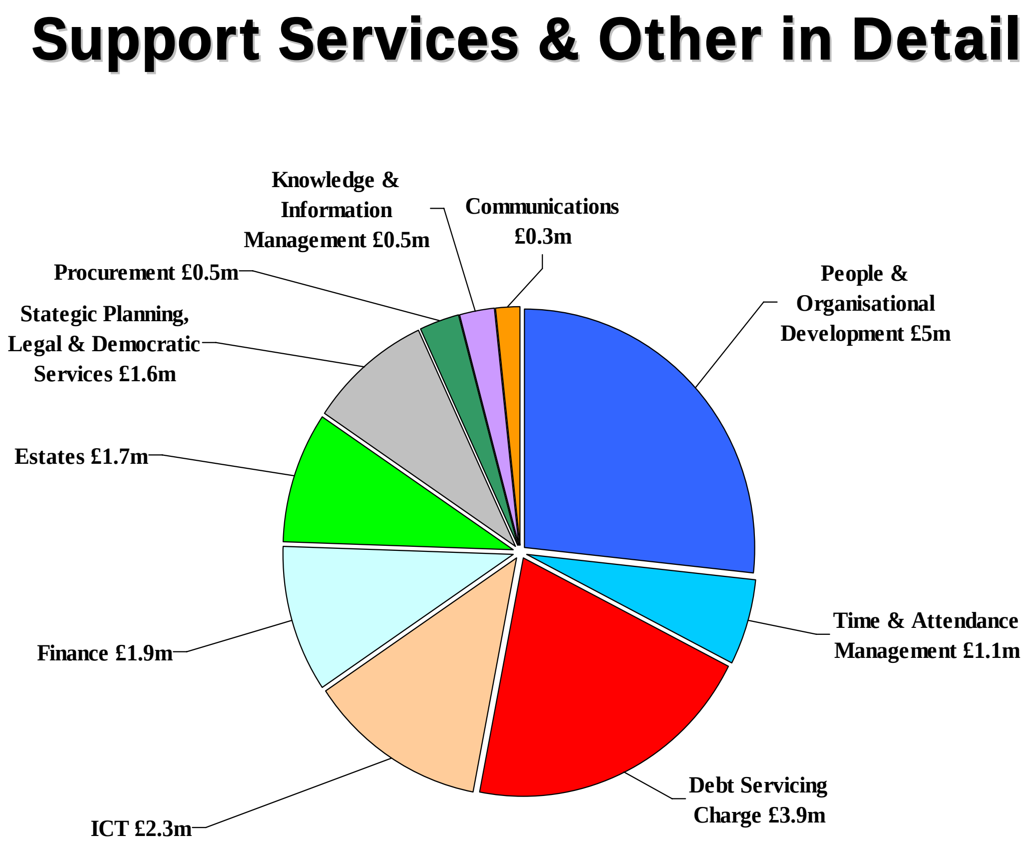
60.



•**We Invest £18.8m**

•**We Employ 195 staff**

61. The support services funded from the £18.8m are analysed below:



62. It should be noted this includes:-

- Time and Attendance Management – manages staff numbers on appliances and stations
- People and Organisation Development – includes investment in the Training and Development Academy and costs of training for all staff
- Debt Servicing Costs – reflect the investment in asset purchase and improvement in the past
- Estates – includes the running costs of buildings
- ICT – includes the cost of the Mobilising Command and Control System
- Strategic Planning / Legal Services – includes the cost of insurance and claims

60. Members need to assure themselves that the Authority continues to allocate resources to support its strategic priorities.

C) CAPITAL PROGRAMME

61. Capital is considered first in this report so that members can clearly consider the revenue impacts of capital investment and borrowing decisions as part of revenue budget and Council Tax considerations.

Introduction

62. The Government in consultation with the Chartered Institute of Public Finance (CIPFA) has, over the last few years, been reviewing the capital control system of local government, with a view to improve accountability and freedoms for local authorities in respect of capital investments. In effect, it has been seeking to allow "business" based decisions whilst retaining overall control of public spending.

63. From 1st April 2004, the Local Government Act 2003 replaced the previous regime of capital controls, as set out in Part IV of the Local Government and Housing Act 1989, with the Prudential System of Capital Finance.

64. Under the previous system of capital controls local authorities were only permitted to finance capital expenditure from borrowing within limits set by the Government (Credit Approvals). The new arrangements enable local authorities to decide for themselves how much they can afford to borrow for capital purposes, subject to various safeguards. The Government has reserve powers to limit an authority's borrowing if the Government believes it to be unaffordable, or in times of public spending restraint.

Prudential Code

65. A key part of the new capital system is the CIPFA "Prudential Code for Local Authority Capital Finance" which provides a framework of decision-making under which authorities will decide their capital investment and financing plans and set limits for borrowing.

66. Authorities will be required to 'have regard to' the Prudential Code when setting their future budgets and Council Tax levels - which in practice means that they would need to have very good reasons not to comply.

67. The over-riding objective of the Prudential Code is to ensure that the capital investment plans of local authorities are **affordable, prudent, sustainable**, and follow good practice.

68. Some of the main features of the Prudential Code are as follows:

- The full Authority must consider and set a number of indicators and limits for its capital plans as part of the annual budget setting process. The limits can be revised during the year but only by the full Authority. The mandatory indicators are shown in section D.
- The indicators and limits must be monitored during the year and outturn figures reported.
- The Authority must produce and maintain capital and revenue plans for at least three future years including three year estimates of its future Council Tax taking account of the proposed capital programme and other plans.
- The Authority must set an authorised limit for its total debt (including borrowing and long term liabilities) which may not be exceeded.
- Limits relating to treasury management matters must be considered as part of the annual Treasury Management Strategy report.

69. Fundamentally, the objective of the Code is that the total of an authority's capital investment remains within sustainable limits, following consideration of the impact on the "bottom line" Council Tax. This is ultimately determined by a judgement about what Members consider is an acceptable level of Council Tax.

Capital Investment Strategy

70. Each financial year the Authority produces a capital programme to manage major capital schemes. Owing to the nature of capital expenditure a large number of schemes span more than one financial year so the programme is a rolling programme covering five future financial years.

71. The starting point for this programme has been an assessment of the capital spending requirements for the Authority for future years based upon needs identified by the various expert professionals in areas like buildings, vehicles, ICT, and operational equipment. Initial bids were

requested and through an iterative process officers have modified the programme in the light of

a) service requirements, and in particular investments required to support and deliver the IRMP.

b) the need to adopt a prudential approach to capital borrowing under the new regime, being mindful of affordability, prudence and sustainability and in particular the impact on Council Tax levels.

72. This has produced a total 2007/08 – 2012/13 current and five-year future capital programme proposal of £38.458m with a 2007/2008 programme of £6.928m which is set out in the summary table overleaf. This table also identifies funding of the programme and hence the borrowing requirements to support that capital programme. The full programme is set out in **Appendix 2** (appendix 2A is the updated programme and appendix 2B the proposed new starts).

Updated 2007/08 Approved & New Starts Capital Progamme for 2007/08 - 2012/13

Type of Expenditure	Total Cost	Estimated Payments					
		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£	£	£	£	£	£	£
Building/Land							
Updated 5 Year Approved Prog	8,613,600	2,090,600	4,298,000	875,000	675,000	675,000	0
New Starts	1,440,000	0	175,000	0	50,000	0	1,215,000
Non Operational Equip & Hydrants							
Updated 5 Year Approved Prog	175,000	35,000	35,000	35,000	35,000	35,000	0
New Starts	35,000						35,000
Fire Safety							
Updated 5 Year Approved Prog	6,296,000	1,358,000	1,257,000	1,227,000	1,227,000	1,227,000	0
New Starts	1,217,000						1,217,000
ICT							
Updated 5 Year Approved Prog	1,928,500	784,500	703,000	157,000	147,000	137,000	0
New Starts	1,600,000	0	446,000	228,000	228,000	333,000	365,000
Operational Equipment							
Updated 5 Year Approved Prog	1,148,200	779,400	274,600	49,600	44,600	0	0
New Starts	678,000	0	295,000	52,000	92,000	32,000	207,000
T.D.A.							
Updated 5 Year Approved Prog	207,000	133,000	74,000	0	0	0	0
New Starts	0						
Vehicles							
Updated 5 Year Approved Prog	7,245,700	1,747,700	2,244,000	1,190,000	1,133,000	931,000	0
New Starts	839,000	0	190,000	0	0	315,000	334,000
Fire World							
Updated 5 Year Approved Prog	7,035,000	0	0	3,560,000	3,475,000	0	0
New Starts	0						0
TOTAL Updated Approved	32,649,000	6,928,200	8,885,600	7,093,600	6,736,600	3,005,000	0
TOTAL New Starts	5,809,000	0	1,106,000	280,000	370,000	680,000	3,373,000
TOTAL	**38,458,000**	**6,928,200**	**9,991,600**	**7,373,600**	**7,106,600**	**3,685,000**	**3,373,000**

Financing Available:	**Total**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
		£	**£**	**£**	**£**	**£**	**£**
Capital Receipts							
Sale of Low Hill FS	250,000		250,000				
External Contributions							
Toxteth fire station - LCC	250,000		250,000				
Fire World contributions	6,035,000			3,060,000	2,975,000		
R.C.C.O.	74,416	74,416					
(Capital Grant) Kensington	300,000		300,000				
Capital Grant (Smoke Alarms)	338,000	338,000					
Total Non Borrowing	7,247,416	412,416	800,000	3,060,000	2,975,000	0	0
Borrowing Requirement							
Supported Borrowing	18,600,360	2,662,000	2,829,000	3,160,000	3,251,000	3,316,020	3,382,340
Unsupported Borrowing	12,610,224	3,853,784	6,362,600	1,153,600	880,600	368,980	-9,340
Borrowing	31,210,584	6,515,784	9,191,600	4,313,600	4,131,600	3,685,000	3,373,000
Total Funding	38,458,000	6,928,200	9,991,600	7,373,600	7,106,600	3,685,000	3,373,000

73. Members will note that the plan includes a small amount of new starts/additions,. These are:-

   a. The addition of the extra year to the programme 2012/13, £3.373m
   b. New starts in 2008/09 – 2011/12, £2.436m

74. These projects represent additional investments which are considered as essential by CLT following detailed review of bids submitted by officers. They include investments in line with supporting strategies and programmes agreed by the Authority already. Details of the new starts can be found in Appendix 2B attached to this report, and an outline of the scope of each of the main capital programme divisions is presented in below. (Appendix 2A provides a full analysis of the updated approved 5 year capital programe and also report CFO/46/08, elsewhere on the agenda, details the movements on the approved capital plan).

75. The key assumptions underpinning the six year capital programme, (2007/08 – 2012/13), are:-

a) Building Investment Strategy (£10.1m)

75. A review of the Authority's building stock identified within the Asset Management Plan has been carried out. The estate comprises 26 fire stations, a Training and Development Academy (TDA), Workshops and a Mobilising & Control Centre (MACC). The review categorised the building stock into different themes and a detailed long term strategy developed for addressing the issues identified:-

A. No major action required – regular maintenance only. (mostly new or recent major refurbishment buildings). Seven stations, TDA and Headquarters
B. Partnership opportunities for future development. Three fire stations, MACC, and workshops
C. Fire stations which require refurbishment through the capital programme to become community stations that are inappropriate for a PFI project. Nine fire stations
D. Fire stations that require replacement and are suitable for inclusion in the PFI project.

76. Based on the reviews findings the Building and Land programme has been developed.

PFI

77. In order to address the investment required, Officers submitted a successful PFI bid for the Fire Service. The Government has approved a joint project (with Merseyside leading), between Merseyside, Lancashire and Cumbria. In Merseyside there will be new fire stations at Birkenhead, Kirkdale, Southport, Newton-le-Willows, Belle Vale, Bootle and Formby.

78. The total investment in North West building stock will be £38m and in Merseyside £16.4m. Since this is "off balance sheet" investment, it is not reflected in this capital programme apart from monies to support the acquisition of sites. Buying sites and providing them to the project with planning permission reduces risks for developers and hence costs.

Non PFI Project Assets

79. For those properties which don't form part of the PFI project investment is proposed in line with the Asset Management Plan. Notably :-

- Refurbishing and essential work at fire stations £5.4 m
- LLAR and other accommodation improvements £0.5m
- City Community Facility/ Community Initiatives £0.6m
- New Kensington Community Fire Station £1.7m
- Marine 1 Accommodation £0.4m
- Office, Workshop, TDA, and other works £1.5m

b) Non Operational Equipment & Hydrants (£0.2m)

80. The regular annual provision is made for installation of new or replacement hydrants in line with our water strategy, £0.2m.

c) Fire Safety (£7.5m)

81. Smoke alarms and sprinkler systems are being classed as capital expenditure in line with Government guidance. This follows the awarding of capital grants by the ODPM towards the purchase cost of such items in financial years 2004/05 through to 2007/08. The estimated cost of purchasing alarms over the 2007/08 – 2012/13 period is £4.5m, approximately 100,000 alarms p.a. Current policy is to capitalise the installation costs of smoke alarms estimated, £3.0m over the period, this policy is under a full review which will be reported in the closure of accounts.

d) ICT – Investing in line with the IEG Strategy (£3.5m)

82. In line with the Authority's commitment to IEG (Implementing Electronic Government), there is a significant investment in ICT within the programme. The most significant investments are in the replacement and increase in hardware peripherals, PCs, and servers, £1.3m, and software licenses, £1.3m.

83. The cost of continuing the telephony solution project for the replacement of the existing analogue systems across the Service is estimated at £0.2m. Significant provision is also made for developing Knowledge Management Systems (£0.3m).

84. In addition, there is also spending proposed on :-

- Updating computer wiring and upgrading control boxes on stations
- Handheld radio replacement
- Development of the intranet and website
- Various technology upgrades & developments
- Investing in financial systems to e-enable transactions

e) Operational Equipment (£1.8m)

85. Significant provision is also made to ensure that a modern fire and rescue service can be delivered and in particular provision is made for investment specialist rescue equipment and new breathing apparatus, particularly:-

- Marine rescue boat and equipment £0.3m
- Incident Command Unit £0.2m
- Hydraulic Rescue equipment £0.2m
- Bomb disposal technology for dealing with acetylene cylinders £0.2m

f) Training & Development Academy (£0.2m)

86. A range of building improvement works are required to keep the STC up to date and efficient for training purposes. In addition, expenditure is proposed to upgrade the Centre's audio-visual equipment and improve search and rescue training facilities.

g) Vehicle Replacement Strategy (£8.1m)

87. The Fleet Manager has identified needs as follows:-

An Ageing Fleet

88. Significant provision for new appliances has been included in the capital programme – up to 5 appliances per year to ensure that the fleet is modern and efficient. These purchases will also help introduce the rescue pump/support pump concept - see below for details. The Authority under invested for many years in this area.

A Need for Specialist Vehicles

89. There is a need to make provision for the purchase of specialist vehicles to support the IRMP.

- Hose Layers to support the water strategy
- Further Small Fires Units
- Rapid Response Motorbikes
- Incident Management Units
- A combination appliance
- Vehicles to provide recovery assistance to firefighters

90. In addition, there is a need for investment in renewing the fleet of specialist vehicles, particularly aerial appliances and prime movers, to support the wider range of roles for the fire service including rescue.

Ancillary Vehicles

91. Provision is included for the phased renewal of the ancillary vehicle fleet. These are increasingly important to support the Fire Safety work referred to in c) above.

h) Fireworld (£7.0m)

92. Total provision is made of £7m for developing a world leading community education centre and visitor attraction. It is assumed that the Fire Authority would only have to fund £1m of this with the remainder of the investment provided by partners. Work on feasibility studies is progressing well and will be reported during the year.

Funding The Programme

Capital Receipts

93. Capital receipts are usually the proceeds from the sale of assets. Any such receipts can be applied either to reduce an authority's outstanding debt or to be reinvested in the capital infrastructure.

94. The Authority has (when available) used capital receipts as a source of funding for new capital investment with little, if any, being used for debt repayment – unless regulations require a proportion of the receipts to be used specifically to repay debt. However, under the new regime the Authority needs to consider whether a proportion of any future receipts should now be used for debt repayment, and thereby ensure that the cost of debt financing does not increase for future Council Tax payers.

95. The proposed capital programme anticipates capital receipts only from: -

Low Hill Fire Station site	£0.25m	(2008/09)

It assumes that this receipt will be used to reinvest in the capital infrastructure.

Capital Grants

96. As detailed above, the ODPM has awarded capital grants for smoke alarms and sprinkler systems for the financial years 2006/07 to 2007/08, but no grant in future years.

Partner Contributions

97. Partner contributions (either grant, sponsorship or capital receipts) are anticipated for Fireworld, work at Toxteth fire station, and from Kensington new deal for the Kensington CFS.

Alternative to Operating Leasing

98. Under the previous system of capital controls, investment that was funded by operating lease did not count as either capital expenditure or the financing as a credit arrangement. Therefore, in common with most other local authorities, operating leasing has been a source of funding for some limited eligible assets (e.g. vehicles, plants and machinery, and computer equipment) although the Authority generally avoided this because of the impact on the revenue account. However, whilst operating leasing as a source of funding remains outside of the Prudential capital system, no leasing is assumed in this programme. The Director of Finance will monitor the suitability of alternative methods of finance.

Borrowing

99. Under the Prudential capital system Local Authorities are now able to increase their borrowing above the allocation provided by the Government to fund capital investment. However, the Government has retained reserve powers to limit an authority's borrowing if the Government believes an authority's proposals to be "unaffordable" or in times of national public spending constraint.

100. The proposed programme represents an overall expenditure increase on the approved capital programme of £1.1m plus the additional "new starts" expenditure of £5.8m (of which £3.4m relates to extension of rolling programmes into the additional programme year- 2012/13). The table below sets out the main changes.

VARIATIONS IN CAPITAL PROGRAMME FROM THAT AGREED LAST YEAR

Capital Scheme	Expenditure £'m	Financing (other than borrowing) £'m	Hence Additional Borrowing Required £'m
Approved Programme:			
Kensington Community Fire Station	0.6	0.6	0.0
Fire Safety – increase in HFSC visits/smoke alarm	0.5	-	0.5
		-	
New Starts			
Station &other building work (**Bldg Prog**)	1.3	-	1.3
Community Initiatives (**Bldg Prog**)	0.1	-	0.1
Fire Safety Prog	1.2	-	1.2
		-	
ICT increases in equipment/licenses	1.6		1.6

Operational Equipment	0.7		0.7
Vehicles	0.8		0.8
Other	0.1		0.1
TOTAL	**6.9**	**0.6**	**6.3**

101. The total of Authority borrowing now proposed across all six years (2007/08 – 2012/13) is £31.211m, after adjusting this figure for the impact of 2006/07 slippage (£4.897m), the adjusted figure is £26.314m compared to last year's capital programme for the same period of £19.030m. An increase of £7.284m of which £5.809m is for the new starts programme (£3.373m relates to the year 2012/13 - the additional year added to the programme).

102. This level of supported borrowing for the Authority across the six year period is estimated to be £18.600m .

103. The level of prudential "unsupported" borrowing is therefore :-

	£m
Total borrowing in programme	31.211
Supported Borrowing Estimate	18.600
Total "Prudential Borrowing"	12.611m

Impacts on Revenue Budget and Financial Plan

104. When the Authority borrows money, it has to factor the debt repayment costs into its financial plans. The revenue cost of the proposed capital programme has been calculated and the variations included in the 5 year financial plan. The overall impact on the financial plan is :-

	2008/9	2009/10	2010/11	2011/12	2012/13
	£'m	£'m	£'m	£'m	£'m
Variation to borrowing cost	0.658	0.794	0.962	1.162	1.408

105. Despite the proposed additional borrowing, the impact on the financial plan is relatively small because of :-

(a) Revised timings of borrowings.

(b) Movements in interest rate assumptions.

(c) Prudent original assumptions.

106. To give Members an indication of the impact of the proposals in isolation, rather than the marginal impact on the financial plan, the following table has been prepared :-

	If borrowing was restricted to the level of supported borrowing	If borrowing restricted to previous Capital Programme levels
Reduction in borrowing	**£12.611m**	**£7.284m**
Reduction in Debt Repayment costs	**£1.072m**	**£0.619m**
Council Tax equivalent	**4.4% or £2.53**	**2.5% or £1.46**

More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (D).

Possible Further Prudential Borrowing

107. The table below gives a guide to the impact of each extra £1m of borrowing, and of the total capitalisation process. Additional capitalisation can only be funded by additional borrowing.

Extra Borrowing	**£1m**
Borrowing Cost P.A.	**£0.085m**
Council Tax Equivalent	**0.3% or 20p**

The tables and information above assume the cost of borrowing is based on the minimum revenue provision for debt repayment.

D) PRUDENTIAL INDICATOR REPORT

108. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2008/09, will need to consider a report setting out a range of Prudential Indicators aimed at demonstrating the intended Investment Programme's affordability, prudence and impact upon Treasury Management activity and strategy.

109. It should be noted, however, that in order to provide those Indicators, both Capital and Revenue financial plans need to be prepared for each of the next 3 financial years, commencing with 2008/09.

110. The financial plans prepared in respect of the financial years 2009/10 and 2010/11 are not to be mistaken for approved Budgets. They are, at this stage, only a guide for financial planning and as such subject to significant change as a result of decisions made by the Authority. However, such plans are required to be supported by an indication of future Council Tax. At this stage an assumption of Council Tax increases of 4% in all years has been made.

Prudential Indicators

111. The Authority must demonstrate that its spending plans comply with the Prudential Code by the publication of a number of performance indicators, which are known as the Prudential Indicators***. Details of the prudential indicators for this Authority are provided below.***

112. The purpose of the indicators is to demonstrate that capital investment remains within sustainable limits and that the Authority has considered the impact of the whole plan on future levels of Council Tax. The indicators that will measure this are :-

- Estimates of the ratio of capital financing charges to the net revenue budget
- Estimates of the precept that would result from the three-year capital plan.
- Estimates of the capital financing requirement.

Decision Making on Capital Investment

113. A fundamental principle of the code is that the capital programme must be driven by the desire to provide high quality value-for-money services. As a consequence the code explicitly recognises that in making its capital investment decisions the Authority must have regard to options appraisal, asset management planning and the strategic aims of the Authority.

114. In compiling this capital plan each of the schemes has been measured against both the strategic aims of the Authority and in line with the IRMP. In addition under financial procedures officers cannot commit expenditure on capital schemes without first submitting a business case to either the Corporate Leadership Team or Policy and Finance Committee depending upon the size of the scheme.

2008/2009 Supported Capital Expenditure Allocations

115. Under the old system of capital finance the amount of Basic Credit Approval was supported by revenue support grant as part of the annual settlement. Under the new procedures this support is maintained and each Authority is notified of the amount of capital expenditure which will be supported by revenue support grant. The amount for this Authority notified for 2008/2009 is £2.829m, an increase of £0.167m on 2007/08. The 2009/10 and 2010/11 figures have increased further to £3.160m and £3.251m.

116. The prudential indicators for Merseyside are:

a) Capital Expenditure

The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2006/07	Estimate 2007/08	Estimate 2008/09	Estimate 2009/10	Estimate 20010/11	Estimate 20011/12	Estimate 20012/13
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Expenditure	4,424	6,928	9,992	7,374	7,107	3,685	3,373

Members will note that the big rise in expenditure in 2008/2009 includes £5.0m of slippage from 2007/08. More details on the capital programme are given elsewhere in the report.

b) Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream (amounts met from government grants and local taxpayers) for the current and future years, and the actual figures for 2006/07 are:

	Actual 2006/07	Estimate 2007/08	Estimate 2008/09	Estimate 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 20012/13
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Ratio of Financing costs to Net Revenue Stream	5.02%	6.18%	6.28%	6.35%	6.47%	6.56%	6.39%

This shows that it is forecast that debt financing costs will remain constant at around 6.20% - 6.50%.

Effect on the Precept

117. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously been taken by the Authority are:

	Actual 2006/07	Estimate 2007/08	Estimate 2008/09	Estimate 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 20012/13
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Incremental Impact of Capital Investment Decisions.	£0.42	£0.04	£0.57	£0.16	£0.80	£0.13	£0.68

118. This indicator compares the capital programme set by the Authority in last year's budget process to the proposed revised capital programme submitted this year, and is intended to show the marginal impact of the overall capital programme new decisions being made by the Authority, on Council Tax levels.

Capital Financing Requirement

119. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. The Authority has an integrated Treasury management strategy (elsewhere on agenda) and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. The Authority has, at any point in time, a number of cashflows both positive and negative, and manages its Treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose.

120. Estimates of the end of year capital financing requirement for the Authority for the current and future years and the actual capital financing requirement at 31

March 2007 are:

	Actual 31.3.07	Estimate 31.3.08	Estimate 31.3.09	Estimate 31.3.10	Estimate 31.3.11	Estimate 31.3.12	Estimate 31.3.13
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement	38,936	43,896	51,331	53,592	55,580	57,042	58,133

121. Members will note that the capital financing requirement (CFR) is a "proxy" for debt outstanding.

122. The Authority's CFR is expected to increase to £58.1m by 2013 compared to current levels (end of 2007/08) of £38.9m. A large proportion of this increase was already anticipated in last year's programme (anticipated £53.2m by 2012), the additional increase reflects the :-

	£'m
Additions to the Approved programme financed by borrowing	0.5
Adding New Starts & 2011/12 to programme	<u>5.8</u>
	6.3

Minimum Revenue Payment (MRP) Policy

123. Local authorities are required to set aside some of their revenues as provision for debt repayment (MRP). Current capital regulations set the MRP at 4%, however the Department for Communities and Local Government (CLG) have proposed changes to the existing system and will issue revised regulations and guidance in March 2008. The revised rules are likely to stipulate an authority must make a provision for MRP which it considers to be “prudent” but they do not define what is prudent. The draft guidance statement proposes a number of options for making “prudent MRP provision”. The likely impact is to require authorities to make a MRP provision for the borrowing which financed the acquisition of the asset over the period bearing some relation to the asset’s operational life. For borrowing supported by Government grant (RSG), authorities will be able to use the current MRP regulations, 4%, but for unsupported borrowing the new regulations will apply from 2008/09.

124. The Executive Director of Resources is currently preparing a review of the Authority’s MRP strategy based on an “25 year” future capital programme, asset life, available funding (including the anticipated capital grant in 2009/10 & 2010/11, £35m-£45m available nationally). This will determine the Authority’s policy on MRP, however the approach on the unsupported borrowing MRP provision will reflect the revised capital regulations and be based on the asset life associated with that borrowing. In relation to the implications to the medium term financial plan the Executive Director of Resources based on previous years capital spend patterns and the impact on interest income levels is of the opinion no additional funds need to be set aside at this stage. The report on the Authority’s MRP strategy will confirm this position in 2008/09.

Net Borrowing and the Capital Financing Requirement

125. CIPFA’s *Prudential Code for 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 capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”

126. The Authority had no difficulty meeting this requirement in 2006/07, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

E) TREASURY MANAGEMENT STRATEGY STATEMENT 2007/08

INFORMATION:

127. The Local Government Act 2003 and subsequent regulations require the Authority to set out its strategy for borrowing and to prepare an Annual Investment Strategy. The Act requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Authority must also approve an Annual Investment Strategy for 2008/09 in compliance with Government Guidance on Local Government Investments issued under section 15 (1)(a) of the Local Government Act 2003. This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Annual Investment Strategy is included as part of the Treasury Management Strategy Statement shown below.

128. The Authority previously considered its annual Treasury Strategy Statement under the requirement of the CIPFA Code of Practice on Treasury Management in Local Authorities. The 2003 Prudential Code introduced new requirements for the manner in which capital spending plans are considered and approved, and in conjunction with this, the development of an integrated treasury management strategy.

129. In compliance with both Codes, the Executive Director of Resources has prepared a proposed Treasury Management Strategy for 2008/09, which is set out in the following pages. The Strategy outlines treasury management activity to be undertaken in 2008/09 and the prudential and treasury management limits for the next 3 financial years which must be determined in accordance with the Local Government Act 2003.

BACKGROUND PAPERS:

CIPFA's Treasury Management in the Public Services: Code of Practice
Prudential Code for Capital Finance in Local Authorities
Local Government Act 2003 (and supporting regulations)

TREASURY MANAGEMENT STRATEGY STATEMENT 2008/09

Introduction

The suggested strategy for 2008/09 in respect of the treasury management function is based upon treasury officers' views on interest rates supplemented with leading market forecasts. The strategy covers:

(a) - prospects for interest rates;
(b) - capital borrowings and the portfolio strategy;
(c) - annual investment strategy;
(d) - debt rescheduling;
(e) - external debt prudential indicators;
(f) - treasury management prudential indicators;

Prospects for Interest Rates

- Shorter-term rates

Economic activity remained comparatively robust through 2007, in spite of tightening monetary policy. However, conditions are set to deteriorate in 2008. The significant tightening of domestic credit conditions is expected to affect a wider cross-section of the economy as household borrowing conditions tighten. The renegotiation of fixed rate, discounted mortgages arranged when interest rates were substantially lower is set to reach a peak in early 2008. The rise in interest costs that this will pass on to a large number of UK consumers will finally deliver the full impact of the Monetary Policy Committee's (MPC) rate hikes in 2007 and undermine growth in consumption. Inflation is set to benefit from the slowdown in both the manufacturing and service sectors.

The slowdown in economic activity and downward pressure on inflation will provide scope for further cuts in official interest rates in 2008. The stubborn strength of consumer activity had been one factor restraining the MPC from taking action earlier. But the threat posed by the credit crunch of late 2007 raised the urgency of the MPC to counter the dangers to the health of the wider economy. In December 2007 the MPC cut the Bank Rate to 5.50% and a further to cut to 5.25% is expected early in 2008. During 2008/09 further cuts are expected and a 4.75% rate is forecast for the end of 2008/09.

- **Longer-term interest rates**

Longer term Public Works Loans Board (PWLB) rates which are based on the yield on government securities (gilts) fell in late 2007 to around 4.60% in response to increased demand for high quality assets caused by the credit crunch. Whilst concerns over the health of the financial markets persist, government bond yields are expected to remain flat. As the effects of the credit crunch dissipate during 2008/09 uncertainty over inflation prospects will limit scope for declines from current levels and will ultimately drive yields higher. Longer-term PWLB rates are expected to rise to perhaps 4.75% by the end of the year. Overall, the gap between short and long term rates is therefore expected to narrow significantly resulting in a relatively flat yield curve.

Capital Borrowings and the Borrowing Portfolio Strategy

The Authority's new capital borrowing requirement for 2008/09 is presently estimated at £5.8 million. Loans of £2.5 million are due for repayment in the year. This would mean the Authority's borrowing rising from £48.6 million at the start to £51.9 million at the end of the financial year. Based on the prospects for interest rates outlined above, it is expected that short to medium term rates will become more attractive during 2008/09 although long term fixed rates will remain good value.

In recent years, new borrowing has generally been for periods in excess of 30 and up to 50 years because interest rates were lower for longer periods. The strategy for 2008/09 will be to move towards a more balanced maturity profile by arranging new borrowings for periods up to 10 years when these rates are comparable with longer term rates. Against this background, the interest rate market will be monitored and a pragmatic approach will be adopted to any changing circumstances.

ANNUAL INVESTMENT STRATEGY

Principles

The purpose of the Annual Investment Strategy is to set out the policies for giving priority to the security and liquidity of the Authority's investments. The strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments, and the liquidity of investments.

This Authority has regard to the ODPM's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

All investments will be in sterling. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities are (a) the security of capital and (b) liquidity of its investments. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The Guidance maintains that the speculative borrowing of monies purely to invest is unlawful and the Authority will not engage in such activity.

All cash balances will be invested in accordance with the Code of Practice and with regard to ODPM guidance. Under the guidance investments fall into two separate categories, either specified or non-specified investments and there should be further regard to liquidity levels.

A counterparty list of institutions with which the Authority will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating. Regardless of these criteria, the money market will be closely monitored and any institution will be suspended from the counterparty lending list should any doubts arise concerning its financial standing.

Specified Investments

Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of less than one year).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency OR
- made with the UK Government or a local Authority or a parish or community Authority.

It is proposed that specified investments comprise the following institutions:

UK local authorities
Debt Management Account Deposit Facility
Money Market Funds
UK Banks, foreign banks registered in the UK and mutual building societies with a high credit rating

8. A high credit rating is interpreted as the Fitch Ratings Ltd criteria currently applied to the lending list. To be deemed highly rated the institution must satisfy at least the minimum of all three criteria:

Long term credit rating A
Short term credit rating F1
Individual rating C

9. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2008/09 are as follows:

UK local authorities	£3 million
Debt Management Account Deposit Facility	£3 million
Money Market Funds (AAA rated)	£3 million
UK Banks (AA or higher rated)	£3 million
UK Banks (A or higher rated)	£2 million
Foreign banks registered in the UK (AA or higher rated)	£3 million
Mutual building societies (AA or higher rated)	£3 million
Mutual building societies (A or higher rated)	£2 million

The maximum that may be invested with different banks that are part of the same conglomerate shall not exceed the maximum of the highest rated bank within the group. The limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Executive Director of Resources or Treasury Manager.

Bank and Money Market Fund ratings are checked at least each month. The Authority is alerted by e-mail when there is an amendment to the credit rating of any institution. If an amendment means an institution no longer meets the Authority's minimum requirement that institution is removed immediately from the counterparty lending list. Should an institution not on the counterparty list achieve the minimum rating that institution can then be added to the list.

Non-specified investments

Non-specified investments do not, by definition, meet the requirements of a specified investment. The ODPM guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. It is proposed that the only types of non-specified investments undertaken are with mutual building societies that do not meet the specified criteria above.

The majority of building societies do not provide credit ratings to the credit rating agencies (so cannot be classed as specified investments) and inclusion on the lending list and individual lending limit has hitherto been determined by asset size. It is proposed to continue current practice and select the top twenty building societies, determined by asset size, for inclusion on the counterparty list. Those societies that are within the top twenty but do not have an agency determined credit rating shall have an individual limit of £1 million. Those that are credit rated will have limits determined by the criteria for specified investments. Building Society rankings are checked annually with the Building Societies Association.

Liquidity of investments

Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. All investments are normally short term having a maturity of less than one year. The Prudential Code does allow longer term investments and under certain money market conditions it may be prudent to invest for up to three years dependent on cash flow forecasts.

Reporting Arrangements

The Investments Strategy forms part of the Treasury Management Strategy which is referred to Policy and Finance Committee for monitoring. Treasury Management activity is reported to Members during the year in the quarterly budget monitoring reports and in a final annual report by 30th September following the end of a financial year.

Debt Rescheduling

Rescheduling of debt is the early repayment of loans and replacement by loans for different periods and at different interest rates. It can be used to enhance the balance of the long term portfolio by for example amending the maturity profile or changing volatility levels and may on occasion generate cash savings. Debt rescheduling becomes more beneficial when the relationship between short and long term rates moves appreciably.

The changes in the terms applied to PWLB loans in November 2007 (i.e. the application of differing interest rates for borrowing and those for repayment) have severely constrained the option to generate savings via debt rescheduling. In the new regime, it will require a significant rise in the general level of interest rates to place debt in a position where rescheduling is viable.

The outlook for long-term interest rates in the year ahead makes the prospect of rescheduling unlikely although the situation could well alter over a longer time horizon. Interest rate structures will be continually monitored in order to take advantage of any perceived abnormalities in the yield curve. Should any rescheduling take place, it will be reported to Members in the scheduled monitoring reports.

External Debt Prudential Indicators:

The Prudential Code requires the following external debt indicators of prudence:
- Authorised limit for external debt;
- Operational boundary for external debt

- Authorised Limit

In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases.

Authorised Limit for External Debt		**2008/09**	**2009/10**	**2010/11**
		£'000	**£'000**	**£'000**
Borrowing		64,400	65,400	68,700
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**66,400**	**67,400**	**70,700**

The Authority is asked to approve these limits and to delegate authority to the Executive Director of Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the Authority.

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 an additional sufficient headroom over and above this to allow for operational management, for example unusual cash movements. 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.

- Operational Boundary

The Authority is also asked to approve the following operational boundary for external debt for the same period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom included within the authorised limit.

Operational Boundary for External Debt		**2008/09**	**2009/10**	**2010/11**
		£'000	**£'000**	**£'000**
Borrowing		54,400	55,400	58,700
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**56,400**	**57,400**	**60,700**

The operational boundary represents a key management tool for in year monitoring by the Executive Director of Resources. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Authority is also asked to delegate authority to the Executive Director of Resources, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit.

The Authority's external debt at 31st March 2008 is forecast to be £48.6 million. 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 the budget report, the Authority is asked to note that the authorised limit determined for 2008/09 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Treasury Management Indicators:

The Prudential Code requires the following Treasury Management indicators of prudence:

- Upper limit on fixed interest rate exposures;
- Upper limit on variable interest rate exposures;
- Upper and lower limits for the maturity structure of borrowing;
- Total principal sums invested for periods longer than 364 days.

- Interest Rate Exposures

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures for 2008/09, 2009/10 and 2010/11 of 100% of its net outstanding principal sums.

It is further recommended that the Authority sets an upper limit on its variable interest rate exposures for 2008/09, 2009/10 and 2010/11 of 50% of its net outstanding principal sums.

This means that the Executive Director of Resources will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2008/09.

- Maturity Structure of Borrowing

It is recommended that the Authority sets upper and lower percentage limits for the maturity structure of its borrowings as follows. Percentage of projected fixed rate borrowing that is maturing in each period:

	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	95%	50%

- Total principal sums invested for periods longer than 364 days

It is recommended that the limit for investments of longer than 364 days be set at £2 million for each of the years 2008/09, 2009/10 and 2010/11.

F) REVENUE FORECASTS

The Authority has in place a robust medium term financial plan.

This plan is fully reviewed on an annual basis and monitored quarterly. This section of the report will:-

- Firstly re-examine the underlying assumptions within the current financial plan

- Discuss the changes that have occurred to that plan.

Members will recall that 2 years ago the Authority's budget forecasts had identified a deficit for 2006/2007 of £8.499m. If this deficit were to be covered by precept increases alone this would have required a precept increase in excess of 40%.

This had arisen because of :-

- Exceptional pensions expenditure in 2005/06 depleting reserves

- The Authority hoped that new funding arrangements for firefighters pensions would eliminate the pensions problem altogether by returning expenditure to an "average" position. In fact the proposals, whilst stopping the problem getting any worse maintained the net revenue position at the 'exceptional' 2005/06 position. Therefore the Authority needed to repeat the one-off savings used to support the 2005/06 position.

- The significant imbalance between inflation and grant increases over a number of years.

Of this problem approximately £2.5m was one-off expenditure and the remaining £6m was a reflection of an underlying imbalance between Income and Expenditure levels.

The Authority has of course made significant strides in addressing that underlying deficit. This report will initially disregard the corrective action undertaken for the purpose of establishing the overall budgetary challenge facing the Authority

Budget Assumptions

In compiling the plan, the Executive Director of Resources has, in consultation with the Chief Fire Officer, made a number of assumptions of both a technical nature and also about the policies that the Authority might be mindful to pursue in its aim for a Fire Safety Community.

Included within this underlying budget position are the following assumptions

Inflation

The forecast plan currently includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions;

Non Uniformed Pay	2% April of each year
Uniformed Pay	2% in July of each year
All Other Price Inflation	2%

The total provision for pay and price inflation is approximately £1.6m per annum

As an indicator to members and a guide in assessing the volatility of inflation estimates - a movement of 1% in pay inflation for firefighters equates to approximately £0.5m.

Members will recall that the Government has repeatedly emphasised that "*It will be important to ensure that public sector pay settlements do not contribute to inflationary pressure in the economy. To do so would risk converting a temporary increase in inflation into a permanent increase. The pay review bodies should therefore* ***base its pay settlements on the achievement of the inflation target of 2%,*** *rather than on the recent temporary rise in the rate of inflation."*

In medium term financial planning for government grant support Treasury has assumed pay settlements at 2%. The Treasury has assumed that any above 2% pay awards will be paid for by savings and efficiency. This report follows that assumption. Members will be aware that representative bodies are hopeful of larger increase and if that is the case the Authority will face significant challenges identifying efficiencies.

Cost of Capital Borrowing

The revenue impacts of capital investment decisions and the agreed 2007/08 – 2012/13 capital programme are included within forecasts. This includes new start schemes of £5.8m and an additional £1.1m in the current approved plan, as already discussed (Section B). Because of

- Movements in interest rates
- Timing of borrowing
- Rephasing of capital programme
- Net additions and deletions

The net impact is that provisions for the cost of servicing debt within the capital programme are already sufficient.

PFI

The Authority has been successful in winning PFI credits to make a massive investment in our building stock as part of leading a Northwest fire service project. The anticipated lease costs arising from this have been built into budgets for future years at a net £0.550m.

Provision has been built into the financial plan for £0.5m in consultancy costs spread over the next four years - £0.125m per year. The Authority would require assistance to take forward a specialist scheme of this complexity in the fields of finance, law and property. Whilst the fees may seem large they represent only 1.3% of the forecast capital cost of the project (£38m).

Work on the project is well underway and members receive regular updates. The next major stage for the project is the agreement of the outline business case by the Treasury and CLG.

Consultants working on the project have identified that the Authority should consider maintain a costs smoothing/affordability reserve for the PFI project to spread costs effectively and smoothly over the life of the project. This is common practice in such schemes. The level of this reserve will clearly need to be reviewed as the project progresses and affordability gap becomes clearer but this action would leave the Authority well placed to deal with the financial burden of this innovative scheme.**(Maintain the reserve at £0.680m)**

Resources Available

a) Council Tax /Precept

The position assumes council tax increases at the Authority's medium term planning level of 4% per annum

b) Government Grant

Within the agreed plan Government support for future years beyond 2007/2008 was uplifted at an assumed floor of 2.0% since it was anticipated that the Authority will have very low (floor) grant increases until actual grant catches up with the formula grant.

Other Assumptions

The Medium Term Financial Plan assumes that:-

Job Evaluation

Provision of £0.3m p.a. is made for the costs of implementing Job Evaluation for non-uniformed staff. This is due to be implemented on the 1st April. It is expected that any "losers" would be pay protected for three years whilst "winners" under the scheme would have increased pay immediately. The provision is based upon the experience of other Fire Authorities.

Greening the Fire Service £0.100m

Merseyside already has a very good track record in its innovative working to make the fire service more environmentally friendly. Successes include:-

- Achieving ISO4001 standard and BSI standards
- Using 100% Green electricity
- Engaged in a carbon trust pilot to fit energy saving measures on stations
- Fitted catalytic converters to fire appliances
- Fitted pilot wind turbines
- Reviewed its waste management contract and instigated recycling where appropriate
- Received several environmental awards

Pension Costs

(a) LPGs

The base plan assumes that pension costs for staff in the LGPS scheme will increase at 1% p.a.

(b) Firefighter Pension Scheme

The plan assumes that the employer's contribution to Firefighter pensions continues at 21.3%. An actuarial review is underway with any changes arising from that expected in 210/11.

Regional Control and Firelink

Members will recall that the Authority has been told by the National project team that a regional control room to be operational in last quarter 2010 as part of a national project. The costs and full business case remain unclear at this stage. It has been assumed that any cost increases arising from a new radio system to be implemented (Firelink) will be offset by efficiency savings arising from the joined up control room.

World Firefighter Games – NO PROVISION

The Authority will recall that two years ago it set aside a reserve to support the world firefighters games of £0.300m with the aim that all other funding would be from external sources. That reserve has been called down in line with planned expenditure

£0.1m 2005/06
£0.1m 2006/07

And the final tranche is expected to be called down in 2007/08. Work to attract external funding is proceeding well and resources of £1.1m have been received from external sources

No further financial burden on Authority cash resources is expected at this time (although officers participating and supporting the games will give significant time 'in kind').

Provision for Mainstreaming schemes currently funded from Grant £0.200m

The Authority has in recent years had great success in attracting grant funding that has allowed it to invest in a number of world leading pilots - notably a number of the fire safety advocate schemes. Grant funding is usually time limited and where there have been successes the Fire Authority has wished to mainstream those projects within its core work. Provision is made for a number of schemes whose grant will end across 2007/08 and 2008/09 where the current perception is that they will be a success. Several of these schemes are NRF funded.

Members will note that the government has stopped the Community Safety Grant and the Innovation Grant.

Regional Management Board £0.030m

Members will be aware that a number of successful project have proceeded at Regional level. Therefore an increased provision is proposed to support regional working. The regional management board budget paper is attached as **Appendix 3**. This includes investment in the following work streams

- Training
- Procurement
- Business Change Manager
- Administration and Audit Costs

New Dimensions Grant

The Authority received a grant for 2007/08 of £0.814m for crewing New Dimensions vehicles from CLG. This is assumed within the base budget for 2008/09 and future years. At the time of writing CLG have only just announced the grant level for 2007/08 and no date is known for the final announcement.

Current indications are that beyond 2007/08 Merseyside may have to share some of the grant with Cheshire (Cheshire is expected to receive its own specific grant for 20006/07 and 2007/08. Cheshire jointly crews the vehicle with Merseyside) so the figure is reduced for future years.

Further Variations to the current Financial Plan

Officers have identified four key numbers of variations to the current financial plan which have effected this underlying position.

Unavoidable IRMP and Service Improvements £0.336m total

a) IRMP

This budget and financial plan must be driven by the IRMP. The proposed IRMP following consultation appears elsewhere on the Agenda. (CFO/54/08) The plans and detailed actions within the IRMP have been examined and costed in detail. In overall terms the plan will deliver significant efficiencies to the service and many of the new initiatives involve redirecting current resources. These are however a number of projects which require funding which total £0.143m. These are set out in the table below.

	2008/09	2009/10	2010/11	20011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
2008/09 IRMP Growth:					
Modernise procedures for th Acetylene cylinders	30	15	10	10	10
IRMP 08.1.12 promotion of inland water safety	37	29	29	29	29
Flexible Response Vehicle	1	1	1	1	1
Wild Land Response Vehicle	25	4	4	4	4
Continue Embedding Healthy Living	50	50	50	50	50
	143	99	94	94	94

b) Other Service Improvements

Managers within the service were asked to identify potential areas for additional investment as part of the budget process. That initial process resulted in bids of nearly £0.578m. The Corporate Leadership Team has examined those bids in detail and restricted them to those areas which are unavoidable due to legislation or service improvement requirements. They total £0.193m and are also set out in detail in the table below

	2008/09	2009/10	2010/11	20011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
CLT Growth items					
Chargeable special services income correction	43	43	43	43	43
Maintenance call out contract for the Audio/Visual Equip	4	4	4	4	4
Fire Gateway Contribution mandated by CLG	15	15	15	15	15
Long Serv Awards	9	9	9	9	9
Firebuy Subsidy	50	50	50	50	50
Centre of Excellence Subsidy		50	50	50	50
CPD Payment	30	30	30	30	30
Attendance Incentive Awards - tax provision	12	12	12	12	12
Design Management Co-Ordinator for building projects.	10	10	10	10	10
Recuitment drive / publicity to deliver equality&diversity targets	20	20	20	20	20
	193	243	243	243	243

Taxbase Collection Fund changes

Council Taxbase

The Districts of Merseyside have set their taxbases for 2007/08 and 2008/09 and they are shown in the table below:-

District	2007/2008 Council Tax Taxbase	2008/2009 Council Tax Taxbase	Variance
	£	£	£
LIVERPOOL	129,705.00	128,462.00	-1,243.00
WIRRAL	104,256.00	104,009.00	-247.00
ST.HELENS	55,390.00	55,560.00	170.00
SEFTON	93,016.51	92,980.14	-36.37
KNOWSLEY	42,216.00	42,239.00	23.00
	424,583.51	423,250.14	- 1,333.37
Current Council Tax Levels £	57.75	57.75	57.75
Total Income £	24,519,698	24,442,696	-77,002

The total taxbase for the Authority has reduced by 1,333 (0.31%), this means that each £1 of Council Tax the level of income will be lower than that generated in 2007/08 by £1,333.37. The result of this is that the income from the current level of Council Tax is anticipated to reduce by £77,002.12. (This is assumed to be a permanent reduction)

This means that the income forecast from a 1% increase in Council Tax in 2008/2009 is now £244,426.96

Surplus and Deficit on Collection Funds

The Districts of Merseyside have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The results are set out in the table below and show a net deficit of £64,230. This impact is a one-off.

District	Collection Fund (surplus)/deficit
	£
LIVERPOOL	-
WIRRAL	25,649
ST.HELENS	22,871
SEFTON	15,800
KNOWSLEY	-
	64,320

Grant Support

The Authority had assumed grant increases broadly in line with inflation at 2% p.a.

As members are aware the grant settlement for 2008/09 has been announced (with indicative figures for 2009/10 2010/11.)

The increases announced are (despite an intensive lobbying effect by Authority Members supported by representative bodies):-

2008/9	1%
2009/10	0.5%
210/11	0.5%

This is 4.5% less than Treasury inflation estimates across the period and 4% in total less than assumed in our financial plan.

Members will be aware some Authorities received an increase 9 times higher (e.g. Nottingham) in 2008/09.

The impact of this on the financial plan is:-

	£'m
2008/09	0.454
2009/10	1.161
2010/11	1.964

Forecast Deficit

Overall therefore the Fire Authority, before taking account of corrective action plans already in place has a forecast underlying budget deficit of approximately £8.5m each year in the medium term even after assumed council tax increases at 4%.

2008/09 - 2012/13 Medium Term Financial Plan					
	2008/09	2009/10	2010/11	20011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Base Budget position	75,866	75,866	75,866	75,866	75,866
Inflation contingency 2009/10 unallocated	1,550	1,550	1,550	1,550	1,550
Inflation contingency 2009/10 unallocated		1,600	1,600	1600	1,600
Inflation contingency 2010/11 unallocated			1,600	1600	1600
Inflation contingency 2011/12 unallocated				1600	1600
Inflation contingency 2012/13 unallocated					1600
Impact of Capital Prog	658	794	962	1162	1,408
PFI	300	550	550	550	550
Increase in LGPS 1% point in super rate p.a.2007/08 to 2010/11		80	160	160	160
	78,374	**80,440**	**82,288**	**84,088**	**85,934**
Addiditional New Expenditure Pressures					
2008/09 IRMP Growth:					
Modernise procedures for th Acetylene cylinders	30	15	10	10	10
IRMP 08.1.12 promotion of inland water safety	37	29	29	29	29
Flexible Response Vehicle	1	1	1	1	1
Wild Land Response Vehicle	25	4	4	4	4
Continue Embedding Healthy Living	50	50	50	50	50
CLT Growth items					
Chargeable special services income correction	43	43	43	43	43
Maintenance call out contract for the Audio/Visual Equip	4	4	4	4	4
Fire Gateway Contribution mandated by CLG	15	15	15	15	15
Long Serv Awards	9	9	9	9	9
Firebuy Subsidy	50	50	50	50	50
Centre of Excellence Subsidy		50	50	50	50
CPD Payment	30	30	30	30	30
Attendance Incentive Awards - tax provision	12	12	12	12	12
Construction Design Management Co-Ordinator for building projects.	10	10	10	10	10
Recuitment drive / publicity to help deliver equality & diversity targets	20	20	20	20	20
Expenditure Before Saving Target	78,710	80,782	82,625	84,425	86,271
Forecast Income:					
Government Grant (per CSR07 & +2% 2011/12 & 2012/13)	-45,845	-46,074	-46,305	-47,231	-48,176
Precept Income levels 2007/08	-24,519	-24,519	-24,519	-24,519	-24,519
Revised Taxbase	77	77	77	77	77
4% Council Tax Increaase	-978	-1,995	-3,053	-4,153	-5,297
Collection Fund Deficit	64				
Forecast Income in Financial Plan	-71,201	-72,511	-73,800	-75,826	-77,915
Forecast Deficit Before Action	7,509	8,271	8,825	8,599	8,356

G. Budget Options

In order to address the budget deficit and to achieve the Authority's council tax planning target of 4% therefore significant savings have to be achieved.

Officers have identified a number of options to be considered.

These are analysed in detail in **Appendix 4**

Value for Money (VFM)

The Authority has for many years now had an embedded strategy approach to ensure VFM. This has allowed it to:-

- Improve Performance
- Whilst hugely reducing costs
- Achieving public satisfaction at the highest level in the country

In line with this approach each option has been scored against a Value for Money Index. This takes account of:-

- The magnitude of the saving
- Whether it is permanent or one-off
- The impact of the option on corporate objectives (REDUCE/RESPOND/RESTORE)
- The impact on staff and implementation viability

The savings are set out in detail in the **Appendix 4**.

S1. & S2. Continue Corrective Action Plan Already In Place

Members will recall that in facing a significant budget deficit two years ago they enacted a contingency plan it had in place should the changes to government grant prove to be extremely disadvantageous. Since approximately 80% of Authority costs are related to its staff the Authority recognised that it simply could not deliver such a substantial level of efficiency savings without addressing staff costs. The Authority however had a long standing policy of avoiding compulsory redundancy. Furthermore it recognised that because of retirement profiles of staff there existed an opportunity to make savings without using compulsory redundancy but that to deliver the savings would take 3 years altogether. The Authority therefore needed to find short term resources to balance its budget for 2006/07 and 2007/2008.

In order to solve the budget position the Fire Authority therefore

- ➢ Developed a detailed plan to deliver over £5.2m of staff savings over a three year period
- ➢ Planned for further savings in ICT costs (working with its partner Telent) and a general efficiency savings target.
- ➢ Approached the Secretary of State with this plan to ask permission to capitalise exceptional pensions expenditure in 2005/06 as a short term measure. The capitalisation would mean the Authority borrowing money which it could use as to create a "cost smoothing" reserve which would be used up over two years (2006-2008) to 'buy time' to deliver staff savings through natural retirement rates and avoid compulsory redundancy.

The Secretary of State approved the Authority's medium term financial plan and on that basis gave the Authority special permission to borrow (capitalise pensions) £6.1m on the 27th February, 2006.

The savings plan is summarised in the table below:-

	2006/07 £'m	2007/08 £'m	2008/09 £'m	2009/10 £'m	2010/11 £'m
Budget Problem	**8.5**	**5.9**	**6.3**	**6.4**	**6.1**
Revised Pension Forecasts	- 1.7				
Borrowed Money	- 4.1	- 2.0			
Cost of Borrowing	0.6	0.6	0.6	0.6	0.6
Savings targets					
Dynamic Staff Savings target	- 3.0	- 4.0	- 5.2	- 5.2	- 5.2
ICT	- 0.1	- 0.3	- 0.4	- 0.4	- 0.4
Efficiency Target	- 0.2	- 0.3	- 0.3	- 0.3	- 0.3
From Investing Modernisation Reserve			- 1.0	- 1.1	- 0.8
	- 8.5	- 6.0	- 6.3	- 6.4	- 6.1

Progress against delivering this plan

a) Dynamic Staff Savings Target

Staff retirements have proceeded in line with the retirement profile anticipated (90 staff approx) and therefore in cash terms the dynamic staff savings target for 2007/08 of £4.0m is on target for delivery (See the financial review elsewhere on the agenda for more detail).

Clearly staff reductions of this scale are only sustainable if the Authority takes action to change its working practices and restructures the workforce permanently. The Authority has identified and agreed a very large number of changes to its staffing structures including:-

- ➢ Low level activity stations (LLAR) x 6
- ➢ Incident Management Team

- MACC (Command and Control) Restructure
- Special Appliances (ORC)
- Aerial Appliances
- HazMat (Hazardous materials crew) Bromborough
- Search and Rescue Team (SRT) embedded at Croxteth
- Retained/Resilience
- Fire Safety
- TRG (Threat response Group)
- Senior Officer Review
- A programme of Voluntary Early retirement and Voluntary severance for non-uniformed staff

Most (but not all) of these are already approved and implemented

It is anticipated that these changes will allow full delivery of the anticipated £5.2m saving by 2008/09.

There have been no redundancies to deliver the charges in cash terms because of ongoing natural turnover rates and retirement.

b) <u>ICT Saving</u>

The ICT saving set for 2006/07 was met. In 2007/08 this proved more challenging and so far savings of £0.2m have been delivered. Particular credit should be given to our ICT outsource partners- Telent – who have demonstrated a proactive and supportive approach to assisting the Authority at a difficult financial time. Special note should be made of the JDP (Joint Development Plan) that has been produced between Telent and the Director of Procurement. That plan effectively incentivises Telent to drive savings from core ICT costs. It is anticipated that the targets can be met for future years.

Members will note that the outsourced contract is due for renewal in December, 2008. It is anticipated that the effective management of ICT risks will mean that efficiencies

S3 – S10 – Corporate Leadership Team Options

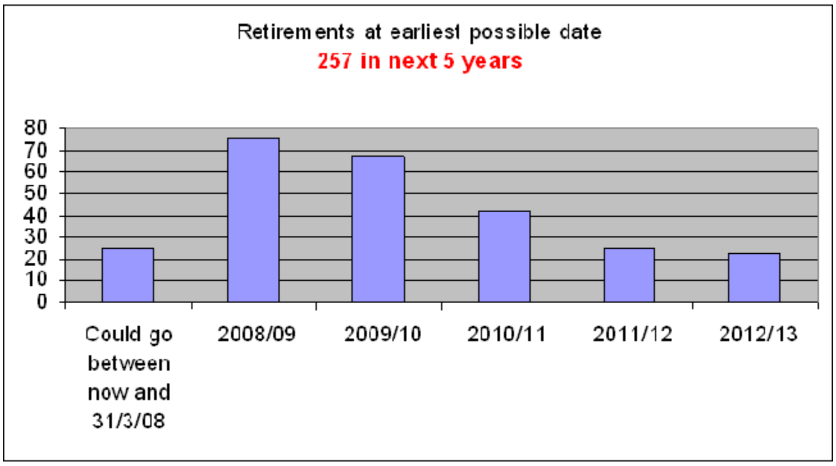
CLT has reviewed all budget areas in detail and have identified savings totally £0.795m in 2008/09. These are detailed in the Appendix and are:-

b) CLT RECOMMENDED SAVINGS		£'000 (max)
S3	Review phasing of PFI Payments	500
S4	Review Non Pay Inflation	50
S5	Seconded Income Target Increase	125
S6	Review Investment Income in Light of Timing of Pension Grant	100
S7	Timing of CPD Payments means 2008/09 One Off Saving	180
S8	Capital of Culture Team	50
S9	Early Termination of BA Lease	40
S10	Review provision for LGPS Increases on the basis of latest information from superannuation fund	**152**

S11-S25 – Dynamic Staff Savings Target

The Authority's budget is made up of over 80% of staff related costs. In tackling a very significant budget deficit it is, therefore, inevitable that significant staff savings are required. It has a policy of avoiding compulsory redundancy by using natural turnover and retirements to deliver savings. As staff leave the savings are delivered in "cash" terms but the Authority must make the decisions to change its structure and working arrangements to match the rate at which staff are leaving.

Over the next few years the retirement rates for firefighters will remain very high



The Authority can, therefore set a significant staff savings target that can be achieved without compulsory redundancy (whilst still making significant allowance for recruitment as required).

Officers have identified 14 possible options of structural changes from which to choose a limited number in order to deliver these savings. These are set out in detail in appendix 4 but are:-

S11	Change shift patterns and vary support pump availability to match risk
S12	Change Annual leave Allocation
S13	Grey Book/Green Book Review
S14	Extend the agreed LLAR System
S15	Extend agreed retained Resilience
S16	Staff for absence levels consistent with the best performing fire services
S17	Change Special Appliance provision
S19	Close 1 Single Pump Fire Station
S20	Close 1 Two Pump Fire Station
S21	Outsource Aspects of the Service
S22	Reduce Response standards to national norm
S23	Review the utilisation of second pumps and small fire units as a cohesive response to changed fire activity
S24	Review Management Structures
S25	Non-Uniform Support costs review

Clearly a number of these options whilst deliverable on a risk basis would be challenging for our workforce and/or local communities and would deliver efficiencies over and above those required to set a balanced budget. Officers believe that the Authority might wish to set a target for savings but to seek more broadly the views of relevant stakeholders on which final portfolio of options that are agreed. Such a research exercise could include the use of the website, staff surveys, staff focus groups and community panels.

However, in order to set a robust medium term financial plan the authority needs to have in mind a detailed strategic plan for delivering the savings. On the basis of the initial Value for Money analysis officers have identified that they would expect the savings to be delivered from the following areas of the options.

- Grey Book/Green Book Review
- Extending the agreed LLAR System
- Extending the agreed Retained Resilience System
- Staffing for absence levels consistent with the best performing fire services
- Reviewing the utilisation of second pumps and small fires units
- Reviewing management Structures
- Non-Uniform Support Costs Review

It is expected that any budget resolution should include an outline plan of how savings are expected to be achieved at this stage (before seeking views from interested parties) and be consistent with the Authority's IRMP.

Council Tax/Precept

Members will have to decide their strategy for the precept and consider the acceptability of precept increases over the next few years. Potentially a larger precept increase might be used to help bridge the revenue budget gap.

Council Tax Capping

Universal crude capping of Council Tax has been abolished. However, new reserve powers have been introduced in the Local Government Act 1999 that allow the Secretary of State to intervene in certain instances.

The Government has said that keeping council tax under control remains a high priority for the Government and it expects the average increase in England to be substantially below 5 per cent next year.

It is clear that authorities setting high Council Taxes might well face capping, the Government has said it will not hesitate to use its capping powers as necessary to protect council tax payers from excessive increases. The Government has used its powers in recent years and capped a number of Authorities. The cost of 'rebilling' in the five Districts of Merseyside should the Authority be capped is estimated at £2m.

The 'ready reckoners' below will give members a guide on the impact of various precept levels

Council Tax Increase

	0%	1%	4%	5%
Band D Tax	57.75	58.33	60.06	60.32
District Precept	£'m	£'m	£'m	£'m
LIVERPOOL	7.419	7.493	7.715	7.790
WIRRAL	6.006	6.067	6.247	6.307
ST.HELENS	3.209	3.241	3.337	3.369
SEFTON	5.370	5.423	5.584	5.638
KNOWSLEY	2.439	2.464	2.537	2.561
	24.443	24.688	25.420	25.665

H) ADEQUACY OF RESERVES AND BALANCES

Responsibilities of Chief Finance Officers

Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is now required to comment on the following matters:

a. the robustness of the estimates made for the purposes of determining its Budget Requirement for the forthcoming year;

b. the adequacy of the proposed financial reserves.

There is then a requirement for the Authority to have regard to the report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves.

In the Fire Authority the Chief Finance Officer is the Executive Director of Resources – Kieran Timmins. For the purposes of the Act the "financial reserves" of the Authority would incorporate Earmarked Reserves and Working Balances.

To make a final judgement on these issues it will be necessary to consider the proposed budget decisions of the Authority in the light of this budget report.

Robustness of Estimate

To fully satisfy the Chief Finance Officer any proposed Budget or amendment should therefore:

- Be fully based upon the advice of Service officers (supported by finance officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept.

- Provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified.

- Provide for all known future developments either through direct service Budget allocations or the establishment of specific reserves for such purposes.

- Provide for an adequate level of Balances and Reserves consistent with the requirements of any Regulation that may be earmarked and/or the Authority's own risk assessment.

- Provide for the full revenue implications of the Capital Programme.

- Establish clear targets for income collection in respect of key income streams.

- Ensure there are no unidentified savings targets.

- Where appropriate ensure that the consequences of current over and under spendings have been taken into account.

Adequacy of proposed Financial Reserves

Under the 2003 Local Government Act the Secretary of State may enact Regulations that define certain types of “controlled reserves” and the minimum level for those Reserves. At the time of preparing this report the Secretary of State has not enacted any such Regulations.

However, the 2003 Act still places a requirement upon the Chief Finance Officer to report if the level of reserves is likely to be inadequate. That report should contain comment upon:

- the reasons for that situation
- the actions if any, considered appropriate to prevent the situation arising.

There is then a requirement for the Authority to respond to the report when making decisions on its future financial reserves.

In recent years the Authority has maintained a general revenue reserve of £2m and also maintained a number of earmarked reserves.

A pilot Comprehensive Performance Assessment (CPA) performance indicator relating to Financial Reserves indicated that an appropriate level of General Fund Working Balances at the end of the financial year should be “at least equal to 5%.... of forecast Net Operating Expenditure…. or there is a financial risk management process operating which the Authority uses to justify a lower level of reserves….”. This is for ‘normal’ , multi-service local authority.

For the Authority 5% forecast Net Operating Expenditure equates to approximately £3.5 million.
However:-

a) The Authority’s risk management arrangements have improved. As part of this budget process the Director of Resources has prepared *a financial risk management matrix* and also assessed the year on year variation in risk facing the Authority. This takes account of the corporate risk register.

b) The Authority has previously maintained a number of specific earmarked reserves against risk.

c) The Authority is single purpose and does not face as full a range of risks to manage as a multi-purpose authority.

d) The Authority is unlikely to face significant increases in cost because of uncontrollable demand issues (unlike for example Social Services care for the elderly).

e) Members will note that the Authority's revenue reserves have not generally been consumed during the year by overspendings but have been maintained throughout the year .

Having reviewed the Authority Risk Register and prepared a detailed costing of financial risks, the Executive Director of Resources recommends that in the light of all risks facing the Authority that it should aim to maintain a general revenue reserve of £2m

The currently forecast position on anticipated reserves is set out below:-

	31.03.08	31.03.09	31.03.10	31.03.11	31.03.12	31.03.13
	£'000	£'000	£'000	£'000	£'000	£'000
General Reserve	2,000	2,000	2,000	2,000	2,000	2,000
Earmarked Reserves						
Bellwin Reserve	147	147	147	147	147	147
Insurance Reserve	220	220	220	220	220	220
Emergency planning Reserve	75	75	75	75	75	75
FB Modernisation Reserve	745	745	745	745	745	745
Smoothing Reserve	0	0	0	0	0	0
F/F Games Reserve	63	63	63	63	63	63
Regional Reserve	170	170	170	170	170	170
PFI GAP Reserve	680	680	680	680	680	680
	2,100	2,100	2,100	2,100	2,100	2,100
	4,100	4,100	4,100	4,100	4,100	4,100

Members will note in particular regarding the reserves

- The modernisation reserve was set up following savings identified by changing accounting policies on smoke alarms. It is intended for use for one off costs that deliver long term savings. Notably paying for service investment and VER/VS costs associated with the modernisation of the service required to deliver long term efficiencies. It is expected that a significant portion of this reserve will be used over the next year or two. At this stage the use of the reserve is not built into the above forecast. Any proposed use of the reserve to fund VER/VS costs will be reported to members.
- The Authority hold a few other small earmarked reserves for specific purposes/potential costs – Bellwin scheme,Insurance, regional Efficiency and Emergency Planning.

Members should bear in mind that reserves and balances should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

Review of Reserves and Balances

Members need to consider their strategy on reserves and balances in the light of the guidance from the Executive Director.

Consultation

The Authority has consulted on its budget decision in a variety of ways.

(1) IRMP Consultation

As part of the IRMP consultation, some respondents commented on the level of Council Tax. The key message was that – whilst recognising that planning for 4% might seem reasonable, this is still twice the rate of inflation and will cause problems for pensioners and those on low incomes.

(2) Consultation with Business

Officers intend meeting met with Liverpool Chamber of Commerce and will report verbally on any issues raised at the Authority budget meeting. In the past the Chamber has commented that:-

- Since business rates are set nationally, local precept decisions do not impact on local business.

- The Chamber is supportive of the Authority's :-

  - Community Fire Safety work
  - Excellent response standards
  - Preventative work

(3) Consultation with Unions/Staff

Trade Unions were invited to and attended the recent budget seminar . At the time of writing there has been so specific feedback directly from the Trades Unions.

Budget Timetable

There is a legal requirement for the Authority to set a balanced budget and decide its level of precept **before** 1 March 2008.

Equality Implications

The five year plan makes provision for investment in Equality issues of £0.1m in each future year.

BACKGROUND PAPERS