AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY BUDGET MEETING**
DATE:	**26TH FEBRUARY 2009**
REPORT NO.	**CFO/021/09**
REPORTING OFFICER:	**EXECUTIVE DIRECTOR OF RESOURCES**
CONTACT OFFICER:	**KIERAN TIMMINS, EXECUTIVE DIRECTOR OF RESOURCES, EXTN. 4202**
OFFICERS CONSULTED:	**EXECUTIVE LEADERSHIP TEAM**
SUBJECT:	**MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2009/2010 – 2013/2014**

Merseyside Fire and Rescue Authority Budget and Financial Plan 2009/2010- 2013/2014

Merseyside FIRE & RESCUE SERVICE

Beacon Authority 2004-2005 Services for Older People

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

Beacon Authority 2008-2009 Reducing Health Inequalities

Purpose of Report

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 2009/2010 and a precept level in line with statutory requirements.

Recommendation

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 2009/2010 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 2009/2010 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
f) Approve the statement within this report that sets out the Authority's policy on the Minimum Revenue Payment (MRP) for 2009/10.

Information

The Authority is required to determine its budget and precept level for 2009/2010 by 1st March 2009.

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

Forecast Revenue Estimates
The proposed Capital Programme
Savings and Growth Options
The Treasury Management Strategy
The Minimum Revenue Payment policy for the Authority

Considering 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

The following report structure will be adopted:-

A) <u>EXECUTIVE SUMMARY</u>

The Authority must set a balanced budget and a precept level by 1st March 2009.

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 – "Making Merseyside a safer, stronger, healthier community"

Our Mission – "To work in partnership to provide an excellent, affordable service that will:

Reduce risk throughout the community by protective community safety services

Respond quickly to emergencies with skilful staff

Restore and maintain quality of life in our communities

The Authority has agreed a number of Value For Money Principles that have underpinned its approach to budgets and financial plans in recent years. They are:-

Principle 1 – Allocate resources In line with priorities

Principle 2 – Control Council Tax

Principle 3 – Acknowledging budget realities

The Authority will continue to:

i) Acknowledge the challenges it faces:

ii) Acknowledge the reality of its budget and recognise that 80% of its costs are people related.

Principle 4 – The Authority seeks to avoid compulsory redundancy in delivering VfM

Principle 5 - The Authority seeks to maintain or improve service levels to make Merseyside safer, stronger, healthier

Revenue Forecasts

A five year financial revenue estimate has been prepared based upon the assumptions set out in the report. This is set out below. More detail is in section G.

2009/10 - 2013/14 (plus indicative 214/15) APPROVED FINANCIAL PLAN

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
Approved Expenditure Plans:						
Base Expenditure	72,978	72,973	72,973	72,973	72,973	72,973
Capital Prog required increase in MRP	136	304	504	750	1,048	1,373
Inflation Provision at 2% pay/inflation 2009/10 - 2013/14	1,600	3,200	4,800	6,400	8,000	9,600
PFI Unitary charge provision assumed in 2008/09 MTFP	50	500	550	550	550	550
Approved 2008/09 5 Year Budget Financial Plan	74,764	76,977	78,827	80,673	82,571	84,496
Unavoidable fadditional pressures for 2009/10						
2009/10 IRMP Growth:	0	0	0	0	0	0
2009/10 Directors Growth	260	265	265	265	265	265
Other Budget Pressure	675	1,097	1,560	1,610	1,565	1,905
Expenditure Before Saving Target	75,699	78,339	80,652	82,548	84,401	86,666
Forecast Income						
Government Grant (per CSR07 & **+2% 2011/12 - 2013/14**)	-46,074	-46,305	-47,232	-48,176	-49,140	-50,123
Council Tax Increase assumed 4% p.a.	-26,432	-27,489	-28,589	-29,733	-30,923	-32,160
Collection fund deficit	250					
Reduction in Council Tax Base	109	113	118	123	128	133
Forecast Income in Financial Plan	-72,147	-73,681	-75,703	-77,786	-79,935	-82,150
Forecast Deficit before any action	3,552	4,658	4,949	4,762	4,466	4,516

This forecast identifies a deficit for 2009/2010 of approximately £3.6million rising to £5.0million by 2011/12.

The main reason for the deficit is the gap between proposed grant increases and assumptions about pay increases.

Other factors that have affected the deficit include:-

- The costs of funding catch up investments in assets including PFI
- Interest rates affecting investment income
- Employers National Insurance Contributions being increased
- Potential Impact of regional control rooms and firelink
- Reducing income from council tax

If this deficit were to be covered by precept increases alone this would require precept increases of 15% to 19% over the period over and above the 4% increase already assumed in the financial plan

Key assumptions in this base forecast include

- Provision for pay increases 2% p.a.
- Provision for grant increases of 0.5% in 2009/10 & 2010/11, and 2% from 2011/12 onwards.
- No provision for variations in the Fire fighters pension scheme arising from actuarial review
- Assumption that the Authority will have the freedom to set council tax levels at 4%

The forecast provides for ongoing annual firefighter recruitment.

Whilst the Authority continues to lobby the Government to change the formula for grant and/or provide additional. resources the prospects for a significant increase in cash resources are not considered good. The Authority must therefore take action to address its underlying cost base in the medium terms as part of its financial strategy.

Reserves and Balances

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

Reserves	31.03.09	31.03.10	31.03.11	31.03.12	31.03.13
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
SPATE / Other Emergencies					
Bellwin Reserve	147	147	147	147	147
Insurance Reserve	220	220	220	220	220
Emergency planning Reserve	75	75	75	75	75
Modernisation Challenge					
Modernisation Reserve	663	663	663	663	663
Smoothing Reserve	871	871	871	871	871
Capital Investment	505	505	505	505	505
Specific Projects					
Regional Reserve	100	100	100	100	100
Pre Retirement reserve	112	112	112	112	112
Inflation					
Inflation Reserve	886	886	886	886	886
Total Earmarked Reserves	3,579	3,579	3,579	3,579	3,579
General revenue Reserve	2,000	2,000	2,000	2,000	2,000
Total reserves	**5,579**	**5,579**	**5,579**	**5,579**	**5,579**

The report identifies a number of potential risks in the medium term. These relate to the assumptions that:-

- Pay awards will be at 2%
- Grant Increases in the next spending review will be at 2%
- There is no provision for cost variances arising from the Government Actuarial review of pensions
- It is assumed that the Authority will have the freedom to set Council tax increases at 4%

If any of these assumptions vary then the forecast budget deficit will be affected. If the deficit increases significantly in the medium term the Authority might face difficulty in maintaining its value for money principles and in particular avoiding compulsory redundancy. In order to maximise the flexibility to manage these risks and to stick to its value for money principles the Authority should consider seeking opportunities to maximise reserves over the next three years. If any such short term reserves are then not required they may be prudently reinvested in making Merseyside safer,stronger and healthier.

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

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 Appendix H.

The Budget Working party has developed a weighted scorecard to measure budget options against its core Value For Money Principles. All options have been scored using that agreed methodology.

The top 13 Options (those scoring above 30) identified by that method are:-

Option No	Option Title	Description	Saving £'000
12	Reduce R&R team in line with a greements	In line with protocvol agreed with FBU - use overtime to maintain appliance availability, ride 4 o second pumps at two pump stations, keep five riders at LLAR stations	1332
5	Grey Book/Green Book	Review roles currently carried out by uniformed staff with a view to making non uniform with a reduction in cost	250
11	Self Rostering	Pilot stations introduce sel rostering which reduces costs by reducing sickness and improving availability	360
1	Reduce ill health retirements	Reduce Ill Health retirements b y better management and reduce cost to revenue account	350
3	Non Uniform Support Costs	Ensure efficiency in support services	150
9	Procurement Efficiencies Target	Target to reduce costs through efficient procurement	200
10	Social Enterprise	Generate Extra income by social enterprise establishment/trading in services	200
7	Review of LLAR	Comission a full review of the applicability of LLAR and assume that at least one additional station will be identified	300
2	Review management Structures	Reduce Management overheads	400
6	Review of RRT Managerial posts	As sickness levels reduce it is considered some of the management posts in the RRT can be reduced	400
13	Engineering centre of excellence	Assume that afficiencise can be identified in stores, equuipment maintenacne and support costs	150
4	Staffing of Special Appliances	Change staffing of special appliances and operational resource centre to reduce costs	280
8	Retirement Rengagement	Apply the principles of retirement and rengagement across the service as far as possible to reduce costs	175

Analysis has shown that the natural turnover rates of staff will allow the Authority to develop a balanced financial plan whilst avoiding compulsory redundancy. Budget options chose must restructure ways of working so that the actual establishment reflects the number of staff employed

Council Tax Increase

The forecast produced assumes a 4.00% council tax increase in each year in line with the Authority value for money principles. The Authority may choose to use a further precept increase to bridge the gap. However central government has made it clear that large increases will not be tolerated:-

"I expect next year's average council tax rise to be substantially below 5 per cent - I will not hesitate to help people by capping any excessive increase if I have to." (John Healy MP, Local Government Minister)

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

The ready reckoners below show the impact of potential Council Tax increases.

Council Tax Increase

	0%	1%	4%	5%
Band D Tax	60.06	60.66	62.46	63.06
District Precept	£m	£m	£m	£m
LIVERPOOL	7.605	7.681	7.909	7.985
WIRRAL	6.263	6.325	6.513	6.576
ST.HELENS	3.337	3.370	3.470	3.504
SEFTON	5.582	5.638	5.805	5.861
KNOWSLEY	2.524	2.550	2.625	2.650
	25.311	25.564	26.322	26.576

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 2009/2010 that sets a balanced budget in line with the statutory timetable.

Capital

The proposed 5 year capital programme is detailed in section C

The table below summarises the proposed investments which are mainly in the Authoritys property, vehicle and ICT assets which total nearly £46 million across the life of the programme.

2008/09 - 2013/14 Proposed Capital Progamme

Type of Expenditure	Total Cost £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £
Approved 5 year prog	12,891,800	4,857,800	5,311,000	761,000	711,000	1,251,000	0
New Start Bids	737,000	0	0	25,000	25,000	0	687,000
Building/Land	13,628,800	4,857,800	5,311,000	786,000	736,000	1,251,000	687,000
Approved 5 year prog	175,000	35,000	35,000	35,000	35,000	35,000	0
New Start Bids	45,000	0	2,000	2,000	2,000	2,000	37,000
Non Operational Equip & Hydrants	220,000	35,000	37,000	37,000	37,000	37,000	37,000
Approved 5 year prog	8,701,300	1,775,300	1,734,000	1,734,000	1,734,000	1,724,000	0
New Start Bids	1,834,000	0	20,000	20,000	20,000	20,000	1,754,000
Fire Safety	10,535,300	1,775,300	1,754,000	1,754,000	1,754,000	1,744,000	1,754,000
Approved 5 year prog	2,359,600	703,600	1,070,000	167,000	262,000	157,000	0
New Start Bids	680,000	0	232,000	29,000	29,000	114,000	276,000
ICT	3,039,600	703,600	1,302,000	196,000	291,000	271,000	276,000
Approved 5 year prog	0	0		0	0	0	0
New Start Bids	206,000	0	136,000	50,000	20,000	0	0
RCC associated ICT investment	206,000	0	136,000	50,000	20,000	0	0
Approved 5 year prog	1,201,800	340,600	485,600	136,600	32,000	207,000	0
New Start Bids	211,500	0	191,500	0	0	0	20,000
Operational Equipment	1,413,300	340,600	677,100	136,600	32,000	207,000	20,000
Approved 5 year prog	173,000	173,000	0	0	0	0	0
New Start Bids	10,000	0	10,000	0	0	0	0
T.D.A.	183,000	173,000	10,000	0	0	0	0
Approved 5 year prog	7,906,200	1,599,700	3,089,000	1,379,500	1,490,000	348,000	0
New Start Bids	1,690,500	0	36,000	76,000	35,000	0	1,543,500
Vehicles	9,596,700	1,599,700	3,125,000	1,455,500	1,525,000	348,000	1,543,500
Approved 5 year prog	7,035,000	0	0	0	3,560,000	3,475,000	0
New Start Bids	0	0	0	0	0	0	0
Fire World	7,035,000	0	0	0	3,560,000	3,475,000	0
TOTAL Approved 5 year prog	40,443,700	9,485,000	11,724,600	4,213,100	7,824,000	7,197,000	0
TOTAL New Start Bids	5,414,000	0	627,500	202,000	131,000	136,000	4,317,500
TOTAL	**45,857,700**	**9,485,000**	**12,352,100**	**4,415,100**	**7,955,000**	**7,333,000**	**4,317,500**

Financing Available:	**Total**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
		£	£	£	£	£	£
Capital Receipts							
Sale of Low Hill FS	250,000		250,000				
Sale of old workshop	650,000		650,000				
External Contributions							
Fire World contributions	6,035,000				3,060,000	2,975,000	
R.C.C.O.							
Various	108,500	108,500					
CFS general cont (Cap sals)	6,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Utilise Cap Investment Reserve	640,000	640,000					
(Capital Grant) Kensington	300,000		300,000				
Capital Grant CSR07	1,877,317		805,328	1,071,989			
Total Non Borrowing	15,860,817	1,748,500	3,005,328	2,071,989	4,060,000	3,975,000	1,000,000
Borrowing Requirement							
Supported Borrowing	19,255,860	2,829,000	3,160,000	3,251,000	3,316,020	3,382,340	3,317,500
Unsupported Borrowing	10,741,023	4,907,500	6,186,772	-907,889	578,980	-24,340	0
Borrowing	29,996,883	7,736,500	9,346,772	2,343,111	3,895,000	3,358,000	3,317,500
Total Funding	45,857,700	9,485,000	12,352,100	4,415,100	7,955,000	7,333,000	4,317,500

This capital programme has a borrowing requirement of £7.737million in 2009/2010 and nearly £30m across the whole life of the plan.

The proposed programme does contain significant prudential borrowing – as approved last year. The total of unsupported/prudential borrowing is £10.741million across the life of the programme. This is the amount of borrowing above what Government assumes in grant calculations.

The Authority needs to be mindful of the revenue costs of such borrowing .

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 (Section E)

Treasury Management

The Prudential Code requires the Authority to set a Treasury Management Strategy that includes number of indicators and limits. It sets a framework for the Executive Director of Resources to manage investments and borrowings within.

The Proposed strategy is set out in section F and includes 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

Minimum Revenue Payment (MRP) Statement

MRP is the amount of money set aside in the revenue budget by the Authority each year to reduce its overall level of debt. The Authority is required under the new Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to prepare a statement on its policy for MRP in respect of the forthcoming year. The new regulations require authorities to pay debt at a rate which it considers prudent.

The Executive Director of Resources has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2009/10 and future years for the Authority and re-affirms the approach for 2007/08 and 2008/09.

The overall impact of the new regulations has been to increase the revenue costs relating to asset investment.

B) BACKGROUND INFORMATION

This section provides general financial information on the Authority's finances and financial health.

Corporate Strategy

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

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

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 ongoing modernisation of the fire service and the Integrated Risk Management Plan (IRMP).

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

The Authority's IRMP states 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 the period 2007/10 and that IRMP has now been updated by the annual action plan for 2009-2010. Elsewhere on today's agenda is the proposed IRMP2 Action Plan 3 for 2009//2010 in report CFO/059/09.

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

"Our Vision – "Making Merseyside a safer, stronger healthier community"

Our Mission – "To work in partnership to provide an excellent, affordable service that will:

Reduce risk throughout the community by protective community safety services

Respond quickly to emergencies with skilful staff

Restore and maintain quality of life in our communities

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?

The Fire Authority has achieved very great success in its aims to make Merseyside a safer community. Members receive detail on this excellent performance in a variety of formats but very briefly the Authority has:-

- Become the first fire authority in the world to visit 100,000 households in a single year (and over 500,000 visits will have been carried out by the end of 2008/09)
- Fitted over 500,000 free smoke alarms
- Received Beacon Status for Early Intervention (Children at Risk), working with Older People, and for Reducing Health Inequalities
- Formed Joint Police Fire Service Threat Response Group
- Reduced fire deaths from an average of 20 in 1999 to 9 in 2007/08 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 5 years:

Year	Accidental Dwelling Fires	Injuries in Accidental Dwelling Fires	Fatalities in Accidental Dwelling Fires	Anti Social Behaviour Fires
2003-2004	1,612	171	9	18,984
2004-2005	1,470	173	11	12,258
2005-2006	1,456	155	11	11,689
2006-2007	1,336	126	8	12,721
2007-2008	1,286	69	9	10,449
2008-2009 Q3	958	80	7	6,072
% Change 2003/04 2007/08	-20.2%	-59.6%	0.0%	-45.0%

More details of the Authority's performance can be found in:-

- The quarterly service plan update reports, the most recent of which was CFO/247/08 (Performance & Audit Committee 20 November 2008),
- The 2008/09 Service Plan can be found on the Authority's web http://www.merseyfire.gov.uk/aspx/pages/service_plan/service_plan.aspx

Financial Strategy and where are we now?

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 over the medium term by considering all significant risks to the assumptions in the financial plan and creating specific reserves if deemed necessary.

- Maintained a general fund reserve of £2m following assessments of risk .

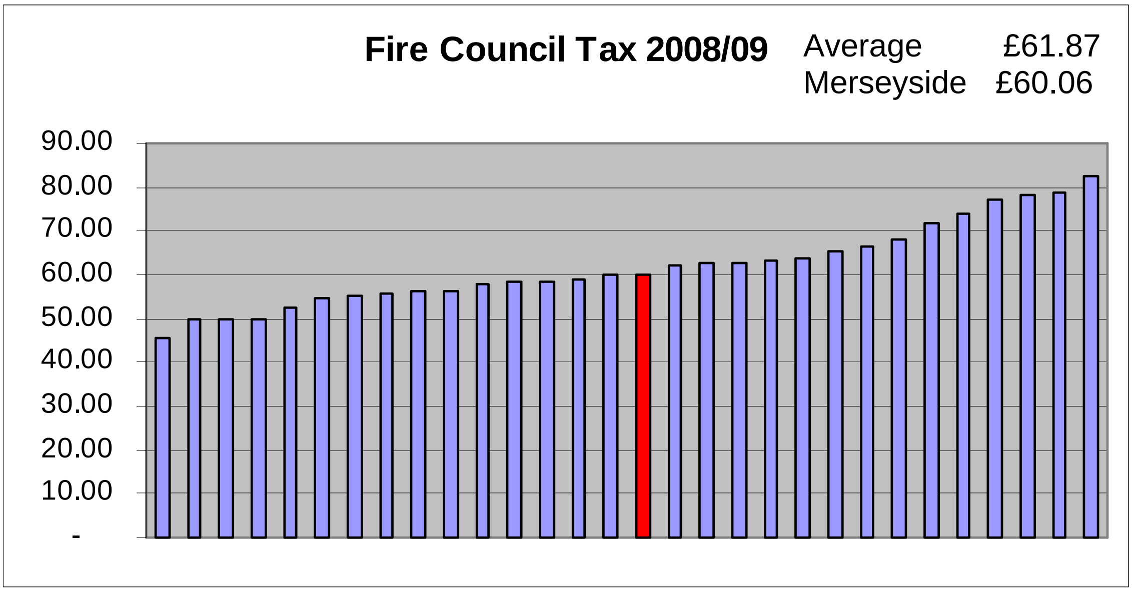
- Because of pressures on revenue budget generally avoided funding capital expenditure from revenue through leasing or RCCO

- Invested in the capital infrastructure of the Authority in line with Asset Management Plan, Vehicle Replacement strategies and corporate objectives

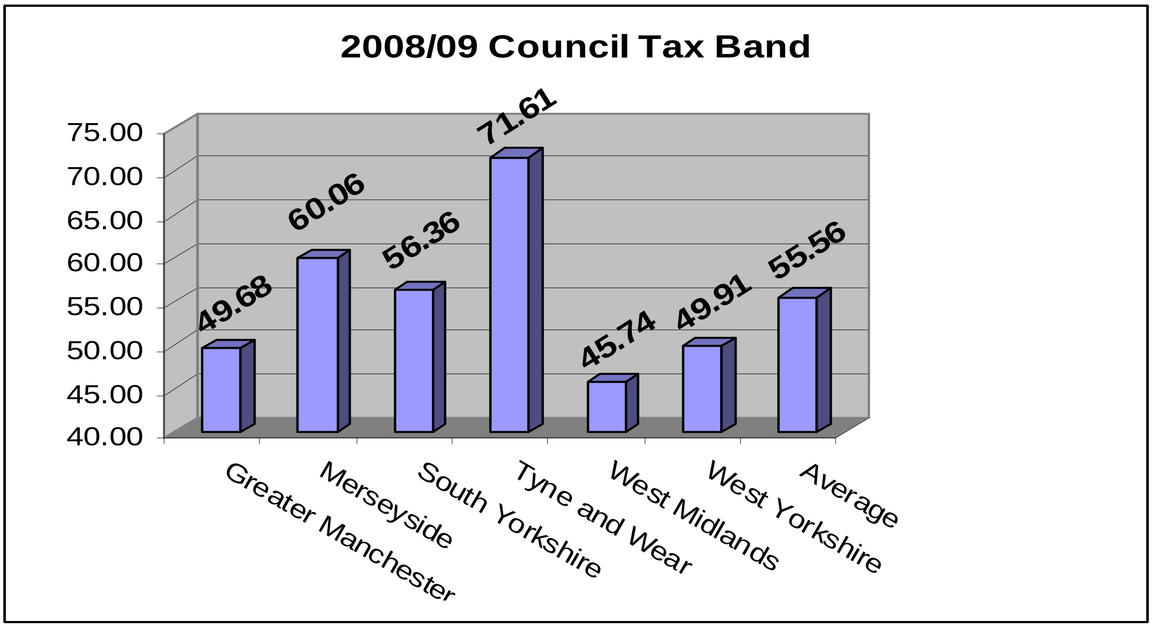
These strategies have allowed the Authority to make significant strides in reducing cost and maintaining relatively low levels of Council Tax increase despite very tight grant settlements.

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 following a change in the grant formula relating to fire fighter pension funding. Following the poor grant settlement for the period 2008/09 – 2010/11 the saving plan was increased to deliver a further £2.4m saving by 2010/11. This is discussed in more detail later in the report

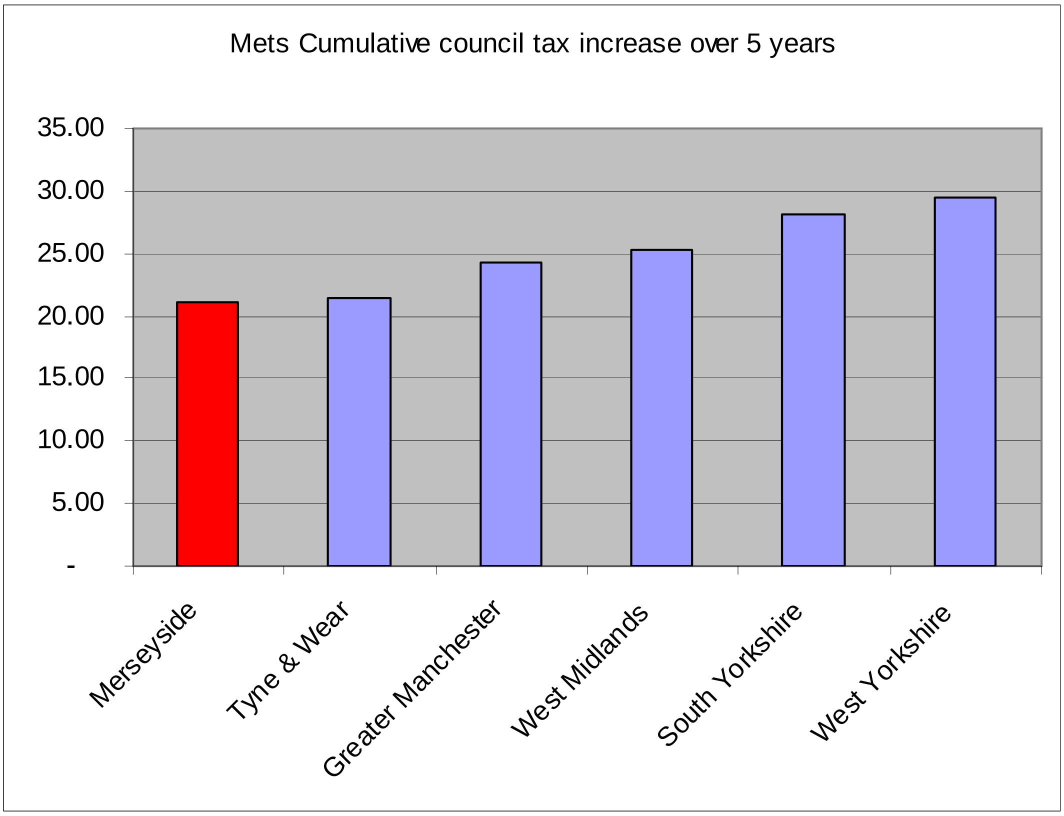
The Authority is below the national average council tax for fire services.



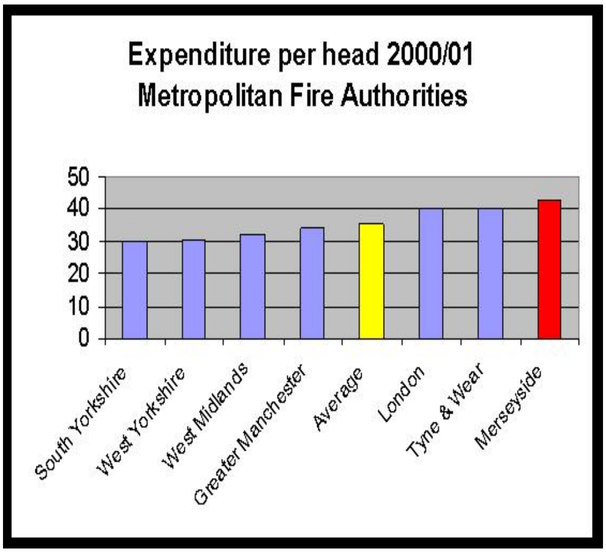
In 1996/97 Merseyside Fire & Civil Defence Authority Council Tax was more than 50% above the average of Metropolitan Fire Authorities. Now it is only 8% above the average:

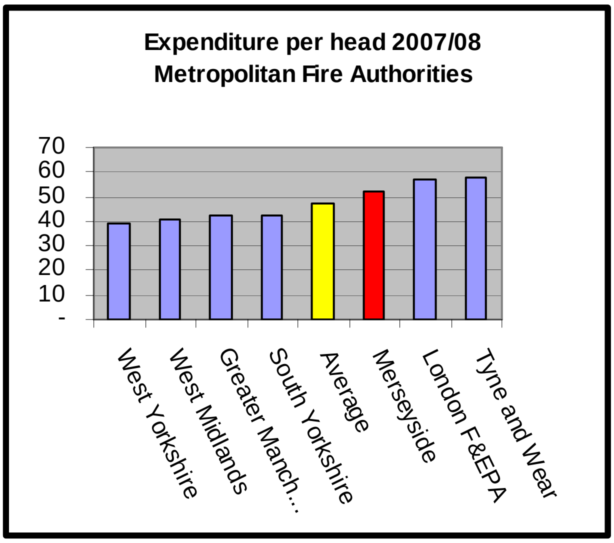


Over the past 5 years when compared to the other metropolitan fire authorities Merseyside has had the lowest cumulative council tax increase:

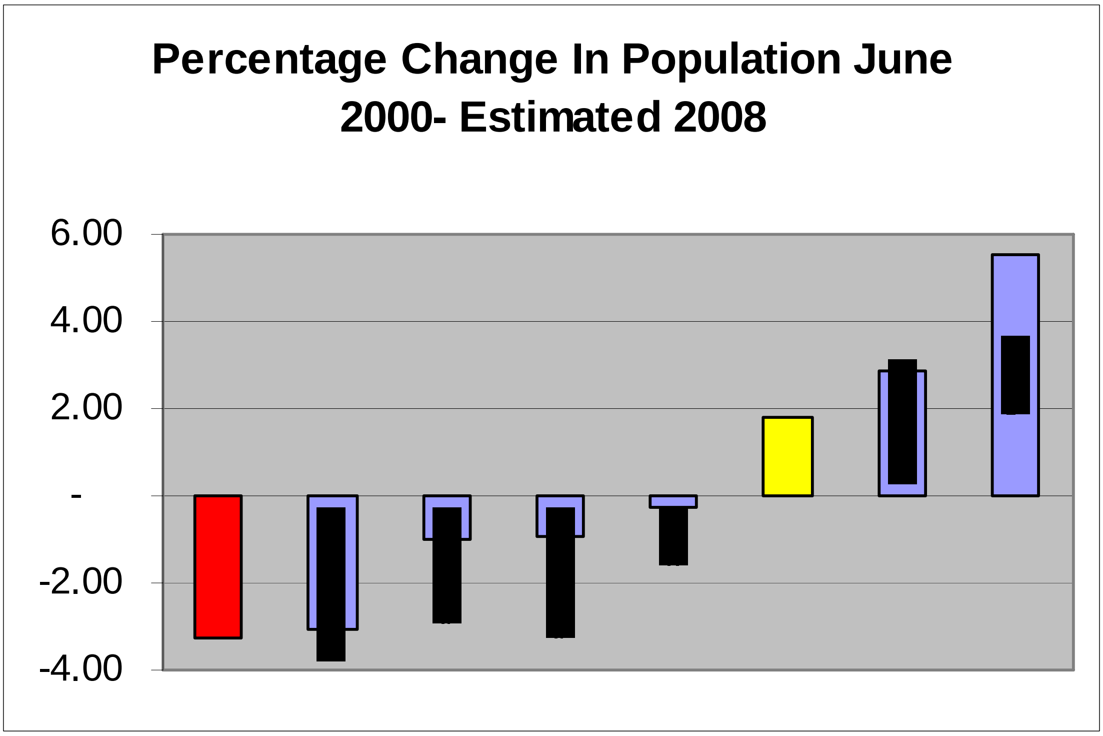


The significant improvements in efficiency by the Fire Authority and a large scale savings plan have meant that from being the most expensive metropolitan Fire Authority in the country in 2000/01 the Authority has moved to being only the third most expensive metropolitan Fire Authority by 2007/08.

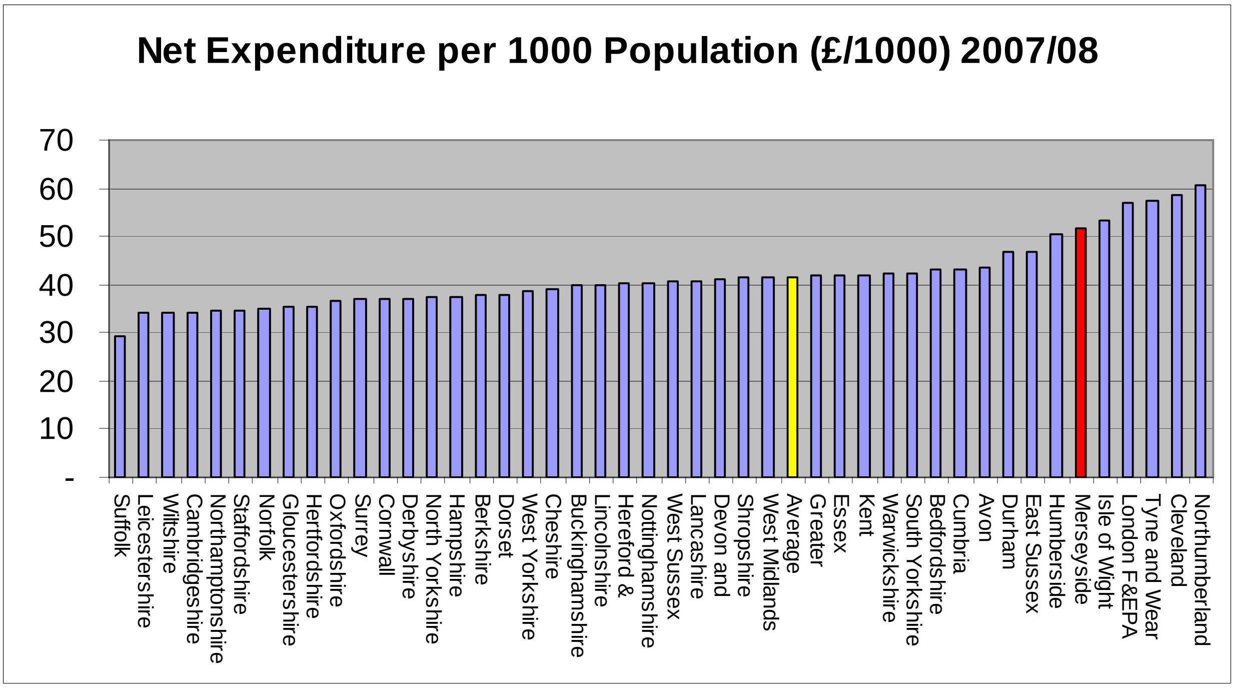




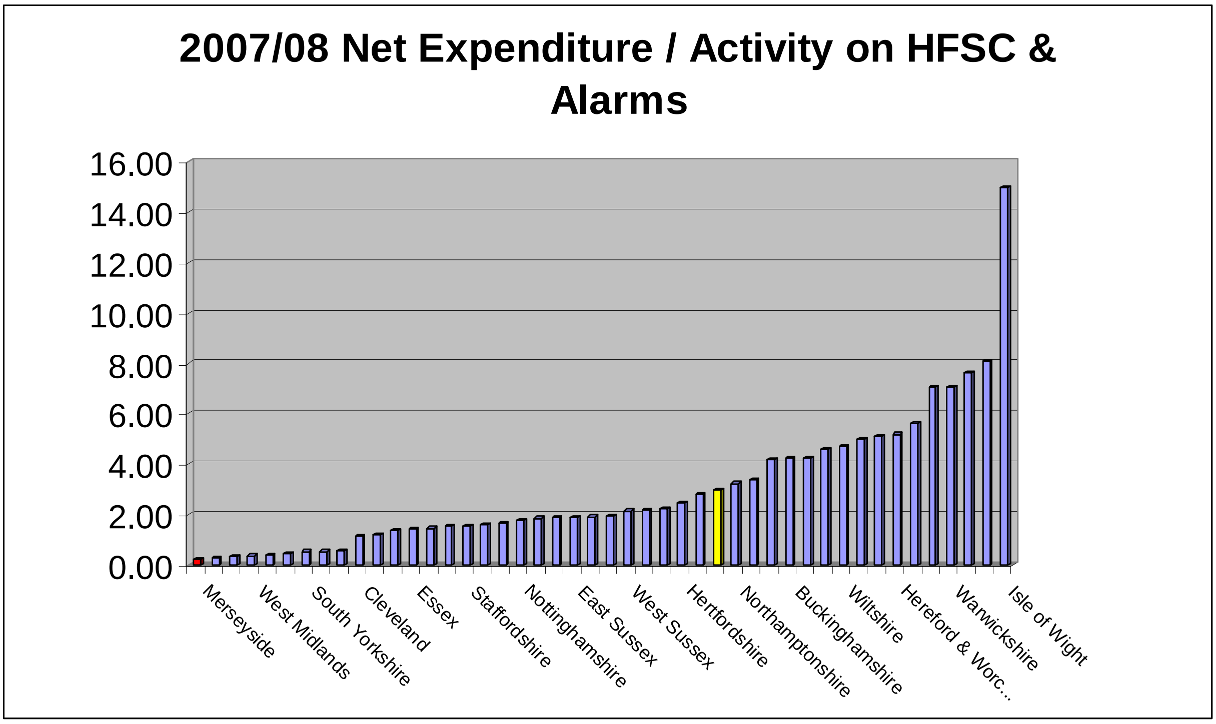
This performance has been especially encouraging when it is considered that across the same time period the population of Merseyside has been reducing significantly whilst other Authorities populations have grown. *If all other things has been equal it might have been expected that Merseyside's position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



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.

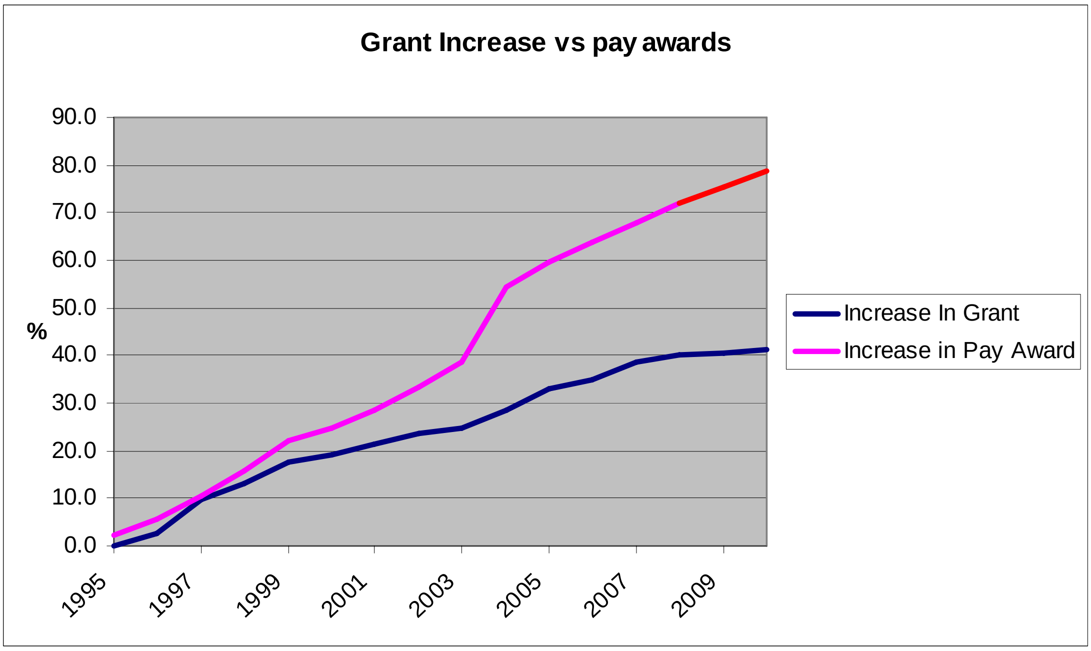


However it is noted that that this is only one measure of the relative need to spend (population basis). The Executive Director of Resources has analysed available data and compiled a comparison of net expenditure in 2007/08 to home fire safety checks and smoke alarm installation. This clearly shows a very different picture



Merseyside continues to invest significantly in community fire safety, approximately £6 million in 2008/09. (This does not include the massive investment in smoke alarms and the fire safety work undertaken by stations)

These improvements in Council Tax level and expenditure have 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).



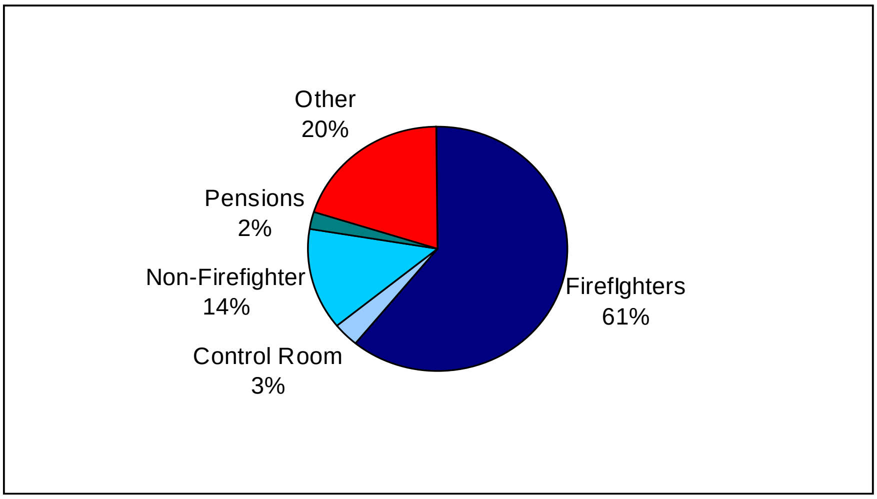
Overall Financial Health

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 for 2008 (4) for the third year running.
- Authority accounts 2007/2008 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
- 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) which have been highlighted as best performance in the recent Audit Commission national report "*Rising to the Challenge……improving fire service efficiency*"

Current Allocation of Resources

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

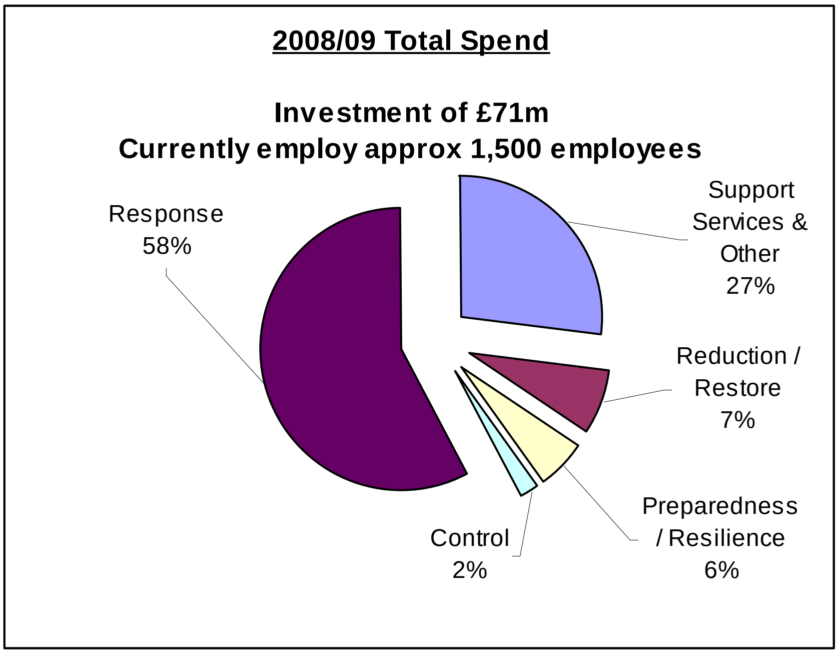


A full subjective analysis of the budget is set out in **Appendix 1**

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

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 58% of expenditure goes on emergency and specialist response, 2% on Control Rooms and 13% on Fire Resilience & Reduction. Support costs making up the remaining 28%.



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

<u>Reduce & Restore</u>

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 (£0.2m)
- Working with the private sector to deliver speedier restoration of property

<u>Responding & Control</u>

- 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.

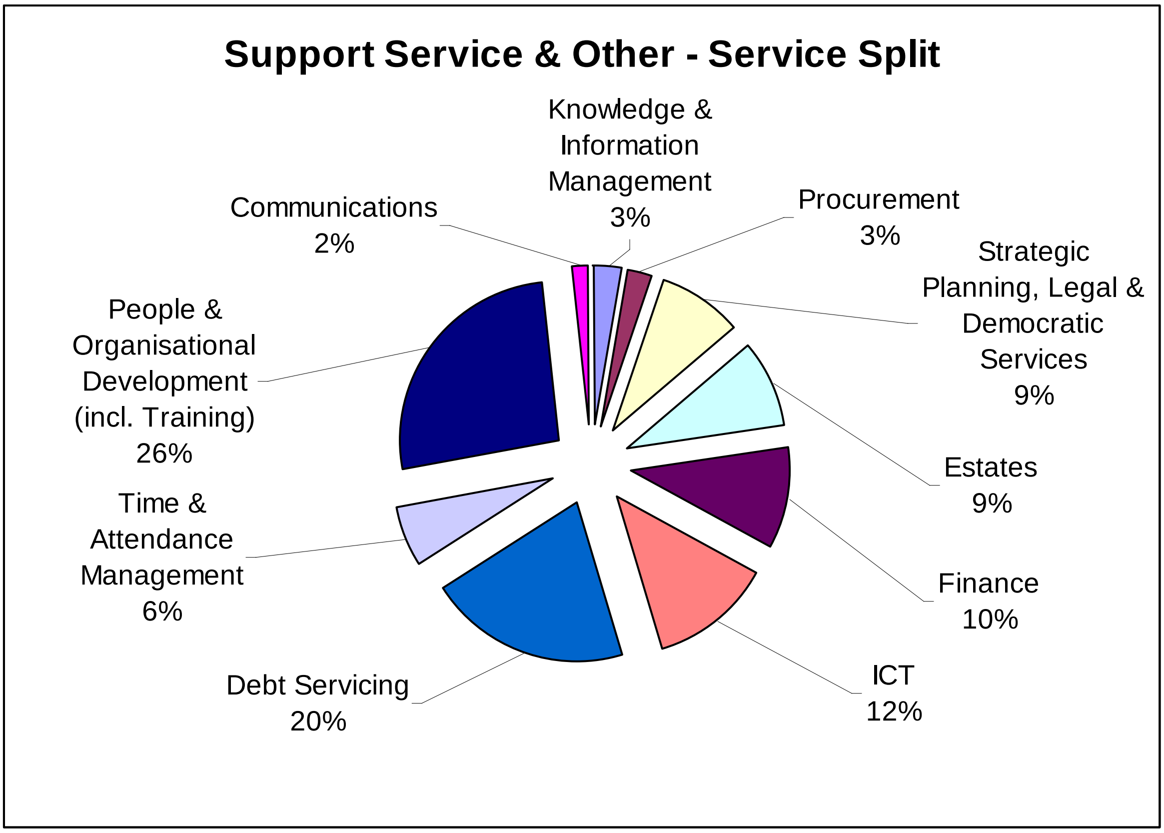
<u>Preparedness & Resilience</u>

The investment of £4m 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

The investment in support services of £19m (27% of the budget) is analysed below:



It should be noted that:-

- 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

Members need to assure themselves that the Authority continues to allocate resources to support its strategic priorities. They will note that the Budget Working Group have reviewed the base budget in detail.

C) CAPITAL PROGRAMME

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

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.

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.

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

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.

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.

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.

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 E.
- 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.

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 .

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.

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.

This has produced a total 2008/09 – 2013/14 current and five-year future capital programme proposal of £45.857m with a 2008/09 programme of £9.485m 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).

2008/09 - 2013/14 Proposed Capital Progamme

Type of Expenditure	Total Cost £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £
Approved 5 year prog	12,891,800	4,857,800	5,311,000	761,000	711,000	1,251,000	0
New Start Bids	737,000	0	0	25,000	25,000	0	687,000
Building/Land	13,628,800	4,857,800	5,311,000	786,000	736,000	1,251,000	687,000
Approved 5 year prog	175,000	35,000	35,000	35,000	35,000	35,000	0
New Start Bids	45,000	0	2,000	2,000	2,000	2,000	37,000
Non Operational Equip & Hydrants	220,000	35,000	37,000	37,000	37,000	37,000	37,000
Approved 5 year prog	8,701,300	1,775,300	1,734,000	1,734,000	1,734,000	1,724,000	0
New Start Bids	1,834,000	0	20,000	20,000	20,000	20,000	1,754,000
Fire Safety	10,535,300	1,775,300	1,754,000	1,754,000	1,754,000	1,744,000	1,754,000
Approved 5 year prog	2,359,600	703,600	1,070,000	167,000	262,000	157,000	0
New Start Bids	680,000	0	232,000	29,000	29,000	114,000	276,000
ICT	3,039,600	703,600	1,302,000	196,000	291,000	271,000	276,000
Approved 5 year prog	0	0		0	0	0	0
New Start Bids	206,000	0	136,000	50,000	20,000	0	0
RCC associated ICT investment	206,000	0	136,000	50,000	20,000	0	0
Approved 5 year prog	1,201,800	340,600	485,600	136,600	32,000	207,000	0
New Start Bids	211,500	0	191,500	0	0	0	20,000
Operational Equipment	1,413,300	340,600	677,100	136,600	32,000	207,000	20,000
Approved 5 year prog	173,000	173,000	0	0	0	0	0
New Start Bids	10,000	0	10,000	0	0	0	0
T.D.A.	183,000	173,000	10,000	0	0	0	0
Approved 5 year prog	7,906,200	1,599,700	3,089,000	1,379,500	1,490,000	348,000	0
New Start Bids	1,690,500	0	36,000	76,000	35,000	0	1,543,500
Vehicles	9,596,700	1,599,700	3,125,000	1,455,500	1,525,000	348,000	1,543,500
Approved 5 year prog	7,035,000	0	0	0	3,560,000	3,475,000	0
New Start Bids	0	0	0	0	0	0	0
Fire World	7,035,000	0	0	0	3,560,000	3,475,000	0
TOTAL Approved 5 year prog	40,443,700	9,485,000	11,724,600	4,213,100	7,824,000	7,197,000	0
TOTAL New Start Bids	5,414,000	0	627,500	202,000	131,000	136,000	4,317,500
TOTAL	**45,857,700**	**9,485,000**	**12,352,100**	**4,415,100**	**7,955,000**	**7,333,000**	**4,317,500**

Financing Available:	**Total**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
		£	£	£	£	£	£
Capital Receipts							
Sale of Low Hill FS	250,000		250,000				
Sale of old workshop	650,000		650,000				
External Contributions							
Fire World contributions	6,035,000				3,060,000	2,975,000	
R.C.C.O.							
Various	108,500	108,500					
CFS general cont (Cap sals)	6,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Utilise Cap Investment Reserve	640,000	640,000					
(Capital Grant) Kensington	300,000		300,000				
Capital Grant CSR07	1,877,317		805,328	1,071,989			
Total Non Borrowing	15,860,817	1,748,500	3,005,328	2,071,989	4,060,000	3,975,000	1,000,000
Borrowing Requirement							
Supported Borrowing	19,255,860	2,829,000	3,160,000	3,251,000	3,316,020	3,382,340	3,317,500
Unsupported Borrowing	10,741,023	4,907,500	6,186,772	-907,889	578,980	-24,340	0
Borrowing	29,996,883	7,736,500	9,346,772	2,343,111	3,895,000	3,358,000	3,317,500
Total Funding	45,857,700	9,485,000	12,352,100	4,415,100	7,955,000	7,333,000	4,317,500

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 2013/14, £4.318m
b. New starts in 2009/10 – 2012/13, £1.096m

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 below. Appendix 2A provides a full analysis of the updated approved 5 year capital programe and also report CFO/020/09, elsewhere on the agenda, details the movements on the approved capital plan. These schemes have been considered in detail by the Budget Working Group as part of the budget process.

The key assumptions underpinning the six year capital programme, (2008/09 – 2013/14), are:-

a) Building Investment Strategy (£13.6m)

The estate comprises 26 fire stations, a training and development academy (TDA), Workshops and a Mobilising & Control Centre (MACC). The Authority is currently finalising a deal to purchase a new workshop and additional accommodation space. The capital programme reflects the funding required to replace, maintain and enhance the current estate stock, and when possible seeks to attract external funding (PFI) or specific contributions (capital receipts, capital reserves) to reduce the level of borrowing requirement. Estates are reviewing the current 5 year asset management plan to ensure the approved capital programme is directing resources into priority areas. Any need to adjust the programme will be reported to members in 2009.

PFI

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.

The total investment in North West building stock will be £40.5m and in Merseyside £17.7m. 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

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

- Refurbishing and essential work at fire stations £5.3 m
- LLAR accommodation £0.9m
- City Community Facility/ Community Initiatives £0.8m
- New Kensington Community Fire Station £1.7m
- Marine 1 Accommodation £0.4m
- New Workshop & engineering centre of excellence £3.2m
- Office, TDA, and other works £1.3m

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

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

c) Fire Safety (£10.5m)

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 2008/09 – 2013/14 period is £4.5m, approximately 100,000 alarms p.a. Current policy is to capitalise the installation costs of smoke alarms estimated at £6.0m over the period, however this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital.

d) ICT – Investing in line with the ICT Strategy (£3.0m)

In line with the Authority's commitment to using technology to improve the service there is a significant investment in ICT within the programme. The most significant investments are in line with a phased introduction of a controlled planned replacement policy of 5 years in the area of PCs, Servers and Network, £1.9m, and software licenses and projects, £1.1m.

Specific projects include:-

- developing Knowledge Management Systems, £0.3m,
- Enhancement to the Authority’s financial information systems £0.1m
- new power generators for HQ, £0.1m, and
- a replacement Incident Command Unit, £0.2m

e) Regional Control Room (RCC) – associated ICT Investment (£0.7m)

Officers have identified projects associated with the challenges of operating within the information environment associated with the RCC and the need to retain some information resilience in-house post the RCC:

- ICT Security, £0.07m – The current application for managing the calls to the Authority and the requests for non-fire emergency work needs to be replaced and improved. Post RCC the Authority will still need a system to manage this work,
- Hydrant Database, £0.03m – The current hydrant database software is aging and does not easily extract data in a presentable format. Hydrants are a key component of RCC and all hydrants must be geo-coded, therefore a solution will need to be purchased as soon as possible.
- Corporate Gazetteer, £0.06m – The Authority needs to ensure it has its own reliable source of address data for back office applications, in addition to this being a key contributor to Regional Command and Control.
- GIS, £0.05m – Investing in a single GIS software solution for the Authority will result in;

- o ease of software implementation and management
- o all major data-sets would be in one format with minimal need for data conversion
- o easier to provide training and support
- o if the chosen system was compatible with RCC systems it would ensure easier sharing/transferring of datasets

f) Operational Equipment (£1.4m)

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 in specialist rescue equipment and new breathing apparatus, particularly:-

- Hydraulic Rescue equipment £0.2m
- Bomb disposal technology for dealing with acetylene cylinders £0.2m
- Provision for the purchase of a hovercraft £0.1m

g) Training & Development Academy (£0.2m)

A range of building improvement works are required to keep the TDA up to date and efficient for training purposes.

h) Vehicle Replacement Strategy (£9.6m)

The Fleet Manager has identified needs as follows:-

An Ageing Fleet
The Authority has developed an appliance replacement strategy based on the economic life of an appliance. Each appliance has an estimated service life of 8 years on the front line followed by 2 years as a reserve appliance. Significant provision for new appliances has been included in the capital programme – up to 28 new appliances (approximately 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 figures represent the prices in the latest Firebuy framework but officers are aware with the current position of the pound in the currency markets and the fact that the main suppliers are based in Europe it may result in some big price increases for appliances in future years.

A Need for Specialist Vehicles
There is a need to make provision for the purchase of specialist vehicles to support the IRMP and to support the wider range of roles for the fire service including rescue::

- Hose Layers to support the water strategy
- Rapid Response Motorbikes
- Incident Management Units
- Combined pump platform appliances
- Prime movers,

Ancillary Vehicles
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)

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. The scheme is still in the early stages of development and members would receive a full report on the project and a detailed business case before the project is developed any further.

Funding The Programme

Capital Receipts
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.

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.

The proposed capital programme anticipates capital receipts only from: -

Low Hill Fire Station site	£0.25m	(2009/10)
Old Workshop site	£0.65m	(2009/10)

It assumes that this receipt will be used to reinvest in the capital infrastructure. Members should note that the valuations of the receipts are based on the early part of last year since when the commercial property market has slumped. Officers are monitoring markets closely and will report on the timescales for proposed sales.

Capital Grants
Members will recall that the CSR07 announced fire authorities would receive a grant towards the cost of capital investments in 2010/11 – 2011/12. On the 15 December 2009 CLG announced the Authority would receive a capital grant of £0.805m and £1.072m in 2009/10 and 2010/11. As the Authority already has an approved 5 year programme covering the period associated with this grant it has been assumed that the Authority will reduce the level of borrowing originally anticipated for this period in the programme by utilising the grant to fund planned spend.

Partner Contributions
Partner contributions (either grant, sponsorship or capital receipts) are anticipated for Fireworld, £6m, and from Kensington new deal, £0.3m, for the Kensington CFS.

Alternative to Operating Leasing

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 Executive Director of Resources will monitor the suitability of alternative methods of finance.

Borrowing

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.

The proposed capital programme represents an overall expenditure increase on the approved capital programme since the last financial review report of £5.6m and additional "new starts" expenditure of £5.4m (of which £4.3m relates to extension of rolling programmes into the additional programme year- 2012/13). Appendix 2A sets out the revised approved programme and outlines the make-up of the £5.6m, details of which are set out in report CFO/020/09 on this Committees agenda. Appendix 2B sets out the £5.4m new start schemes.

The impact of the proposed changes on the Authority's borrowing across all six years (2008/09 – 2013/14) is a net increase of £1.960m to £29.997m:

	£m
Increase in expenditure £5.6M + £5.4m =	11.0
Increase in Non Borrowing Funding Sources:	
RCCO (HFSC installation costs)	-6.0
CLG Capital Grant	-1.9
Capital Receipts	-0.7
Contributions/Reserves	-0.4
Required Increase in Borrowing	2.0

This level of supported borrowing for the Authority across the six year period is estimated to be £19.3m .

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

	£m
Total borrowing in programme	29.997
Supported Borrowing Estimate	19.256
Total "Prudential Borrowing"	10.741

Impacts on Revenue Budget and Financial Plan

When the Authority borrows money it has to factor the debt repayment and interest costs into its financial plans. The minimum revenue provision (MRP) methodology calculates how much debt repayment is required each year. Following the new Capital Regulations announced in 2008 the Authority must approve an MRP Statement each year that sets out the policy on MRP. Section D of this report outlines for members the proposed MRP policy for 2007/08 – 2009/10 and the methodology for calculating the MRP. The additional borrowing and proposed MRP policy require an increase to the 2008/09 base figure for MRP & Interest of :-

	2009/10 £'m	2010/11 £'m	2011/12 £'m	2012/13 £'m	2013/14 £'m
Increase in MRP/Interest built in original MTFP	0.136	0.304	0.504	0.750	1.048
2009/10 – 2013/14 New Starts		0.140	0.185	0.210	0.240
New Unsupported MRP adjustment	0.225	0.375	0.375	0.400	0.325
	0.361	0.819	1.064	1.360	1.613

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.

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 was restricted to **previous Capital Programme levels**
Reduction in Borrowing	£10.741m	£1.960m
Reduction in Unsupported Debt Repayment costs	£1.950m	£0.350m
Council Tax equivalent	7.7% or £4.63	1.4% or £0.83

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

Possible Further Prudential Borrowing

The table below gives a guide to the impact of each extra £1m of unsupported borrowing (based on assets with a 10year life), and of the total capitalisation process. Additional capitalisation can only be funded by additional borrowing.

Extra Borrowing	**£1m**
Borrowing Cost P.A.	**£0.160m**
Council Tax Equivalent	**0.6% or 38p**

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

D) **MINIMUM REVENUE PROVISION STATEMENT**

Under the Local Authorities and Accounting Regulations the Authority is required to set aside a sum of money each year to reduce the overall level of debt, this sum is known as the Minimum Revenue Provision (MRP). The 2003 regulations set a minimum annual amount to be charged to revenue based on the Authority's Capital Financing Requirement (CFR) which is an amount broadly equivalent to the Authority's outstanding debt. The regulations have been updated in 2008 and now require each authority to repay debt at a rate it considers **prudent** and to set out in an annual statement the Authority's policy on making MRP in respect of the forthcoming year.

The new regulations guidance interprets MRP may be deemed to be prudent if it is either:

- Based over a period that is reasonably commensurate with that over which the capital expenditure / asset provides benefits (asset life), or

- For the element of expenditure met from borrowing supported by government Revenue Support Grant (RSG), a period reasonably commensurate with the period in the determination of that grant (this in reality would equate to the current 4% MRP methodology)

The regulations guidelines set out four options for calculating MRP, they are summarised below:

- **Regulatory Method** – MRP is equal to the amount determined in accordance with the former regulations 28 & 29 of the 2003 Accounting Regulations – the MRP element of the Revenue Support Grant is calculated on this basis. **This method has been used to determine the Authority's 2007/08 and 2008/09 MRP for both supported and unsupported borrowing.** For the **2009/10 MRP** this option will only be available for capital expenditure that is funded by **supported borrowing**.

- **Capital Financing Method** - MRP is based on 4% of the CFR. For **2009/10** this option will only be available for capital expenditure that is funded by **supported borrowing**.

- **Asset Life Method** – MRP is determined by reference to the life of the asset and the amount is either based on equal instalments over the period or on an annuity method based on assumed principal repayments. This option is available to both supported and unsupported borrowing in determining the 2009/10 MRP requirement

- **Depreciation Method -** MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing. This option is available to both supported and unsupported borrowing in determining the 2009/10 MRP requirement

2009/10 MRP

The 2009/10 MRP is calculated on the actual level of outstanding debt (CFR) as at the end of 2008/09. Any 2008/09 expenditure funded through unsupported borrowing must have the associated MRP requirement determined by either the Asset Life or Depreciation method.

Proposed MRP Statement 2007/08, 2008/09 & 2009/10:

1. For capital expenditure incurred before 1st April 2008 and for future **supported** capital expenditure - MRP will be based on the Regulatory Method as this;
   a. Consistent with the current and previous approved financial plans and does not adversely impact on 2008/09, and
   b. Is deemed prudent for current and future supported borrowing as the charge to revenue for MRP is commensurate with the period and funding associated the Revenue Support Grant

2. For capital expenditure incurred **after 1st April 2008** and financed by **unsupported** borrowing MRP will be based on the Asset Life equal instalment method. This option meets the requirements to be deemed prudent but also allows certainty and predictability over MRP charges.

Expenditure Funded by Supported / Unsupported Borrowing:

The Authority in the past has determined it can afford and sustain significant prudential unsupported borrowing in order to allow the required level of investment in the infrastructure and assets of the Authority to deliver a modern well equipped fire service. The prudential borrowing was not associated with specific projects, it simply reflected the total borrowing required to fund the investment in the 5 year capital programme.

The table below identifies that the 2008/09 programme requires £4.9m of unsupported borrowing and in order to determine the MRP (based on asset life) for 2009/10 the unsupported borrowing must be "earmarked" against schemes in the programme.

	Total	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		£	£	£	£	£	£
Borrowing Requirement							
Supported Borrowing	19,255,860	2,829,000	3,160,000	3,251,000	3,316,020	3,382,340	3,317,500
Unsupported Borrowing	10,741,023	4,907,500	6,186,772	-907,889	578,980	-24,340	0
Borrowing	29,996,883	7,736,500	9,346,772	2,343,111	3,895,000	3,358,000	3,317,500

In order to determine the prudential / unsupported associated assets within the proposed capital programme the following approach has been used;

- Schemes in the approved programme (excludes any new starts schemes) would have the supported borrowing allocated to them in the first instance, then
- If the level of the approved programme in any year exceeded the available supported borrowing, the sub-groups (building, ICT, vehicles etc) would be put in priority order and supported borrowing allocated on that basis,
- This would then leave the schemes funded by unsupported borrowing and the asset life would be known and allow the MRP to be determined.

Officers have therefore allocated the supported borrowing against the core assets in the programme and those required to deliver the Authority's vision. This process is required to calculate the MRP provision and should not be taken as anything more. Priority has been made in the following order:

Priority For Earmarking Supported Borrowing Against Schemes:

Rank	Type of Expenditure	Rationale For Priority
1	ICT & Vehicles	Require ongoing replacement & investment to provide service with tools & information to deliver core business
2	Operational Equipment	Require ongoing replacement & investment to provide service with tools to deliver core business
3	Buildings	Important investement area but enhancements/replacements could be deferred IF Government withdrew prudential regime
4	CFS equip & installation	Majority of current spend funded by non-borrowing. IF prudential borrowing was not available then the Authority is likely to continue spend but fund it through unsupported borrowing or revenue contributions
5	Other	The likes of Fireworld may be seen as important investments in selling the vision & message of the Authority, but funded through prudential / unsupported borrowing if the business case and benfits are wothwhile.

The financial plan outlined in this report reflects the proposed Authority's policy on prudential MRP

E) PRUDENTIAL INDICATOR REPORT

Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2009/10, 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.

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 2009/10.

The financial plans prepared in respect of the financial years 2010/11 and 2012/13 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

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.***

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

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.

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 Strategy and Resources Committee depending upon the size of the scheme.

2009/2010 Supported Capital Expenditure Allocations

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 2009/2010 is £3.160m, an increase of £0.331m on 2008/09. The 2010/11 and 2011/12 figures have increased further to £3.251m and £3.316m (estimated).

The prudential indicators for Merseyside are

a) Capital Expenditure

The actual capital expenditure that was incurred in 2007/08 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2007/08	Estimate 2008/09	Estimate 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Expenditure	5,440	9,485	12,353	4,415	7,955	7,333	4,318

Members will note that the big rise in expenditure in 2008 - 2010 reflects re-phased schemes from earlier years, originally £7m was re-phased from 2007/08 into 2008/09 of which £6.5m has now been phased in 2009/10. 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 2007/08 are:

	Actual 2007/08	Estimate 2008/09	Estimate 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Ratio of Financing costs to Net Revenue Stream	5.57%	6.05%	6.69%	7.17%	7.30%	7.49%	7.60%

This shows that forecast debt financing costs will increase from 6.69% in 2009/10 (based on the actual forecast capital spend in 2008/09) to 7.60% (+0.91% points) by 2013/14. Although the proposed programme is not increasing the overall borrowing met by government grants and local taxpayers from previous years, still around £30m, the increase in this ratio reflects the change on the way MRP provision is calculated for unsupported borrowing. In essence the Authority is now paying this debt off over the relevant assets life and not over some notional “4%” of outstanding debt method. This has resulted in an increase in the annual financing costs, but these charges will be required over a much shorter period.

This issue is discussed further in this report within the Minimum Revenue Payment section D.

Effect on the Precept

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:

	Estimate 2008/09	Estimate 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14
	£	**£**	**£**	**£**	**£**	**£**
Incremental Impact of Capital Investment Decisions	-£0.10	£1.00	-£0.54	£0.86	£0.80	£0.87

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. The impact of funding HFSC installation costs through a revenue contribution, £6m, and the use of new Government grant monies, £1.9m, and other external funds have resulted in a negative or reduced incremental increase in some years over the 2008/09 – 2013/14 period.

Capital Financing Requirement

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.

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 2008 are:

	Actual 31.3.08	Estimate 31.3.09	Estimate 31.3.10	Estimate 31.3.11	Estimate 31.3.12	Estimate 31.3.13	Estimate 31.3.14
	£000,s	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**
Capital Financing Requirement	**42,319**	**48,362**	**55,776**	**55,888**	**57,547**	**58,603**	**59,577**

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

The Authority’s CFR is expected to increase to £59.6m by 2014 compared to current levels (end of 2008/09) of £42.3m. A large proportion of this increase was already anticipated in last year’s programme (anticipated £58.1m by 2013).

Net Borrowing and the Capital Financing Requirement

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.”

The Authority had no difficulty meeting this requirement in 2007/08, 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.

F) TREASURY MANAGEMENT STRATEGY STATEMENT 2009/10

Introduction

The Local Government Act 2003 and subsequent regulations require the Authority to set out its strategy for borrowing within an annual Treasury Management 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 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 for 2009/10 is included as part of the Treasury Management Strategy Statement 2009/10 shown below.

The Treasury Management Strategy for 2009/10 is set out below. The Strategy outlines treasury management activity to be undertaken in 2009/10 and the prudential and treasury management limits for the next 3 financial years.

The suggested strategy for 2009/10 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) - external debt prudential indicators;
(e) - treasury management prudential indicators;

Prospects for Interest Rates

The sharp downturn in world commodity, food and oil prices, the lack of domestic wage pressures and weak retail demand indicates a very steep decline in inflation in the year ahead. Inflation considerations will not be a constraint upon Bank of England policy action and it is likely that the Bank will reduce Bank Rate to 1% or below. The very low rates are forecast to continue throughout 2009/10.

Long-term interest rates will be driven by conflicting forces. The threat of deep global recession should drive them to lower levels but the prospect of exceptionally heavy gilt-edged issuance will push them higher. Longer-term PWLB rates are expected to rise to perhaps 5% by the end of the year.

The money market is expected to continue to be extremely volatile but overall it is expected that short term rates will continue to be lower than long term rates and are likely to remain so throughout 2009/10. In this scenario, it is better to reduce investments and borrow for short periods and possibly at variable rates term when required.

Capital Borrowings and the Borrowing Portfolio Strategy

The Authority's net capital borrowing requirement for 2009/10 is presently estimated at £6.7 million. Given the likely structure of interest rates described above, it is envisaged that most of this borrowing will be for shorter periods or at variable rates. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Annual Investment Strategy

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. The investment strategy has regard to Government Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.

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. All investments will be in sterling. All cash balances will be invested in accordance with the Code of Practice and with regard to the statutory guidance.

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. Under the guidance investments fall into two separate categories, either specified or non-specified investments.

- 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

- Credit Rating Criteria

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 the following criteria:

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

In addition, the Authority will use banks whose ratings fall below the criteria specified above if all of the following conditions are met (a) wholesale deposits in the bank are covered by a government guarantee; (b) the sovereign government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and (c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- Investment Limits

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2009/10 are as follows:

UK local authorities	£3 million
Debt Management Account Deposit Facility	£3 million
Money Market Funds (AAA rated)	£3 million
UK Banks and Building Societies (AA or higher rated)	£2 million
UK Banks and Building Societies (A or higher rated)	£1 million
Foreign banks registered in the UK (AA or higher rated)	£1 million
Banks covered by Government Guarantee	£3 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 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 by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Authority's minimum requirement or any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

- 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 any cash balances invested in non-specified investments are undertaken only 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 ten building societies, determined by asset size, for inclusion on the counterparty list. Those societies that are within the top ten 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.

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

The Authorised Limit for Debt represents the maximum level of debt which the Authority may have during the year. The Authority has no powers to exceed this unless a further report with revised prudential indicators is approved. The Limit therefore makes appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, and the ups and downs of short term cash flow.

The Authority is asked to approve the limits and to delegate authority to the 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.

Authorised Limit for External Debt		**2009/10**	**2010/11**	**2011/12**
		£'000	**£'000**	**£'000**
Borrowing		66,300	68,300	71,900
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**68,300**	**70,300**	**73,900**

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		**2009/10**	**2010/11**	**2011/12**
		£'000	**£'000**	**£'000**
Borrowing		56,300	58,300	61,900
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**58,300**	**60,300**	**63,900**

The Authority is asked to approve the limits and to delegate authority to the 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.

The Authority's external debt at 31st March 2009 is forecast to be £49.6 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.

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 2009/10, 2010/11 and 2011/12 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 2009/10, 2010/11 and 2011/12 of 50% of its net outstanding principal sums.

This means that the 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 2009/10.

- 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 2009/10, 2010/11 and 2011/12.

G) <u>REVENUE FORECASTS</u>

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 3 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. Of this £6m the plan assumed £5.2m would come from dynamic staff savings.

After the announcement of the CSR07 the Authority was allocated Government grant increases of +1.0%, +0.5% and +0.5% for 2008/09, 2009/10 and 2010/11, 4.5% below the level in the original financial plan. This reduction in funding resulted in the £5.2m dynamic staff saving target being increased by £2.4m and an overall target of £7.6m to be achieved by 2010/11.

The Authority has of course made significant strides in addressing that underlying deficit. Only £2.7m of the dynamic staff saving is outstanding with a target date of 2010/11 for full implementation. This outstanding target has been built into this plan and forms part of the overall saving requirement.

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;

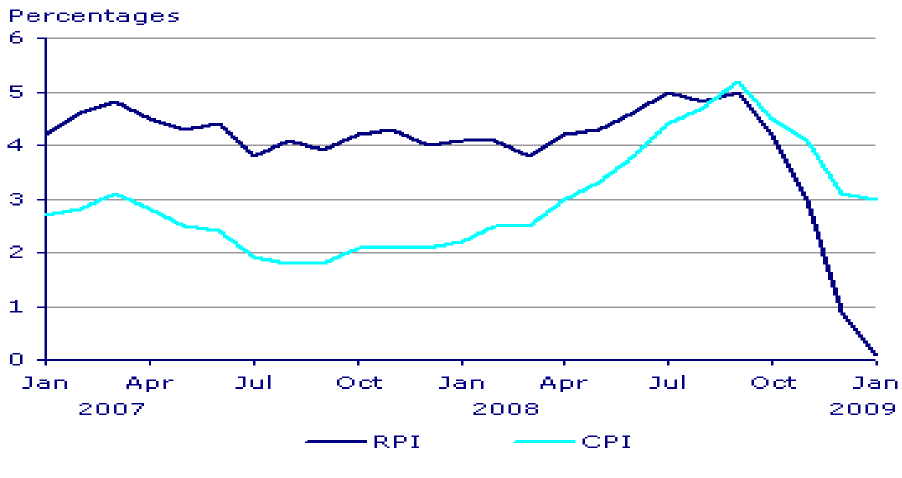
Non Uniformed Pay	2% April of each year
Uniformed Pay	2% in July of each year
All Other Price Inflation	2%

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 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 given high rates of inflation in the early part of the year (see graph below) 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 2008/09 – 2013/14 capital programme are included within forecasts. This includes new start schemes of £5.4m and an additional £5.6m in the current approved plan. The plan also takes into account the proposed MRP policy discussed previously in section D.

PFI

The Authority has been successful in winning PFI credits to make a massive investment in our building stock as part of leading a North West Fire & Rescue Services project. The anticipated lease costs arising from this have been built into budgets for future years at a net £0.550m (this compares to an approximate cost of a project funded by borrowing alone which would be at least £2m p.a.)

The Authority would require assistance to take forward a specialist scheme of this complexity in the fields of finance, law and property provision has been built into the financial plan for consultancy and MFRS costs over the PFI development period of £0.193m per year. Whilst the fees may seem large they are relatively low when compared to the forecast capital cost of the project (£40.5m).

Consultants working on the Project have identified that the Authority should consider maintaining 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. Any PFI funds remaining at the end of each year will be credited to the PFI reserve to provide an enhanced resilience against rising or unforeseen costs. **(Maintain the reserve at £0.500m)**

Resources Available

a) Council Tax /Precept

   The position assumes council tax increases at the Authority's medium term planning level of 3.85% in 2009/10 and 4% per annum thereafter.

b) Government Grant

   Within the agreed plan assessed Government support reflects the already announced increases identified in Comprehensive Spending Review 2007 (CSR07), 0.5% increase in 2009/10 and 2010/11. For future years (2011/12 onwards) an assumed increase in line with forecast inflation estimates of 2.0% p.a. Members will recognise that the unprecedented financial turmoil in recent months has put great pressures on the public purse and some commentators believe that grant settlements announced in 2009 for future years will be lower than this.

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 was due to be implemented on the 1st April 08 however negotiations with the union are still ongoing and the financial plan assumes any agreement may be effective from the original implementation date. 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.

Pension Costs

(a) LPGs

The base plan assumes that pension costs for staff in the LGPS scheme will remain at the 2008/09 levels.

(b) Firefighter Pension Scheme

The plan assumes that the employer's contribution to the old Firefighter pensions continues at 21.3% (Employees pay 11%).

Officers have become aware that the Government is currently undertaking an actuarial review of the scheme, the first one in nearly 20 years. Solely on the basis of longevity it is expected that the costs of the scheme will rise by +20%. The Government will need to consider if it passes on those costs to employers, employees or indeed change the pension scheme. More information is expected in early 2009/10.

Investment Income

The current financial plan assumes interest income from investments would deliver £0.432m p.a. The recent economic climate has resulted in interest rates on investments falling from +5% to less than 1% for new investments. Uncertainty exists over how long it will take for the economic position to settle and normal conditions apply but the proposed financial plan assumes investment income will be lower than in previous years for 2009/10 (down £0.2m) and 2010/11 (down £0.3m), but would then return to 2008/09 levels in future years.

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 towards the end of 2010/11 as part of a national project. The costs and full business case remain unclear at this stage. Originally it had been assumed that any cost increases arising from a new radio system to be implemented (Firelink) would be offset by efficiency savings arising from the joined up control room. On the basis of the latest national data officers now believe that it would be prudent to plan for an increase in costs of £0.5m and build this provision in the financial plan from 2011/12 to cover both projects.

Regional Management Board £0.030m

Members will be aware that a number of successful projects have proceeded at Regional level. A provision of £0.030m, similar to previous years, has been built into the proposed financial plan to support regional working. 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 2008/09 of £0.871m for crewing New Dimensions vehicles from CLG, rising to £0.888m and £0.904m in 2009/10 and 2010/11. The financial plan assumes this grant will continue in 2011/12 – 2013/14.

Further Variations to the current Financial Plan

Increase in NI Rates

As a result of the announcement by the Government that employers' national insurance will increase by 0.5% from 2010/11 requiring a permanent increase of £0.14m p.a., this has been built into the financial plan.

Impact of 2008/09 Pay Awards

The 2008/09 budget assumed pay awards for all staff would be 2%. However they exceed this by nearly 0.5%, permanently increasing the employee costs by £0.25m p.a.

Service Improvements £0.260

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 £0.652m. 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. These proposals were considered and reviewed in detail by the Budget Working Group. They total £0.260m in 2009/10 and £0.265m in future years. The table below details the growth requests built into the financial plan:

CLT Approved Growth	2009/10	2010/11	20011/12	2012/13	2013/14
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Chargeable special services historic income correction	17	17	17	17	17
Essential New Telewest line and switch rental for TRG Wavertree and	12	12	12	12	12
Internet Provision Upgrade from 2mg to 10mg.	13	13	13	13	13
Retaining fee for provision of fire investigation dog services (Lancs)	2	2	2	2	2
Purchase of new dog plus training to replace the current dog	8	0	0	0	0
Decreased petroleum licenses income following change in legislation	8	8	8	8	8
Marine Fire 1 growth to compensate for reducing contributions & increase costs	109	109	109	109	109
RE-enforcing moves - adjustment to historic income target	26	26	26	26	26
Growth to make 2 year FSN Youth SLA permanent	45	45	45	45	45
Historical archive / acquisitions -creation of permanent budget	8	8	8	8	8
Growth to fund permanent creation of Idea Initiaitive	12	25	25	25	25
	260	265	265	265	265

<u>Taxbase Collection Fund changes</u>

<u>Council Taxbase</u>

The Districts of Merseyside have set their taxbases for 2008/09 and 2009/10 and they are shown in the table below:-

District	**2008/2009** Council Tax Taxbase	**2009/2010** Council Tax Taxbase	**Variance**
	£	£	
LIVERPOOL	128,462.00	126,626.00	-1,836.00
WIRRAL	104,009.00	104,276.00	267.00
ST.HELENS	55,560.00	55,560.00	0.00
SEFTON	92,980.14	92,946.68	-33.46
KNOWSLEY	42,239.00	42,031.00	-208.00
	423,250.14	421,439.68	-1,810.46
Current Council Tax Levels £	60.06	60.06	
Total Income £	25,420,403	25,311,667	-108,736

The total taxbase for the Authority has reduced by 1,810 (0.43%), this means that each £1 of Council Tax the level of income will be lower than that generated in 2008/09 by £1,810.46. The result of this is that the income from the current level of Council Tax is anticipated to reduce by £108,736 (this is assumed to be a permanent reduction).

This means that the income forecast from a 1% increase in Council Tax in 2009/2010 is now £253,116.67

<u>Surplus and Deficit on Collection Funds</u>

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 £249,612. This impact is a one-off.

District	Collection Fund (surplus)/deficit
	£
LIVERPOOL	189,000
WIRRAL	34,880
ST.HELENS	38,343
SEFTON	-12,611
KNOWSLEY	-
	249,612

Grant Support

In 2008/09 the Government announced indicative grant increases of 0.5% for 2009/10 and 2010/11. The 2009/10 increase has been confirmed at 0.5% and the indicative figure for 2010/11 remains at 0.5%. For 2011/12 – 2013/14 grant increases have been assumed at 2%, however the recent unprecedented economic position will impact on the availability of Government resources for grant settlements for this period.

Overall therefore the Fire Authority has a forecast underlying budget deficit of approximately £3.6m rising to £5m in the medium term even after assumed council tax increases at 3.85% in 2009/10 and 4% thereafter.

This deficit may change if the underlying assumptions vary.

2009/10 - 2013/14 (plus indicative 214/15) APPROVED FINANCIAL PLAN

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
Approved Expenditure Plans:						
Base Expenditure	72,978	72,973	72,973	72,973	72,973	72,973
Capital Prog required increase in MRP	136	304	504	750	1,048	1,373
Inflation Provision at 2% pay/inflation 2009/10 - 2013/14	1,600	3,200	4,800	6,400	8,000	9,600
PFI Unitary charge provision assumed in 2008/09 MTFP	50	500	550	550	550	550
Approved 2008/09 5 Year Budget Financial Plan	74,764	76,977	78,827	80,673	82,571	84,496
Unavoidable fadditional pressures for 2009/10						
2009/10 IRMP Growth:	0	0	0	0	0	0
2009/10 Directors Growth	260	265	265	265	265	265
Other Budget Pressure						
Approved 5 year Capital Programme - Prudential MRP	225	375	375	400	325	325
New Capital Bids - Prudential MRP		140	185	210	240	580
Increase in NI rates +0.5% from 2011/12			250	250	250	250
Anticipated contribution to RCC / Firelink from 2011/12			500	500	500	500
Add impact of additional 0.47 / 0.45 2008/09 FF & Green Book pay award/offer	250	250	250	250	250	250
Anticipated impact on Investment Income due to lower interest rates	200	332	0	0	0	0
Expenditure Before Saving Target	75,699	78,339	80,652	82,548	84,401	86,666
Forecast Income						
Government Grant (per CSR07 & **+2% 2011/12 - 2013/14**)	-46,074	-46,305	-47,232	-48,176	-49,140	-50,123
Council Tax Increase assumed 4% p.a.	-26,432	-27,489	-28,589	-29,733	-30,923	-32,160
Collection fund deficit	250					
Reduction in Council Tax Base	109	113	118	123	128	133
Forecast Income in Financial Plan	-72,147	-73,681	-75,703	-77,786	-79,935	-82,150
Forecast Deficit before any action	3,552	4,658	4,949	4,762	4,466	4,516

H. Budget Options

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

The Authority has for many year now had an embedded strategy for VFM. The Authority has recently reviewed that strategy and reaffirmed its value for money principles (CFO/52/09). These may be summarised as:-

Value for Money Principles

Our Mission is:

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.*

•***Organisation,*** *ensure that our organisation provides quality value for money services*

Our Value for Money Principles express the outcomes we aim to achieve from our strategy and are:-

Principle 1 – Allocate resources In line with priorities

Principle 2 – Control Council Tax

Principle 3 – Acknowledging budget realities

The Authority will continue to:

i) Acknowledge the challenges it faces:

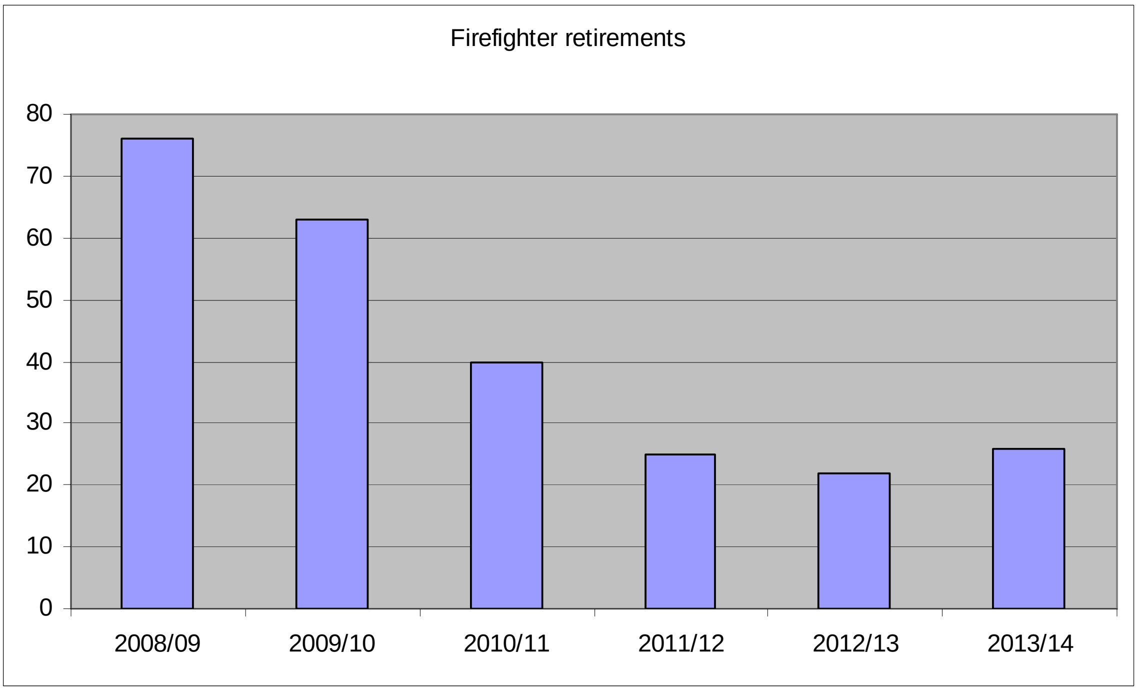
iii) Acknowledge the reality of its budget and recognise that 80% of its costs are people related.

Principle 4 – The Authority seeks to avoid compulsory redundancy in delivering VfM

Principle 5 - The Authority seeks to maintain or improve service levels to make Merseyside safer, stronger, healthier

Deliverability of Options and avoiding Compulsory Redundancy

If the Authority is to avoid compulsory redundancy it must use natural turnover rates to reduce staff numbers. Key to this approach is the rate of firefighter retirements. Anticipated retirements are set out in the chart below:-

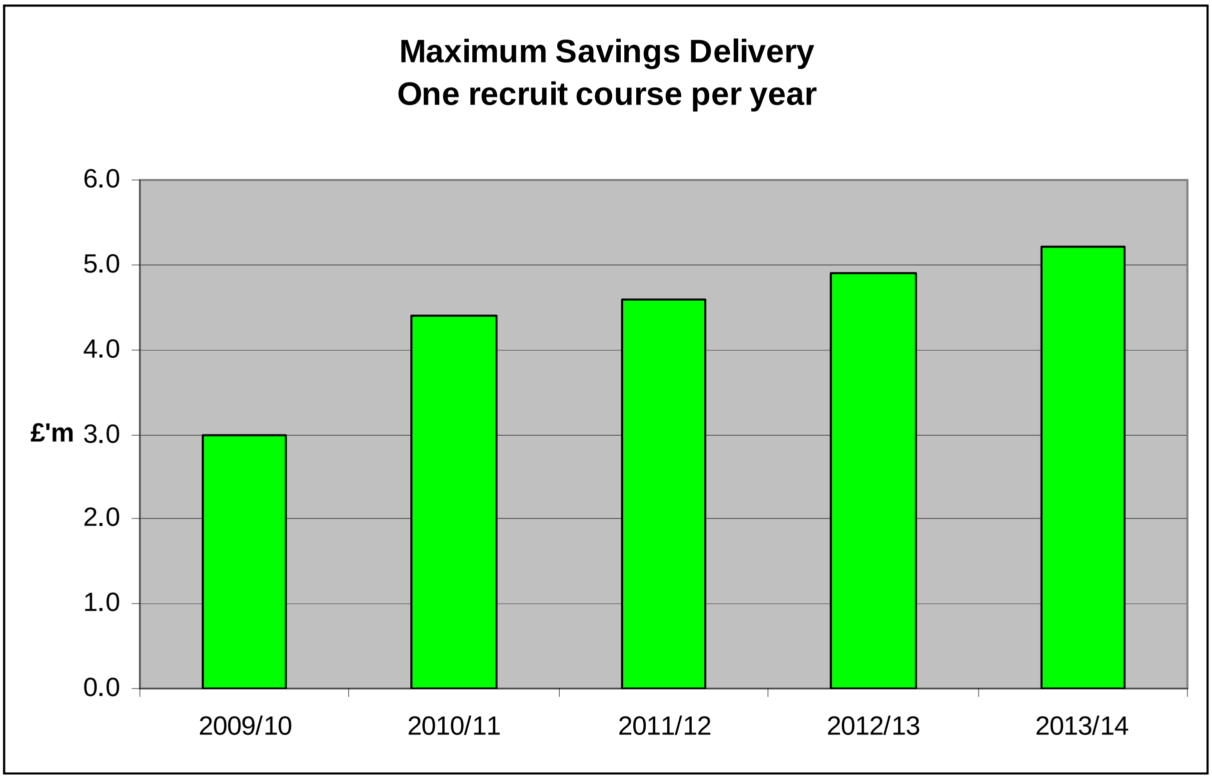


Members will note that

A) retirement numbers are high in the early years giving scope for significant savings
B) that the opportunity for savings beyond the initial three years is very limited as retirements reduce to about 20 per year from 20111/12

The Executive Director of Resources has estimated the maximum possible cash saving that may be delivered by using natural turnover rates (including non-uniform turnover and allowing for one recruit course of 16 firefighters per annum). This is set out in the table overleaf.

On the basis of these forecasts it is considered that compulsory redundancy can be avoided as long as the Authority makes timely structural changes to keep pace with staff retiring from the organisation.


Maximum Savings Delivery
One recruit course per year
£'m
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2009/10
2010/11
2011/12
2012/13
2013/14

Authority Budget Options

Officers have developed a range of 24 budget options to assist in setting a balanced budget which are set out in Appendix C

The Budget Working Group spent time developing a scorecard methodology so that all budget options can be scored against the Authority's key Value For Money Principles. Each of the option has been scored using that methodology as can be seen in the Appendix D where options are sorted in order of descending scores.

The highest ranking options under this methodology (those scoring more than 30) are:-

Option No	Option Title	Description	Saving £'000
12	Reduce R&R team in line with a greements	In line with protocvol agreed with FBU - use overtime to maintain appliance availability, ride 4 o second pumps at two pump stations, keep five riders at LLAR stations	1332
5	Grey Book/Green Book	Review roles currently carried out by uniformed staff with a view to making non uniform with a reduction in cost	250
11	Self Rostering	Pilot stations introduce sel rostering which reduces costs by reducing sickness and improving availability	360
1	Reduce ill health retirements	Reduce Ill Health retirements b y better management and reduce cost to revenue account	350
3	Non Uniform Support Costs	Ensure efficiency in support services	150
9	Procurement Efficiencies Target	Target to reduce costs through efficient procurement	200
10	Social Enterprise	Generate Extra income by social enterprise establishment/trading in services	200
7	Review of LLAR	Comission a full review of the applicability of LLAR and assume that at least one additional station will be identified	300
2	Review management Structures	Reduce Management overheads	400
6	Review of RRT Managerial posts	As sickness levels reduce it is considered some of the management posts in the RRT can be reduced	400
13	Engineering centre of excellence	Assume that afficiencise can be identified in stores, equuipment maintenacne and support costs	150
4	Staffing of Special Appliances	Change staffing of special appliances and operational resource centre to reduce costs	280
8	Retirement Rengagement	Apply the principles of retirement and rengagement across the service as far as possible to reduce costs	175

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	60.06	60.66	62.46	63.06
District Precept	£m	£m	£m	£m
LIVERPOOL	7.605	7.681	7.909	7.985
WIRRAL	6.263	6.325	6.513	6.576
ST.HELENS	3.337	3.370	3.470	3.504
SEFTON	5.582	5.638	5.805	5.861
KNOWSLEY	2.524	2.550	2.625	2.650
	25.311	25.564	26.322	26.576

I) 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.

<u>Adequacy of proposed Financial Reserves</u>

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 Executive 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 at least £2m.

It should, however, be noted that the as part of the risk assessment process four potential major risks have been identified for future years of the financial plan these are set out in the table below:-

RISK / ASSUMPTION	**WHAT IF DIFFERENT**
<u>Pay awards at 2%</u> **Inflation has been higher in early 2008/09 but has now declined and appears to be heading for very low figures in forthcoming months. It appears that staff aspirations for pay awards are in line with RPI/CPI movements in the early part of the year. Actual pay awards in 2008/09 were higher than the 20 planning total (2.45%).**	**Each 1% variance changes budgets by £0.5m**
<u>Grant Increases at 2% 2011/12 onwards</u> **Many commentators believe public services may see a cash freeze in the next spending review period as public sector finances face a challenging time following the recent economic turmoil.**	**A cash freeze in grants equates to £1m p.a. approx**
<u>Council Tax Increased at 4%</u> **Government / Authority have sought to be nearer inflation levels which are likely to be much less than this. Some of the political parties are committed to freezing council tax levels if they are elected in a general election.**	**A freeze of council tax levels is equivalent to lost income of £0.9m p.a. approx**
<u>Pensions</u> **The financial plan assumes costs unchanged. A Government Actuarial Department (GAD) review is underway of the costs of the firefighter pension scheme and it is possible an overall cost increase in excess of 20% may be identified. No actuarial review has been completed since the early 90s and longevity has increased.**	**It is currently unclear how the cost might be split between employer / employee / government or if the scheme might be charged** **A 1% variation in employers contributions is £0.5m p.m.**

Clearly if any of these risks are realised then there will be significant permanent changes in the financial plan and the Authority would have to make permanent savings to balance its budget. As discussed in the budget options section of the report the scope for making additional further savings beyond the deficit identified without compulsory redundancy in the medium term is more limited because beyond 2011/12 the number of retirements reduces significantly for a three year period. Numbers of retirements increase again after 2014/15 to about 60 in a year.

The Executive Director of Resources believes that the Authority should aim to maintain and increase reserves over the next few years so that it has some resources available to use as part of a medium term financial strategy should any of the above risks be realised. This would allow it to balance the budget in the short term and give it more time to make permanent longer term savings and avoid compulsory redundancy.

To that end the Authority already has :-

A Modernisation Reserve	£663,000
A Costs Smoothing reserve	£871,000
An Inflation Reserve	£886,000

As far as possible the Authority should seek to maintain those reserves until the position on the key risks becomes clearer and the medium to longer term financial plan has more certainty.

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

Reserves	31.03.09	31.03.10	31.03.11	31.03.12	31.03.13
	£'000	£'000	£'000	£'000	£'000
SPATE / Other Emergencies					
Bellwin Reserve	147	147	147	147	147
Insurance Reserve	220	220	220	220	220
Emergency planning Reserve	75	75	75	75	75
Modernisation Challenge					
Modernisation Reserve	663	663	663	663	663
Smoothing Reserve	871	871	871	871	871
Capital Investment					
PFI GAP Reserve	505	505	505	505	505
Capital expenditure Reserve	33				
TDA Refurbishment Reserve	47				
Specific Projects					
Job Evaluation Reserve	150				
Regional Reserve	100	100	100	100	100
Emerging Technologies	60				
Fireboots/Clothing Reserve	147				
Training Reserve	222				
Pre Retirement reserve	112	112	112	112	112
Fire Support Network Reserve	20				
Communications Reserve	40				
Fire Service Direct Reserve	22				
Healthy Living / Olympic Legacy	280				
Inflation					
Inflation Reserve	886	886	886	886	886
Ringfenced Reserves					
F.R.E.E. Reserve	-2				
Princes Trust Reserve	49				
EARLY Reserve	4				
Bilingual/Arson Advocates	62				
Community Youth Team Reserve	43				
Innovation Fund Reserve	89				
Regional Control Reserve	212				
Energy Reseve	37				
Total Earmarked Reserves	5,094	3,579	3,579	3,579	3,579
General revenue Reserve	2,000	2,000	2,000	2,000	2,000
Total reserves	**7,094**	**5,579**	**5,579**	**5,579**	**5,579**

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.

- Smoothing reserve to provide a contingency for the delay between implementing the proposals to deliver the required savings and any shortfall in cash savings from retirements and other staff savings
- Inflation reserve to provide a one-off resource if inflation or pay varies from the assumptions in the plan
- 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 and in particular:-.

(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 Unions/Staff

Trade Unions were invited to and attended the recent budget seminar and contributed to the debate around suitable options.

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Budget Timetable

There is a legal requirement for the Authority to set a balanced budget and decide its level of precept **before** 1 March 2009.

Equality Implications

The financial plan makes a specific additional investment of £0.1m to ensure the Authority meets and exceeds its Equality and Diversity requirements in addition to work carried out by all staff and teams.

Health & Safety and Environmental Implications

The budget and capital investment programme make largescale investments in staff Health and Safety

BACKGROUND PAPERS

Report CFO/52/08 “MFCDA Budget & Financial Plan 2008/2009 – 2012/2013” Authority 21 February 2008.

Report CFO/020/09 “Financial Review Report 2008/09 April to December Review”

Glossary

MRP - MINIMUM REVENUE PROVISION - An amount set aside from revenue towards the repayment of loan debt.

CFR – **Capital Financing Requirement** – measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for capital purpose, although this borrowing may not necessarily take place externally (use of available cash etc).

Supported Borrowing – Borrowing to fund capital expenditure that through the Revenue Support Grant receives grant support to cover the revenue costs associated with borrowing (interest / debt repayment)

Unsupported Borrowing – No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.

PFI - PRIVATE FINANCE INITIATIVE – a central government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities’ participation.

HFSC – Home Fire Safety Check

CFS – Community Fire Safety

LLAR – Low Level Activity Risk

RESERVES -Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.

CSR07 – Government comprehensive spending review to identify support for the public sector over 2 to 3 year period

RSG – Government grant support towards the revenue budget

MTFP – Medium Term Financial Plan