6. BUDGET AND PRECEPT 2009/10 AND MEDIUM TERM FINANCIAL PLAN

Purpose of report

1. To determine Revenue and Capital Budgets for 2009/10 and the consequential Council Tax Precept.

2. To approve the Prudential Indicators and to set a Minimum Revenue Provision (MRP) policy for 2008/09 and 2009/10.

3. To identify the consequences of the 3 year grant settlement on future year budgets.

Background

4, In December 2008 the FRA considered the 2009/10 budget in conjunction with the IRMP and the Budget Committee considered further progress at its meeting in January 2009. In addition a workshop was held for all Members in January. The budget and council tax strategy outlined in this report are based on the recommendation from the Budget Committee meeting in January.

5. The disappointing provisional grant settlement for 2009/10 was confirmed as £10.536m, a mere 0.75% increase on 2008/09, itself only 0.5% up on 2007/08. The co-ordinated efforts by 10 authorities who were at the floor, to reverse the incorrect treatment of Transitional Grant, appear to have failed.

6. The re-announced provisional figure for 2010/11 remains at £10.668m, which whilst representing a relatively big increase of 1.3% compared to previous years, still leaves the 3 year increase well below the national average.

7. Over the three years of the current Comprehensive Spending Review period (CSR) the compounded increase for HWFRA is 3.0% compared with a CFA average of 7.5%, with some individual CFAs well into double figures.

8. The Authority's grant settlement continues to be the lowest per head for CFAs at 74% of the average in 2009/10 declining to73% in 2010/11.

9. Members may wish to note that, other than in relation to Transitional Grant treatment, the FRA has not received any responses from CLG to the specific technical questions raised in last year's grant consultation.

10. The recommended 2009/10 Net Budget Requirement is £30.451m and represents an increase of 3.9% over the previous year and requires a precept increase of 4.93%. Details are set out in appendices 1 to 4.

11. In summary the year-on-year changes are:

One off impacts	+0.8%
Cost pressures	+3.1%
Changes to Fire-fighter Training	+1.3%
Capital programme	+0.8%
National Projects	+0.1%
	+6.1%
Cash releasing efficiencies	-2.2%
Total	**+3.9**%

12. The constrained budget means that the FRA must continue its stated policy of not progressing national projects beyond government funding provided.

Efficiency Savings

13. The FRA has a good track record of achieving efficiencies and in the last CSR period (ended 2007/08) contributed 8% compared to the national average target of 5%

14. It was initially thought that in the current CSR period (2008/09 to 2010/11) each FRA would be required to generate 1.5% cash releasing efficiencies each year. It is now known, however, that this is again a target for the Service at a national level.

15. CLG has again indicated that it believes some FRAs have more scope for delivering efficiencies than others, particularly those that were seen to under-perform in the last efficiency round. But this has not resulted in differential targets being set.

16. The recent Audit Commission Report on FRS efficiency identified areas where the Service as a whole could save cumulatively at least £200m. From this data it is possible to estimate how much of the £200m could be applicable to HWFRA.

17. Applying the national figure evenly would result in a cumulative 2009/10 target of £0.850m, but an estimate of the relative target using the Commission Report would give a figure of £0.500m.

18. The efficiencies included in the 2009/10 HWFRA budget total £0.631m, shown in Appendix 2.

Capital Programme

19. Capital Financing has been significantly effected by the tumultuous changes in world financial markets with an effective collapse in the interest rates paid on the FRA cash balances (subject to the risk minimisation policy agreed) and borrowing rates behaving in previously unexpected ways.

20. However a capital programme using prudent financing assumptions and based on the agreed Asset Management Plan and Fleet Strategy is included as Appendix 5.

21. A substantial addition is the £0.650m for Respiratory Protective Equipment (RPE), which is significantly improved BA equipment including radio monitoring. This has been procured through a national contract lead by CFO Paul Hayden, and an integrated regional solution (excepting Shropshire FRS) is proposed.

22. In previous years the station improvements block has shown indicative phasing whilst remaining flexible. However, experience has shown that this indicative phasing causes confusion and instead a total cash sum is now shown. Allocations will be made only when a specific business case is approved.

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

24. For the Pebworth scheme the business case for a single bay station was approved some time ago at a cost of £0.550m of which £0.007m has been spent on design fees but the project was held up by the difficulties associated with land acquisition. The land acquisition issues now seem to be resolved and progress can be made on the scheme

25. Following a review of the project by the Principal Officers, it was concluded that a 2 bay building would be more appropriate as, over life of the building, this would offer more flexibility to cater for changing Service needs and demands. Also, this takes account of the fact that frequently the Service has no empty bays at Fire Stations and in some instances emergency vehicles and equipment must be parked outside.

26. The requirement to develop a larger building will add to construction costs (although significantly less than adding an extension after construction) and it is estimated that the revised initial budget estimate at feasibility stage would be £0.650m (in total). In anticipation, this figure has been included in the capital budget and capital financing estimates.

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

28. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 1, 2 and 4, and the review of Prudential Indicators in Appendix 9

Budget Risks

29. Setting a budget requirement at £30.451m as referred to in paragraph 10 still presents risks, for example:
    - Pay award – The budget provides for 2.5% in 2009/10 and provisionally 2% for later years.
    - Utilities and Diesel Fuel inflation – whilst the budget now reflects the current known prices there have been wide fluctuations over the past few years. Each 1% over 2% represents an additional £0.045m
    - RDS pension take up – only 35% of staff have taken up the option to join the new pension scheme (in line with budgeted expectations) however an additional 10% take up would cost £0.042m
    - Fire Link is due to go live in late 2009/10 but final costs are still far from clear
    - Council Tax Capping
      In making the grant settlement announcement the Minister stated that "… the government expects the average Council Tax increase in England to be substantially below 5% and ….will not hesitate to use its capping

power to protect council tax-payers from excessive increases

Capping legislation, however, requires that the expenditure increase is excessive before the Minister can exercise capping powers. If expenditure increases are deemed to be excessive the council tax increase can then be a determinate of capping.

The budget proposal is for a budget increase of 3.9% leading to a tax increase of 4.93% arising from the poor 0.7% grant increase.

These risks highlight the need to maintain prudent levels of balances, for purposes in addition to the operational impact.

Business Consultation

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

Precept Implications

31. Having regard to the government's grant allocation and the council tax base figures supplied by the billing authorities, the budget requirement results in a Band D council tax of £71.57. This is an increase of £3.36 per year or 4.93% on 2008/09. This equates roughly to an extra £0.06 per week.

32. The detailed calculation of precepts is shown in Appendix 6 and is summarised as follows:

	£
Net Budget Requirement	**30,451,000**
less: Share of National Non-Domestic Rates (Business Rates)	8,559,973
less: Revenue Support Grant	1,975,762
Gross Precept Requirement	**19,915,265**
Collection Fund Surpluses	-35,819
Net Precept Requirement	**19,879,446**
Tax-base - Band D Equivalent	277,754.53
Precept - Band D Equivalent	**£71.57**

The position has been helped by the buoyancy (or increase) in the tax-base (number of properties) by 0.56% between 2008/09 and 2009/10. This means the 2008/09 Council tax would now generate £0.106m more precept in 2009/10

Given the uncertainty over future economic conditions a more prudent increase of only 0.10% is forecast for future years.

Medium Term Financial Strategy (MTFS)

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

Revenue Balances Strategy

34. Financial performance in the current financial year is likely to be close to target and general balances are likely to be around £1.2m at 31 March 2009.

35. The MTFP budget provides for no growth in, or usage of, general balances which means that their size in relation to the core budget will decline marginally as shown in the table below.

	2008/09	2009/10	2010/11	2011/12	2012/13
Core Budget	£29.528m	£30.451m	£31.547m	£32.597m	£33.701m
Balances at start of year	£1.259m	£1.259m	£1.259m	£1.259m	£1.259m
% of Core Budget	4.3%	4.1%	4.0%	3.9%	3.7%

36. Whilst the maintenance of balances is desirable to provide a buffer to meet unexpected costs, there is an opportunity cost of holding balances. They could be used to finance expenditure or reduce the council tax precept. The risk is, however, that any unforeseen expenditure could not be met.

37. Ear-marked balances are held for the following uses, and based on the 2009/10 budget proposed, will stand as below at the end of each year:

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Pensions Reserve	0.237	0.167	0.167	0.167	0.167
RMB Costs Reserve	0.024	0.024	0.024	0.024	0.024
Rank to Role Reserve	0.205	0.058	0.058	0.058	0.058
Fuel Price Volatility Reserve	0.080	0.080	0.080	0.080	0.080

Prudential Code Indicators

38. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).

39. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and

sustainable or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.

40. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with, and supporting, local strategic planning, local asset management planning and proper option appraisal.

41. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under section 4 of the Local Government Act 2003 (Government reserve powers).

42. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them in this way would be likely to be misleading and counter productive. In particular, Local Authorities had widely differing debt positions at the start of the Prudential system and the differences are likely to increase over time as a result of the exercise of local choices. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

43. In setting or revising the prudential indicators, the FRA is required to have regard to the following matters:

- Affordability, e.g. implications for Council Tax;
- Prudence and sustainability, e.g. implications for external borrowing;
- Value for money, e.g. options appraisal;
- Stewardship of assets, e.g. asset management planning;
- Service Objectives, e.g. strategic planning for the Authority; and
- Practicality e.g. achievability of the forward plan.

44. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 8.

Minimum Revenue Provision (MRP)

45. Minimum Revenue Provision is the amount set aside in the revenue budget to meet the future repayment of borrowing incurred to pay for capital investment.

46. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 now require that an Authority sets its own prudent level of MRP, rather than being a specific calculation, by adopting an MRP policy in advance of the year to which it relates.

47. The timing of the revised Regulations means that it was not possible to do this before the beginning of 2008/09 so the FRA must also set a policy for 2008/09.

48. Appendix 9 sets out the proposed position.

Budget Calculations: Personal Assurance Statement by Treasurer

49. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (council tax). The Authority is required to take this report into account when making its budget and precept (council tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

50. The Treasurer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:
    - The Fire and Rescue Authority budget policy;
    - The need to protect the Fire and Rescue Authority's financial standing and to manage risk;
    - This year's financial performance;
    - The financial polices of the Government;
    - The Fire and Rescue Authority's Medium Term Financial Strategy and Planning framework;
    - Capital programme obligations;
    - Treasury Management best practice;
    - The strengths of the Fire and Rescue Authority's financial control procedures including audit consideration;
    - The extent of the Fire and Rescue Authority's balances and reserves; and
    - The prevailing economic climate and future prospects.

Recommendation

The Authority is asked to:

- **Approve the Revenue Budget, Net Budget Requirement and consequential precept as set out in Appendix 6**
- **Approve the Capital Budget and Programme as set out at Appendix 5 including the increase in the Pebworth scheme budget.**
- **Approve the Medium Term Financial Strategy set out in Appendix 7**
- **Approve the Statement of Prudential Code Indicators set out in Appendix 8**
- **Approve the Minimum Revenue Provision (MRP) policy for 2008-09 and 2009-10 as set out in Appendix 9.**

Appendices

Appendix 1 Revenue Budget 2009/10
Appendix 2 Explanation of variations in Appendix 1
Appendix 3 Personnel Budget
Appendix 4 Revenue Budget 2009/10
Appendix 5 Capital Programme
Appendix 6 Precept Calculation
Appendix 7 Medium Term Financial Forecasts
Appendix 8 Statement of Prudential Code Indicators
Appendix 9 Minimum Revenue Provision policy

Background papers

Report: Budget Report 2009/10 – Fire and Rescue Authority 19-Dec-2008
Report: Budget Preparation 2009/10 – FRA Budget Committee 28-Jan-2009

Hereford & Worcester Fire and Rescue Authority
Budget 2009/10 : Revenue Budget 2009/10

	£m	%
2008/09 Net Budget Requirement	**29.311**	
One off use of reserves		
Pensions Earmarked Reserve	0.070	
Rank to Role Earmarked Reserve	0.147	
	0.217	**0.8%**
Recurring Base Budget	**29.528**	
Cost Pressures		
Full Cost of 2008 Pay Awards - including additional 0.5%	0.100	
Pay Awards at 2.5%	0.566	
LGPS - Increased Contribution Rate	0.013	
Support Staff Increments	0.010	
Non Pay Inflation (mainly at 2.25% but including Business Rates at 5.2%)	0.185	
Net Other	0.030	
	0.904	**3.1%**
Changes to Training Arrangements		
Improving Ridership	0.100	
Increase in Training Resources	0.180	
Flexible Working Arrangements	0.100	
	0.380	**1.3%**
Capital Programme		
Impact of Asset Management Plan & Fleet Strategy	0.230	
	0.230	**0.8%**
Consequences of National Projects		
Firelink - estimated net new cost	0.040	
	0.040	**0.1%**
	31.082	**6.1%**
Cash Releasing Efficiencies		
Fire-fighter Posts	(0.420)	
Back Office Savings	(0.211)	
	(0.631)	**-2.2%**
RECOMMENDED NET BUDGET REQUIREMENT	**30.451**	**3.9%**

Hereford & Worcester Fire and Rescue Authority
Budget 2009/10 : Explanation of Variations in Appendix 1

One-off Impacts

Core expenditure in 2008/09 funded from one-off use of reserves

Full Cost of 2008 Pay Awards - including additional 0.5%

The full year cost of the Fire-fighters July 2008 pay award, including the impact of the settlement at 2.45% being higher than the 2% included in the 2008/09 budget. This figure also includes the impact of the interim Support pay settlement at April 2008 being 0.47% higher than the 2% in the 2008/09 budget.

Pay Awards at 2.5%

The budget provides for a 2.5% pay award, in line line with experience in the last 2 years against the general government strategy on public sector pay.

LGPS - Increased Contribution Rate

The latest valutaion of the Worcestershire Pension Fund requires an increase in employer contributions

Support Staff Increments

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

Other Inflation

Non Pay Inflation has been provided for at 2.25%, from April 2009, except for Business Rates which by statute increase by the Sept RPI figure of 5.2%.

Changes to Training Arrangements

Changes introduced as part of the approved IRMP to release operational staff for training,

Capital Financing

The changes reflect the overall additional capital financing charges arising from the capital programme. The impact shown includes interest, provision for repayment and vehicle lease rentals. It is net of the proposed new MRP policy (see Appendix 9) and the current Treasury Managament position in relation to risk and consequent interest receivable.

Consequences of National Projects

Firelink - estimated net new cost

Cash Releasing Efficiencies	**£m**
Fire-fighter Posts	
As per the approved IRMP	**(0.420)**
Back Office Efficiencies	
Restructure of Policy, Performance & Planning Dept	(0.087)
Bringing Committee Services Function in-house	(0.015)
Increased income from private use of service vehicles	(0.020)
Reduction in Support Service revenue budgets	(0.089)
	(0.211)
TOTAL	**(0.631)**

Appendix 3

Hereford & Worcester Fire and Rescue Authority
Budget 2009/10 : Personnel Budget

	Wholetime Firefighters FTE	Retained Firefighters H/C	Control Room Staff FTE	Non-Uniformed Support FTE	TOTAL
Core Budget 2008/09	**327.0**	**369.0**	**25.0**	**124.7**	**845.7**
Civilianisation of Fire Safety Trainer	(1.0)			1.0	0.0
IRMP Efficiencies	(12.0)				(12.0)
Net Back Office Efficiencies	(1.0)			(2.0)	(3.0)
Included in Budget 2009/10	**313.0**	**369.0**	**25.0**	**123.7**	**830.7**

Hereford & Worcester Fire and Rescue Authority
Budget 2009/10 : Revenue Budget 2009/10

	2008/09 Revised Budget £m	*change £m*	2009/10 Proposed Budget £m
Wholetime Pay	14.078	*0.198*	14.276
Retained Duty Staff Pay	3.035	*0.092*	3.127
Flexible Working Arrangements	0.000	*0.100*	0.100
Control Pay	0.750	*0.025*	0.775
Support Pay	3.578	*0.120*	3.698
Other Employee Costs	0.036	*0.000*	0.036
	21.477	***0.535***	**22.012**
FF Pensions - Non Funded Costs	0.672	*0.041*	0.713
SUB-TOTAL : Employee Costs	**22.149**	***0.576***	**22.725**
Urban Search & Rescue (USAR) - total cost	0.846	*0.025*	0.871
SUB-TOTAL : USAR	**0.846**	***0.025***	**0.871**
Policy, Planning & Performance	0.169	*0.004*	0.173
Risk & Business Continuity	0.015	*0.000*	0.015
Committee Services	0.108	*(0.012)*	0.096
Legal Services	0.060	*0.001*	0.061
FRA Costs	0.185	*(0.026)*	0.159
Health & Safety	0.031	*0.001*	0.032
Insurances	0.305	*0.007*	0.312
	0.873	***(0.025)***	**0.848**
Community Safety - Prevention	0.292	*0.007*	0.299
Community Safety - Intervention Policy	0.053	*0.001*	0.054
	0.345	***0.008***	**0.353**
Personnel	0.253	*0.006*	0.259
Approved Centre	0.014	*(0.006)*	0.008
Training	0.550	*0.012*	0.562
	0.817	***0.012***	**0.829**
Equipment Support	0.905	*0.010*	0.915
Fleet	0.514	*0.019*	0.533
IT	0.478	*0.011*	0.489
Comms	0.387	*(0.008)*	0.379
Facilities Management	1.233	*0.030*	1.263
	3.517	***0.062***	**3.579**
Finance	0.234	*0.055*	0.289
Capital Financing	1.686	*0.230*	1.916
Firelink Contingency/Fire Control	0.056	*0.040*	0.096
	1.976	***0.325***	**2.301**
SUB-TOTAL : Other Running Costs	**7.528**	***0.382***	**7.910**
Special Grants	(0.995)	*(0.060)*	(1.055)
	(0.995)	***(0.060)***	**(1.055)**
SUB-TOTAL :	**29.528**	***0.923***	**30.451**
Use of Reserves			
from Pensions Earmarked Reserve	(0.070)	*0.070*	0.000
from of Rank to Role Earmarked Reserve	(0.147)	*0.147*	0.000
	(0.217)	***0.217***	**0.000**
NET BUDGET REQUIREMENT	**29.311**	**1.140**	**30.451**

Appendix 5

Hereford & Worcester Fire and Rescue Authority
Budget 2009/10 : Capital Programme

	BUDGET	PROGRAMME			
	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	TOTAL £m
Vehicle Programme					
Routine Replacements (Pumps)	0.612	0.459	0.612	0.459	**2.142**
Routine Replacements (4WD)		0.150			**0.150**
Routine Replacements (Off-Road)		0.015		0.150	**0.165**
	0.612	**0.624**	**0.612**	**0.609**	**2.457**
IRMP Schemes					
Pebworth	0.643				**0.643**
Provision for future Business Cases	1.957	2.500	3.000	2.500	**9.957**
	2.600	**2.500**	**3.000**	**2.500**	**10.600**
Other Schemes					
Property, Infromation Technology, Communications etc.	0.600	0.600	0.600	0.600	**2.400**
Respiratory Protective Equipment (RPE)	0.650				**0.650**
	1.250	**0.600**	**0.600**	**0.600**	**3.050**
Annual Total	**4.462**	**3.724**	**4.212**	**3.709**	**16.107**

Excludes impact of any other slippage from 2008/09.

Appendix 6

Hereford & Worcester Fire and Rescue Authority

Budget 2009/10 : Precept Calculation

Tax-base : Band D Equivalent	
Bromsgrove	36,290.23
Herefordshire	70,061.66
Malvern Hills	30,000.21
Redditch	27,270.10
Worcester	32,354.00
Wychavon	46,962.33
Wyre Forest	34,816.00
	277,754.53
	£
Core Budget	30,451,000.00
Use of other ear-marked reserves	0.00
Net Budget Requirement	**30,451,000.00**
Share of National Non-Domestic Rates (Business Rates)	8,559,973.00
Revenue Support Grant	1,975,762.00
Total Financing Grants	**10,535,735.00**
Gross Precept Requirement	19,915,265.00
Collection Fund Surpluses	(35,819.00)
Net Precept Requirement	**19,879,446.00**
Tax-base - Band D Equivalent	277,754.53
Precept - Band D Equivalent	£ 71.5720
	£ 71.57

Total Precept on Billing Authorities	**£**
Bromsgrove	2,597,364.18
Herefordshire	5,014,452.82
Malvern Hills	2,147,174.90
Redditch	1,951,775.48
Worcester	2,315,640.35
Wychavon	3,361,187.68
Wyre Forest	2,491,850.60
	19,879,446.01

ROUNDING REQUIRED

Equivalent to Tax at Band	**Ratio to Band D**	**£**	2008/09 Tax	change
A	6/9	£ 47.710	£ 45.470	4.93%
B	7/9	£ 55.670	£ 53.050	4.94%
C	8/9	£ 63.620	£ 60.630	4.93%
D	9/9	**£ 71.570**	**£ 68.210**	4.93%
E	11/9	£ 87.480	£ 83.370	4.93%
F	13/9	£ 103.380	£ 98.530	4.92%
G	15/9	£ 119.290	£ 113.680	4.93%
H	18/9	£ 143.140	£ 136.420	4.93%

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Hereford & Worcester Fire and Rescue Authority
Medium Term Financial Forecasts

	2009/10 Forecast £m	2010/11 Forecast £m	2011/12 Forecast £m	2012/13 Forecast £m
Prior Year Net Budget Requirement	**29.311**	**30.451**	**31.547**	**32.597**
Add-back One-off use of Ear-marked Reserves in 2008/09				
Pensions Earmarked Reserve	0.070			
Rank to Role Earmarked Reserve	0.147			
	0.217	**0.000**	**0.000**	**0.000**
	29.528	**30.451**	**31.547**	**32.597**
Cost Pressures				
Full Cost of 2008 Pay Awards - including additional 0.5%	0.100			
Pay Awards at 2.5% in 09/10 2% thereafter	0.566	0.498	0.524	0.534
LGPS - Increased Contribution Rate	0.013	0.017	0.017	
Support Staff Increments	0.010			
Non Pay Inflation (mainly at 2.25% but including Business Rates at 5.0%)	0.185	0.136	0.139	0.142
Revised FFPS Contribution Rates (Estimate)			0.200	
Service Delivery Contingency				0.200
Net Other	0.030	0.038	0.015	
	0.904	**0.689**	**0.895**	**0.876**
Changes to Training Arrangements				
Improving Ridership	0.100			
Increase in Training Resources	0.180			
Flexible Working Arrangements	0.100			
	0.380	**0.000**	**0.000**	**0.000**
Capital Programme				
Impact of Asset Management Plan & Fleet Strategy	0.230	0.297	0.201	0.229
	0.230	**0.297**	**0.201**	**0.229**
Consequences of National Projects				
Firelink - estimated net new cost	0.040	0.110		
FireControl - estimated net new cost			0.525	
	0.040	**0.110**	**0.525**	**0.000**
	31.082	**31.547**	**33.168**	**33.702**
Cash Releasing Efficiencies				
Fire-fighter Posts	(0.420)			
Back Office Savings	(0.211)			
To be identified			(0.571)	(0.001)
	(0.631)	**0.000**	**(0.571)**	**(0.001)**
PROJECTED NET BUDGET REQUIREMENT	**30.451**	**31.547**	**32.597**	**33.701**
		3.6%	3.3%	3.4%

		2009/10 Forecast	2010/11 Forecast	2011/12 Forecast	2012/13 Forecast
Band D Increase		**4.93%**	**4.93%**	**4.93%**	**4.93%**
Tax-base Increase		0.56%	**0.10%**	**0.10%**	**0.10%**
Grant Increase		0.75%	**1.25%**	**0.00%**	**0.00%**
Band D Tax		£ 71.57	£ 75.10	£ 78.79	£ 82.68
Tax-base		277,754.53	278,032.28	278,310.32	278,588.63
Council Tax Yield	£m	(19.879)	(20.879)	(21.929)	(23.033)
Government Grants	£m	(10.536)	(10.668)	(10.668)	(10.668)
Collection Fund Surpluses	£m	(0.036)	0.000	0.000	0.000
Gross Resources	£m	**(30.451)**	**(31.547)**	**(32.597)**	**(33.701)**
			3.6%	3.3%	3.4%

Appendix 8

Statement of Prudential Indicators

Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the new system of capital finance embodied in Part 1 of the Local Government Act 2003. Since 1 April 2004, Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation.

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

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

Prudential Indicators

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

1. Net Borrowing and the Capital Financing Requirement

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

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

The Treasurer reports that the Fire and Rescue Authority had no difficulty meeting this requirement since 2002/03, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2009-10 Budget.

2 Capital Expenditure

The actual amount of capital expenditure that was incurred since 2004/05, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2009/10 Budget are as follows:

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Actual £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
Capital Expenditure	8,746	2,611	1,299	3,259	4,462	3,724	4,212	3,709
Operationally Leased Assets	427	237	190	251	462	204	303	93
	9,173	2,848	1,489	3,510	4,924	3,928	4,515	3,802

2. Ratio of Financing Costs to Net Revenue Stream

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

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

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

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

The rise in this ratio is partially due to the fact that capital expenditure prior to the formation of the FRA is not charged to the Fire and Rescue Authority. In other words, the Fire and Rescue Authority inherited all its assets without any cost. Thus, as investment is made in vehicles, for example the increased costs are in the Fire and Rescue Authority accounts but the savings are elsewhere.

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

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Actual £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £001
Financing Costs	968	1,273	1,314	1,620	1,911	2,214	2,475	2,827
Net Revenue Stream	27,289	27,061	28,286	29,311	30,451	31,547	32,597	33,701
Ratio	3.55%	4.70%	4.65%	5.53%	6.28%	7.02%	7.59%	8.39%

3. Capital Financing Requirement

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

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

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

	2005/06 Actual £000	2006/07 Actual £000	2007/08 Actual £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £001
Capital Financing Requirement at 31st March	9,389	11,221	11,579	13,202	16,220	18,081	21,143	23,552

4. Authorised Limit

The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary.

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

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

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

Authorized Limit	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
External Borrowing	21,000	23,000	27,000	29,000

5. Operational Boundary

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

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

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

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

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

Operational Boundary	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
External Borrowing	19,000	21,000	24,000	26,000

6. Actual External Debt

The Fire and Rescue Authority's actual external debt as at 31 March 2008 was £13.053 million; comprising £13.053 million External Borrowing and £0 (zero) Other Long Term Liabilities.

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

This indicator identifies specifically the additional cost to the taxpayer of the **new** capital investment proposed in the 2009/10 – 2011/12 Capital Programme. As the indicator deals only with new investment the impact of the previously approved programme was included in the equivalent report provided to the FRA in Feb 2008.

The incremental impact identifies transactions that will occur **over and above** what has already been provided for in the 2008/09 revenue budget and assumes the funding available in 2008/09 will be carried forward in the future year's base budgets.

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

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

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

The estimate of the incremental impact of the capital investment detailed in the 2009/10 Budget on the Council Tax is as follows:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Incremental Impact on Band D Council Tax	£ 0.00	£ 0.23	£ 0.28	£ 0.59

PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT

8. Treasury Management Code of Practice

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

The Treasury Management function is carried out on behalf of the Authority by Worcestershire County Council, who have also adopted the Treasury Management Code of Practice.

9. Fixed Interest Rate Exposures

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

Upper limits for net principal sums outstanding at fixed rates

Fixed Interest Rate Exposure	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Upper Limit	21,000	23,000	27,000	29,000

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

10. Variable Interest Rate Exposures

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

Upper limits for net principal sums outstanding at variable rates

Variable Interest Rate Exposure	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Upper Limit	5,000	6,000	7,000	7,000

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

11. Maturity Structure of Borrowing

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

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

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

12. Investments for longer than 364 days

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

Appendix 9

Hereford & Worcester Fire and Rescue Authority
Minimum Revenue Provision (MRP) Policy

Background

This is the amount charged every year to provide for the repayment of long term loans used to finance capital assets.

Prior to 2008/09 the calculation was determined by statute, but for 2008/09 onwards under the Local Authorities (Capital Finance and Accounting) (England) Amendment) Regulations 2008, the FRA is required merely to "determine an amount of MRP which is considered to be prudent".

Brief History

The MRP set by statute was based broadly on the gross amount of borrowing incurred for Capital purchases, the actual calculation being 4% of the borrowing, less the total of MRP from previous periods.

Following the relaxation of Capital Controls under the Prudential Code from 2004/05, the FRA has made additional Voluntary Revenue Provision (VRP) for expensive, relatively short life assets i.e. vehicles. This ensures that money is set aside to repay the loan over the life of the asset.

Statutory Requirement

- For 2008/09 the FRA must determine its MRP policy by 31st March 2009.
- For 2009/10 the FRA must determine its MRP policy by 31st March 2009.
- For future years the FRA must determine a MRP policy prior to the start of the financial year.

Going Forward

In considering a prudent MRP policy the FRA needs to take into account the statutory guidance provided by CLG, and the issue of affordability. The guidance states that "provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service" – the "Asset Life" method.

The guidance, however, reflects the fact that for short life assets there is a considerable difference between the revenue charge arising from an "Asset Life" method and the old 4% method.

Since the advent of the Prudential Code from 2004/05 the FRA has provided MRP for significant shorter life assets (i.e. vehicles) broadly on an “Asset life” basis (albeit commencing charges a year earlier than the new guidance required). Whilst this results in a greater charge than the 4% method required, the affordability of this more prudent approach was considered at the time as part of the Prudential Code Indicators

Recommendation

1. All expenditure from 2008/09 onwards - MRP using an Asset life basis:-
    - Buildings over 50 years – per depreciation policy;
    - IT equipment over 5 years - reflecting average life
    - Other Equipment over 7 years – reflecting actual average usage within the FRS;
    - Vehicles – on actual estimated life of each vehicle

2. Vehicle Expenditure before 2008/09 – MRP on a proxy Asset Life basis using original cost, less accumulative MRP, over the remaining useful life of the individual vehicle

    This amends the broadly similar existing policy, to be consistent with the new guidance and continues to ensure that the full cost of the loan is provided for over the life of the assets.

3. Expenditure before 2008/09, (other than vehicles) - MRP on a proxy Asset Life basis using original cost, less accumulative MRP over average asset life as above

    This accelerates the MRP charge over that under the 4% method, but ensures that full provision is made over a finite period.