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 <u>expenditure</u> 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