

Hereford & Worcester Fire Authority

Local Government Finance Changes - 2012/13 Notional Position

The key differences between 2012/13 and 2013/14 are:

Council Tax Benefit was paid direct by the Department of Work and Pensions and included as Council Tax income. This will now be paid as direct grant (and in 2013/14 will only cover an average of the expected cost).

Business Rates were pooled and re-distributed nationally. From 2013/14 a small proportion is retained locally by the FRA.

A split between RSG and Business Rate top-up grants.

The table re-states the 2012/13 actual resources onto the same basis as 2013/14, but has to use a number of assumptions:

Council Tax Benefit paid is prorata to the grant being 90% of cost - and 2012/13 being as the 2013/14 original estimate.

Business Rate income is as 2013/14 base-line deflated

Business Rate Top Up Grant is pro-rata to 2013/14

	2012/13 Actual Resources	C Tax Benefit Effect	Retained Business Rate	2012/13 Notional Resources
<u>Precept</u>				
Council Tax Precept	20.867	(2.508)		18.359
Collection Fund	0.055			0.055
	20.922	(2.508)	0.000	18.414
<u>Formula Grant/Base-line Funding</u>				
Redistributed National Business Rates	10.374		(10.374)	0.000
Retained share of local Business Rate Income (1%)	0.000		2.187	2.187
Business Rate Top Up Grant	0.000		2.635	2.635
Revenue Support Grant	0.211	2.508	6.071	8.790
2011/12 Council Tax Freeze Grant	0.519		(0.519)	0.000
	11.104	2.508	0.000	13.612
<u>Other Grants etc.</u>				
Fire Revenue Grant (Firelink/New Dimensions)	1.169			1.169
2012/13 Council Tax Freeze Grant	0.626			0.626
	1.795	0.000	0.000	1.795
TOTAL RESOURCES	33.821	0.000	0.000	33.821

less Fire Revenue Grant	(1.169)		(1.169)
	32.652		32.652

Council Tax-payers	20.922		18.414
Local Business Rate Payers)			2.187
Government Grant (excluding Fire Revenue Grant)	11.730		12.051
Resources - net of Fire Revenue Grant	32.652		32.652
Local	64%		63%
Central	36%		37%

Figures are Indicative for illustrative purposes only, the Notional Resource allocation has no official meaning

Hereford & Worcester Fire Authority

Budget 2013/14 : Revenue Budget

	£m
1 2012/13 Core Budget	33.821
<u>Base changes</u>	
2 Less one-off 2011/12 & 2012/13 Public Holiday	(0.020)
3 Full year cost of Firelink - funded by grant	0.088
4 Pay Award Contingency	0.220
5 General Inflation Contingency	0.300
6 LGPS - increased contribution rate	0.020
7	0.608
<u>Capital Programme</u>	
8 Impact of Asset Management Plan & Fleet Strategy	0.250
9 Re-phasing of Financing	(0.300)
10 Impact of Capital Grant	(0.010)
11	(0.060)
<u>Cost Savings</u>	
12 Control Resilience Project - running costs	(0.067)
13	(0.067)
<u>One-Off (2012/13 only) Costs</u>	
14 Redundancy/Pension Strain Costs	(0.284)
15 Operational Equipment (<i>obsolescence</i>)	(0.210)
16 Property Maintenance	(0.250)
17	(0.744)
<u>Other Pressures</u>	
18 Redundancy Outcomes & Pay Protection	0.044
19	0.044
<u>Cost Saving Measures</u>	
20 IRS Post	(0.013)
21 Reduction in Watch sizes - expected 31-03-2012	(0.609)
22 Reduction in Watch sizes - expected 2013/14	0.092
23 Flexi-Duty Officer Review	(0.200)
24 Senior Management Restructure	(0.043)
25 NFPS/FFPS	0.039
26 Apr 2012 - no Support Staff Pay Award	(0.038)
27	(0.772)
28 2012/13 Reallocations and Net Savings	(0.100)
29	(0.100)
30	32.730
31 Final Savings to be identified	(0.181)
32 BUDGET REQUIREMENT	32.549
<i>year on year change</i>	<i>-3.8%</i>

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Budget 2013/14 : Explanation of Variations in Appendix 2

<u>One off Public Holiday</u>	(Line 2)
There were additional public holidays in both 2011/12 (a Royal Wedding) and 2012/13 (a Diamond Jubilee). Working on public holidays is paid at a premium rate and therefore there was a temporary increase in the budget. This is no longer required for 2013/14.	
<u>Full Year Cost of Firelink</u>	(Line 3)
Service started part way through 2011/12 and budgeted costs were not increased for the full year 2012/13. This increase is funded by a corresponding increase in special grant.	
<u>Pay Award Contingency</u>	(Line 4)
Provision for national pay awards in 2013/14 not exceeding the Chancellors public pay policy limit of 1%.	
<u>General Inflation Contingency</u>	(Line 5)
Averages 3% overall (with higher provision for fuel, business rates and utilities).	
<u>LGPS - Increased Contribution Rate</u>	(Line 6)
The last valuation of the Worcestershire Pension Fund requires an increase in annual employer contributions.	
<u>Impact of Asset Management Plan & Fleet Strategy</u>	(Lines 8-10)
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 current Treasury Management position in relation to risk and consequent interest receivable. The net reduction is due to slippage on major building schemes and is a timing issue only.	
<u>Control Resilience Project</u>	(Line 12)
Initial savings as a result of implementation of the new Command and Control arrangements.	
<u>Redundancy Costs</u>	(Line 14)
These were one-off short term costs associated with the redundancy process in 2012/13. cut-over year. The MTFs projection shows these dropping dramatically from 2013/14.	
<u>Other one-off Costs</u>	(Lines 15 & 16)
Non-repeating one off expenditure.	
<u>Other Pressures</u>	(Line 18)
Short term pay protection costs arising from the finalised redundancy arrangements. Will reduce over the next 2 years.	
<u>IRS Post</u>	(Line 20)
This was temporary post approved only to the end of 2012/13.	
<u>Reduction in Watch Sizes</u>	(Lines 21 & 22)
The IRMP process identified a reduction in watch sizes. This has largely been managed through normal retirements, but a small provision is made for the fact that this is not achieved fully until part way into 2013.	
<u>Flexi-Duty Officer Review</u>	(Line 23)
A saving in the number of flexi-duty officers and flexible use of New Dimensions funding, partially re-invested into RDS support.	
<u>Senior Management Review</u>	(Line 24)
Further review of arrangements resulting in deletion of one post and an associated redundancy in 2012/13.	
<u>NFPS/FFPS</u>	(Line 25)
A technical adjustment to the employer contributions to the new and old Firefighters Pension scheme, as a result of the decision to manage the reduction in watch sizes through not replacing retirees.	
<u>April 2012 Support Staff Pay Award</u>	(Line 26)
AS the national pay award for support staff at April 2012 was 0%, the budget provision made for the award is not required.	
<u>2012/13 Reallocation & Net Savings</u>	(Line 28)
Re-allocation and consolidation of budgets reflecting the Senior Management review and net reduction of budget need.	

Hereford & Worcester Fire Authority**Budget 2013/14 : Personnel Budget**

	Wholetime Firefighters FTE	On-Call Retained Firefighters H/C	Control Room Staff FTE	Non- Uniformed Support FTE	TOTAL
Core Budget 2012/13	312.0	369.0	25.0	125.3	831.3
Temporary Post expiring				(1.0)	(1.0)
Directly employed Monitoring Officer				1.0	1.0
Senior Management Restructure				(1.0)	(1.0)
Flexi Officer Review	(3.0)			1.0	(2.0)
Redundancies post saved				1.0	1.0
Reduction in watch sizes	(18.0)				(18.0)
					0.0
Included in Budget 2013/14	(21.0)	0.0	0.0	1.0	(20.0)
USAR - funded by Special Grant	16.0	14.0			30.0
	(5.0)	14.0	0.0	1.0	10.0

Hereford & Worcester Fire Authority
Budget 2013/14 : Revenue Budget Allocation

		(1)	(8)	(2)	(3)	(4)	(5)	(6)	(7)		(9)	(4)
		2012/13 Proposed Allocation £m	Pay Award Alloc. £m	Base Changes £m	Capital Prog. £m	Cost Savings £m	One Off 2012/13 £m	Other Pressures £m	Cost Saving £m	Clerk/ Treasurer £m	Re-allocs & Net Savings £m	2013/14 Proposed Allocation £m
1	WT FF Pay	13.874	0.139	(0.018)					(0.682)			13.313
2	RDS FF Pay	3.185	0.032	(0.002)								3.215
3	USAR Pay	0.725	0.008									0.733
4	Control Pay	0.798	0.008	0.003					0.000			0.809
5	Support Pay	3.708	0.017					0.044	(0.052)	0.072		3.789
6	Other Employee Costs	0.038										0.038
7	Unfunded Pensions	0.754									(0.001)	0.753
8		23.082	0.187	0.000	0.000	0.000	0.000	0.044	(0.734)	0.072	(0.001)	22.650
9	Strategic Management	0.028									0.030	0.058
12		0.028	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.030	0.058
13	New Dimensions	0.162									(0.048)	0.114
14	Ops - HQ	0.141									(0.141)	
15	TFS	0.000									0.010	0.010
16	CFS	0.000									0.094	0.094
17	Training Dept	0.701							0.000		0.023	0.724
18		1.004	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(0.062)	0.942
19	Fleet	0.591									0.067	0.658
20	Ops Logistics	1.566		0.088			(0.210)				0.012	1.456
21	Ops Policy	0.067									0.008	0.075
22		2.224	0.000	0.088	0.000	0.000	(0.210)	0.000	0.000	0.000	0.087	2.189
23	Personnel	0.290									(0.016)	0.274
24		0.290	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(0.016)	0.274
25	P&I	0.302									(0.065)	0.237
26	FRA Costs	0.136								(0.034)	(0.011)	0.091
27		0.438	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(0.034)	(0.076)	0.328
28	ICT	1.057				(0.055)					(0.033)	0.969
29	Facilities Mngt	1.939					(0.250)					1.689
30	Insurances	0.301										0.301
31	Finance (FRS)	0.124										0.124
32	Finance SLA	0.180									(0.029)	0.151
33	Capital Financing	2.629			(0.060)							2.569
34		6.230	0.000	0.000	(0.060)	(0.055)	(0.250)	0.000	0.000	0.000	(0.062)	5.803
35	Legal Services	0.061								(0.038)		0.023
36		0.061	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(0.038)	0.000	0.023
37	Core Budget	33.357	0.187	0.088	(0.060)	(0.055)	(0.460)	0.044	(0.734)	0.000	(0.100)	32.267
38	Pay Award Provision 12/13	0.180	(0.180)									0.175
39	Pay Award Provision 13/14		(0.007)	0.220					(0.038)			
40	Redundancy Provision	0.284					(0.284)					0.300
41	Inflation Contingency			0.300								
42		0.464	(0.187)	0.520	0.000	0.000	(0.284)	0.000	(0.038)	0.000	0.000	0.475
43	Gross Budget	33.821	0.000	0.608	(0.060)	(0.055)	(0.744)	0.044	(0.772)	0.000	(0.100)	32.742
44	Use of development					(0.012)						(0.012)
45	contingency	0.000	0.000	0.000	0.000	(0.012)	0.000	0.000	0.000	0.000	0.000	(0.012)
46	Net Budget	33.821	0.000	0.608	(0.060)	(0.067)	(0.744)	0.044	(0.772)	0.000	(0.100)	32.730
47	Final Savings to be identified											(0.181)
48												32.549
Appendix 2 reference		Line 1		Line 7	Line 11	Line 13	Line 17	Line 19	Line 27		Line 29	

Hereford & Worcester Fire Authority
Budget 2013/14 : Budget Savings since 2010/11

Annual Savings Identified & fully implemented before 2012/13	FTE	2012/13 & later yrs. £000
1 Net Saving reduction of ACFO Uniform Post	1.00	121,400
2 2011/12 Redundancies Support Posts REDUNDANCIES	3.70	110,200
3 2012/13 Net Redundancies Support Posts REDUNDANCIES	11.20	337,000
4 Occupational Health contract		10,000
5 Principal Officer Car Financing		4,500
6 Response Officer Car Financing		21,000
7 PPE Contract		7,000
8 Removal of Water Coolers at HQ		5,000
9 Abolition of 1st Class Travel		<i>marginal</i>
10 Removal of Internal meeting Catering		<i>marginal</i>
11 Budget-holder Savings in 2011/12 - net of re-allocation		255,000
12 Treasurer (S151) arrangements		3,000
13 External Audit Fee		29,000
14	15.90	903,100

Annual Savings Identified 2012/13 for full implementation 2013/14	FTE	£000
15 Reduction in Watch Sizes	18.00	659,000
16 Flexi-Duty Officer Review	3.00	200,000
17 SMB Restructure	1.00	43,000
18 Budget-holder Savings in 2012/13		100,000
19	22.00	1,002,000

Annual Savings 2013/14	FTE	£000
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Annual Savings Identified 2012/13 for full implementation 2014/15	FTE	£000
20 Reduction in Watch Sizes	14.00	390,000
21	14.00	390,000

51.90	2,295,100
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Hereford & Worcester Fire Authority

Budget 2013/14 : Capital Programme

			(1)	(2)	(3)	(4)	(5)	(6)	(7)
			PRIOR YRS ACTUAL £m	PROBABLE 2012/13 £m	BUDGET 2013/14 £m	PROGRAMME			TOTAL £m
						2014/15 £m	2015/16 £m	2016/17 £m	
	Vehicle Programme								
1	Routine Replacements (Pumps)			0.811	1.010	0.253	1.011	1.011	4.096
2	Bulk Foam Capability			0.067					0.067
3	Routine Replacements (4WD)			0.159					0.159
4	Routine Replacements (Off-Road)			0.004	0.026				0.030
5	Rope Rescue Vehicle			0.025					0.025
6	Command Unit				0.350				0.350
7	Routine Replacements - Water Carrier						0.120	0.120	0.240
8	Routine Replacements - RAVs						0.190		0.190
9	Pumps at end of Primary Lease	note 1		0.020					0.020
10	Response Cars					0.108	0.310		0.418
11				1.086	1.386	0.361	1.631	1.131	5.595
	Major Building Schemes								
12	Pebworth Fire Station		0.706	0.037					0.743
13	Schemes out to Tender and future Business Cases	note 2	0.047	1.869	8.554	10.053	3.109		23.632
14				1.869	8.554	10.053	3.109	0.000	23.632
	Other Schemes								
15	Control Resilience Project		0.911	0.887	0.489				2.287
16	Minor Property, Info. Tech. Comms, Equip etc.			0.517	1.227	0.600	0.600	0.600	3.544
				1.404	1.716	0.600	0.600	0.600	5.831
17	Annual Total			4.359	11.656	11.014	5.340	1.731	35.058

Note 1 : previously assumed to be financed from leasing

Note 2 : Individual scheme sums approved by FRA, but not currently disclosed as contracts subject to tender etc.

Note 3 : Excludes impact of any slippage from 2011/12

Hereford & Worcester Fire Authority **Budget 2013/14 : Council Tax Requirement Calculation**

	2012/13	2013/14
Net Budget	33,821,000.00	32,549,000.00
Less: Special Grants		
Fire Revenue Grant (Firelink/New Dimensions)	(1,168,976.00)	(1,263,000.00)
2012/13 Council Tax Freeze Grant	(625,997.00)	n/a
2013/14 Council Tax Freeze Grant	n/a	(210,000.00)
2013/14 Council Tax Support Transitional Grant		(61,000.00)
	(1,794,973.00)	(1,534,000.00)
Less: Formula/Support Grants:		
Redistributed National Non-Domestic Rates (Business Rates)	(10,373,646.00)	n/a
Retained share of local Business Rate Income (1%)	n/a	(2,253,356.00)
Business Rate Top Up Grant	n/a	(2,715,463.00)
Revenue Support Grant	(211,150.00)	(7,468,843.00)
2011/12 Council Tax Freeze Grant	(518,906.00)	n/a
	(11,103,702.00)	(12,437,662.00)
Less: Collection Fund Deficits/(Surpluses)		
Bromsgrove	(37,237.00)	(10,065.00)
Herefordshire	0.00	45,136.00
Malvern Hills	0.00	0.00
Redditch	0.00	(12,539.00)
Worcester	0.00	0.00
Wychavon	0.00	(20,443.00)
Wyre Forest	(17,843.00)	0.00
	(55,080.00)	2,089.00
COUNCIL TAX REQUIREMENT	20,867,245.00	18,579,427.00

Tax-base : Band D Equivalent		
Bromsgrove	36,643.86	33,784.51
Herefordshire	71,981.60	64,260.18
Malvern Hills	30,710.67	27,828.16
Redditch	27,611.67	23,787.62
Worcester	33,113.00	28,982.00
Wychavon	47,837.51	43,542.96
Wyre Forest	35,461.00	30,119.00
	283,359.31	252,304.43
Precept - Band D Equivalent	£ 73.6423	£ 73.6389
	£ 73.64	£ 73.64

Total Precept on Billing Authorities	£	£
Bromsgrove	2,698,539.90	2,487,854.99
Herefordshire	5,300,894.06	4,732,050.58
Malvern Hills	2,261,605.86	2,049,235.79
Redditch	2,033,388.22	1,751,694.77
Worcester	2,438,519.08	2,134,203.32
Wychavon	3,522,866.57	3,206,456.77
Wyre Forest	2,611,431.31	2,217,930.78
	20,867,245.00	18,579,427.00
	0.00	0.00

Equivalent to Tax at Band	Ratio to Band D	£	£	change change
A	6/9	£ 49.1000	£ 49.1000	£ -
B	7/9	£ 57.2800	£ 57.2700	-£ 0.0100
C	8/9	£ 65.4600	£ 65.4600	£ -
D	9/9	£ 73.6400	£ 73.6400	£ -
E	11/9	£ 90.0100	£ 90.0000	-£ 0.0100
F	13/9	£ 106.3800	£ 106.3800	£ -
G	15/9	£ 122.7400	£ 122.7300	-£ 0.0100
H	18/9	£ 147.2800	£ 147.2800	£ -

Hereford & Worcester Fire Authority

Medium Term Financial Forecasts

		2013/14 Budget £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m
1	2013/14 Core Budget		32.549	32.549	32.549
	Base changes				
2	Pay Award Contingency		0.400	1.080	1.480
3	General Inflation Contingency		0.300	0.560	0.860
4	LGPS - increased contribution rate		0.020	0.040	0.060
5			0.720	1.680	2.400
	Capital Programme				
6	Impact of Asset Management Plan & Fleet Strategy		0.450	0.620	0.870
7			0.450	0.620	0.870
	Other Pressures				
8	2012/13 Redundancy Pay Protection		(0.007)	(0.014)	(0.014)
9			(0.007)	(0.014)	(0.014)
	Cost Saving Measures				
10	Watches sizes - expected 2013/14		(0.092)	(0.092)	(0.092)
11	Day Crew Plus		(0.390)	(0.390)	(0.390)
12			(0.482)	(0.482)	(0.482)
13	MTFP - PROJECTED NET BUDGET NEED	32.549	33.230	34.353	35.323
	<i>year on year change</i>		2.1%	3.4%	2.8%

		2013/14 Budget	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
14	Business Rate increase		3.07%	2.50%	2.50%
15	Business Rate Top Up Grant increase		3.09%	2.50%	2.50%
16	Base-line Funding Reductions			-8.00%	-5.00%
17	Band D Increase		2.00%	2.00%	2.00%
18	Tax-base Increase		0.00%	0.00%	0.00%
19	Band D Tax	£ 73.64	£ 75.11	£ 76.61	£ 78.14
20	Tax-base	252,304.43	252,304.43	252,304.43	252,304.43
	Council Tax				
21	Council Tax Yield	£m (18.580)	(18.951)	(19.330)	(19.717)
22	Collection Fund Balance	£m 0.002			
23		£m (18.578)	(18.951)	(19.330)	(19.717)
	Formula/Support Grants				
24	Retained share of local Business Rate Income (1%)	£m (2.253)	(2.322)	(2.381)	(2.440)
25	Business Rate Top Up Grant	£m (2.715)	(2.799)	(2.869)	(2.940)
26	Revenue Support Grant	£m (7.469)	(6.559)	(5.678)	(5.114)
27		£m (12.437)	(11.681)	(10.927)	(10.494)
	Special Grants				
28	Fire Revenue Grant (Firelink/New Dimensions)	£m (1.263)	(1.286)	(1.011)	(1.013)
29	CT Benefit Transitional Grant (paid in 2012/13)	£m (0.061)	0.000	0.000	0.000
30	2013/14 Council Tax Freeze Grant	£m (0.210)	(0.210)	0.000	0.000
31		£m (1.534)	(1.496)	(1.011)	(1.013)
32	MTFP - PROJECTED RESOURCES	£m (32.549)	(32.128)	(31.268)	(31.225)
	<i>year on year change</i>		-1.3%	-2.7%	-0.1%

		2013/14 Budget £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m
33	MTFP - PROJECTED GAP	£m 0.000	1.102	3.085	4.098

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 2013-14 Budget and MTFP.

2 Capital Expenditure

The actual amount of capital expenditure that was incurred since 2011/12, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2013/4 Budget and MTFP are as follows:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Capital Expenditure	2,782	4,359	11,656	11,014	5,340	1,731
Leased Assets	156	30	303	27	25	54
	2,938	4,389	11,959	11,041	5,365	1,785

The apparent increase in 2013/14 relates to significant slippage of previous years allocated monies in respect of major building works. Appropriate funding for the financing costs has always been included in relevant budgets,

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 Strategy. 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:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Financing Costs	2,439	2,043	2,569	3,019	3,189	3,439
Net Revenue Stream	31,714	32,652	31,286	30,842	30,257	30,212
Ratio	7.69%	6.26%	8.21%	9.79%	10.54%	11.38%

3. Capital Financing Requirement

The capital financing requirement (CFR) 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:

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
CFR at 31st March	15,475	15,958	17,900	24,479	33,364	36,502

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:

	2013/14	2014/15	2015/16	2016/17
Authorized Limit	£000	£000	£000	£000
External Borrowing	30,000	38,000	42,000	41,000

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:

	2013/14	2014/15	2015/16	2016/17
Operational Boundary	£000	£000	£000	£000
External Borrowing	27,000	36,000	39,000	38,000

6. Actual External Debt

The Fire and Rescue Authority's actual external debt as at 31 March 2012 was £14.971 million; comprising £14.971 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 2013/14 – 2016/17 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 2012.

The incremental impact identifies transactions that will occur **over and above** what has already been provided for in the 2012/13 revenue budget and projected in the MTFP and assumes the funding available in 2012/13 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 2013/14 Budget on the Council Tax is as follows:

	2013/14	2014/15	2015/16	2016/17
Incremental Impact on Band D	-£ 0.71	-£ 0.26	-£ 0.48	£ 0.65

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

	2013/14	2014/15	2015/16	2016/17
Fixed Interest Rate Exposure	£000	£000	£000	£000
Upper Limit	30,000	38,000	42,000	41,000

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

	2013/14	2014/15	2015/16	2016/17
Variable Interest Rate Exposure	£000	£000	£000	£000
Upper Limit	8,000	10,000	11,000	10,000

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.

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.

Under provisions of the Local Authorities (Capital Finance and Accounting) (England) Amendment) Regulations 2008, the FRA is required to “determine an amount of MRP which is considered to be prudent”.

The FRA has a statutory requirement to determine an MRP policy prior to the start of the financial year.

Guidance

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

To continue the policy already i.e.:

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 cumulative MRP, over the remaining useful life of the individual vehicle.
3. Expenditure before 2008/09, (other than vehicles) - MRP on a proxy Asset Life basis using original cost, less cumulative MRP over average asset life as above

This means that after a specified time (depending on the life expectancy of the individual asset) there will be no further charge to the Revenue Account for MRP in relation to these assets.

Note: for some of the assets under category 3 above, this point is reached in 2013/14.