report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY	
date	**1 June 2007**	agenda item number

REPORT OF THE CHIEF FIRE OFFICER

MEDIUM TERM FINANCIAL STRATEGY 2007/08 to 2009/10

1. PURPOSE OF REPORT

To present a Medium Term Financial Strategy to the Fire & Rescue Authority for approval.

2. BACKGROUND

2.1 The Authority has a number of financial strategies in place for the good financial management and governance of the Authority.

2.2 It is good practice however, to bring these strategies together into a single overarching financial strategy which clearly demonstrates that the finances of the organisation are stable and "joined up" with other corporate strategies such as the Community Safety plan and that the financial platform is sufficient to enable the delivery of the Authority's corporate objectives.

3. REPORT

3.1 The Medium Term Financial Strategy is attached in full to this covering report and therefore no detail is presented here. However the financial strategy includes sections as follows :

- Financial Management
- Context of the Strategy
- Objectives of the Strategy
- Funding Priorities and Service Improvement
- Medium Term Risks
- Components of the Medium Term Strategy
- Revenue and Capital Budgets
- Fees and Charges
- Treasury Strategy
- External Funding
- Reserves and Provisions
- Working Balances
- The Prudential Code

- Value for Money
- Partnership Working
- The Regional Dimension

3.2 The Strategy also contains appendices on :

- Value for Money Programme
- Treasury Management Strategy
- Use of Balances
- Prudential Code
- Capital Programme 2007/8 – 2009/10
- Revenue Budget 2007/8 – 2009/10

3.3 It is proposed that the Authority should adopt this Medium Terms Financial Strategy and continue to review this annually.

4. FINANCIAL IMPLICATIONS

There are no financial implications in terms of costs arising from this report, however the strategy itself demonstrates a clear framework within which finances are to be managed.

5. PERSONNEL IMPLICATIONS

There are no personnel implications arising from this report.

6. EQUALITY IMPACT ASSESSMENT

There are no issues affecting equalities in this report

7. RISK MANAGEMENT IMPLICATIONS

The establishment of a robust framework for financial management and the allocation of resources to corporate priorities will do much to minimise the risks to the achievement of the organisations objectives.

8. RECOMMENDATIONS

That Members adopt the Medium Term Financial Strategy.

9. BACKGROUND PAPERS FOR INSPECTION

None.

Frank Swann
CHIEF FIRE OFFICER

Appendix A

NOTTINGHAMSHIRE
Fire & Rescue Service

Medium Term Financial Strategy
2007/08 to 2009/10

Contents

1. Financial Management

1.1 The External Auditors of the Authority, the Audit Commission, have consistently issued unqualified audit reports and positive management letters to the Authority in respect of their audit of accounts. There have been some residual issues arising from the reclassification of Operating Leases and adjustments were made to the Accounts in 2005/6 however these have been reported to Members. The latest available Auditors Management Letters are published on the Authority's website.

1.2 The Comprehensive Performance Assessment (CPA) was last carried out in full in 2005 however a number of specific reviews have been carried out in 2006. These relate to Direction of Travel, Use of Resources, Value for Money, and the Service Assessment. Those of particular interest in respect of financial matters are the Value for Money and Use of Resources elements which largely replace the "Auditors Scored Judgement" of the previous CPA. The test applied in 2006 is referred to as "The Harder Test" and consequently it was disappointing not to have achieved the target of a 4 rating. Nevertheless the assessment was very positive about the work being carried out and many of the shortcomings related to a lack of embedded processes rather than a lack of the processes themselves. This will continue to be improved throughout the year.

1.3 Medium term financial planning is essential to the delivery of high quality services. Balancing priorities and resources requires the Authority to take account of tensions between national and local priorities, changes in national funding regimes and the impact that these have on our communities.

2. Context of the Strategy

2.1 The primary focus of the organisation is set out in a fundamental strategy document, the Community Safety Plan. This plan fulfils all the requirements of an Integrated Risk Management Plan and sets out the business of the organisation over the next 3 years. This document essentially represents the Service delivery commitments to the general public and it is therefore essential that resources are effectively managed to achieve the outcomes set out in this plan.

2.2 The Medium Term Financial Strategy sets out how finances are to be managed in such a way as to manage levels of Council Tax, Reserves and Balances. In simplistic terms it sets out how a stable and robust financial platform can be created such that the developments and improvements in services set out in the Community Safety Plan can both be achieved and sustained over time.

3. Objectives of the Strategy

3.1 The Objectives of the Authority's financial strategy are as follows:

1. To provide a robust framework to assist the decision making process
2. To enable the Authority to be proactive rather than reactive in terms of financing
3. To show how resources support the Authority's Community Safety Plan over its full term.
4. To support sustainable service delivery by the use of revenue budgets, reserves and balances.
5. To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.
6. To hold a working balance sufficient to respond to unexpected events and/or opportunities.
7. To be flexible and responsive to changes in needs and legislation
8. To support the continuance of the Authority's core services and strategies.
9. To provide forward looking indications of Council Tax levels.

3.2 A number of principles have been developed to underpin these objectives:

1. Resources will be prioritised to meet the core aims of the Service as set out in the Community Safety Plan and its updates.
2. Priorities will be reviewed in the light of available resources and financial performance
3. Capital Receipts will only be applied to the redemption of debt or the financing of additional capital assets
4. The rate of return on investments will take account of the advice received from the Authority's external advisors
5. Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by balances unless this is part of a long term sustainable strategy and approved by Members.
6. Charging for services will remain sensitive to the needs of communities and their expectations of the service.
7. Sponsorship funding will not be sought to underpin front line or core service delivery unless a long term plan for sustainability has been developed.
8. The Authority will continue to direct resources to the areas of greatest need in our communities and seek to address the wider safety agenda.
9. The Authority will actively seek to work with partner organisations in both setting and delivering priorities.
10. The Authority will apply any year end surpluses to balances until such time as the target level of balances has been achieved.

3.3 There are a number of key outputs which will help to both assure and monitor the effectiveness of this strategy and the underlying principles. The following list is not exhaustive but provides a flavour of the outputs that may be expected:

Production of the three year revenue and capital budgets, including associated briefing papers, consultations and seminars.

Production of quarterly monitoring statements for both Capital and Revenue including project based performance as appropriate.

Supporting information sent to all Council Taxpayers

Prudential Code Monitoring Reports produced quarterly

External Audit Management Letter

Risk based approach to the maintenance of Balances and Reserves

Internal Audit reports reviewed by the Finance and Resources Committee

Grant Claims etc. submitted on time.

4. Funding Priorities and service improvements

4.1 The funding priorities of the Authority relate entirely to those set out in the Community Safety Plan and relate in equal share to the three interrelated priorities of Prevention, Education and Response. All resources are targeted towards these three objectives.

4.2 This “three pronged” approach to the safety of our communities is mirrored through into our budget and resource planning processes. The detailed working underlying the Authority’s budget proposals for 2007/8 to 2009/10 show a clear commitment by both officers and Members not only to the delivery of these broad priorities but also to resourcing the individual projects and activities which will ensure their delivery.

4.3 Developments in the service will be resourced from a number of sources including:

Recycling resources released by efficiency savings
Reassessment of service priorities
Additional revenue budget allocation where appropriate
Government Grant Funding
Sponsorship

4.4 The performance management framework will enable the achievement of service priorities to be monitored and strive to achieve continuous improvement.

4.5 Time limited and specifically targeted government funding will be used to fund specific and non-recurring cost items and fund capacity building around service improvement.

4.6 A full commitment to the Local Area Agreement will create strong local partnerships in support of our wider objectives and also release significant funds to the organisation if successful. These funds will be reinvested in even further initiatives to continue the drive to create safer communities.

4.7 The operation of the Prudential Code for Local Authorities creates opportunities for capital investment and asset planning which were not possible under the old capital financing regime. This will enable the authority to make maximum use of capital investment to support the achievement of objectives.

4.8 A pro-active approach to the achievement of Value for Money via VfM targets and drawing together both financial and non-financial performance measures will release resources to improve service delivery.

4.9 The Authority will continue to make use of trading activity for as long as possible to both support the revenue budget and maintain a presence in the community.

5. Medium Term Risks

5.1 There are a number of risks which can affect this strategy in the medium term, some of which are beyond the direct control of the Authority. A significant change in any one of the following key risk areas could adversely impact upon this strategy.

5.2 *Investment Interest Rates.* The Authority has accumulated reserves of cash both in respect of working balances and other reserves. These cash balances are invested to generate income from interest. In addition a positive approach is taken to the active management of cash by the use of a specialist vehicle from the Royal Bank of Scotland. In consideration of this £150,000 is expected to be generated from interest. If interest rates fall then this source of funding will be under threat of some kind. All advice at the present time is that short term interest rates are likely to remain stable or rise and therefore this risk is adequately managed. The process for managing these funds is set out in the Treasury Management strategy document which was approved by the Fire Authority on 13th April 2007.

5.3 *Loan Interest Rates.* As the Authority matures and outstanding debt becomes a more significant burden on the revenue budget there is naturally an increased exposure to movements of interest rates. Although the Authority has adopted a general policy of using fixed interest vehicles to minimise this risk in the longer term there is still an exposure from the loan charges on new capital being greater than anticipated. On the advice of the Authority's consultants on Treasury matters a great deal of the Authority's loan debt has been restructured to take advantage of exceptionally low long term interest rates. This has meant that the average loan maturity figures shown in the latest prudential code report are much longer than those for previous years. This is part of a medium term strategy to hold long term debt at low rates but reschedule this at a later date if rates are more advantageous. The overall strategy for borrowing is set out in the Treasury Management Strategy document and in the Prudential Code Report. This strategy needs to "follow through" in terms of eventually seeking to mirror the debt outstanding profile with the profile of asset lives. This will be possible by rescheduling debt again as shorter term interest rates fall in relation to long rates.

5.4 *Pensions* There are a number of risks associated with pensions:

That employers contributions for non-uniformed personnel will rise significantly.

That the effect of the admission of Retained personnel to the new fire-fighters scheme will have a major impact on budgets

That the pattern of early retirements and Ill Health retirements in the service will have a serious impact on budgets if unchecked.

In the first scenario, it is likely that employers contributions to the local government pension scheme will continue to rise. However recent consideration of this issue shows that this is unlikely to be significant unless the Authority's record of low rates of early and ill health retirements worsens. The performance of the fund has improved however, as the fortunes of the stock market continue to improve. The small number of staff in this scheme means that this risk is small.

The Admission of Retained Duty Personnel into the new fire-fighters pension scheme could potentially be costly depending on the eventual rules which have yet to be consulted on. Whilst the Authority has made reasonable provision for this change there is no doubt that if substantial numbers of retained staff opt to join the scheme there will need to be some realignment of funds to pay for this.

The biggest risk in the short and medium term however is in the area of both Ill Health and Early retirement from the existing scheme. All the costs from such retirements now fall directly on to Fire Authority budgets and costs per early retiree could be as high as £120,000. Recent changes in Pension regulations make the incidence of ill health retirements less likely and therefore this risk has reduced somewhat.

5.5 *Grant Funding*. The Revenue Support Grant settlement for 2007/8 was announced in December 2005 and so therefore there was a measure of certainty about this. However it is clear that settlement figures for 2008/9 and 2009/10 will not be announced until later this year. What is clear however is that government are under significant pressure in terms of the public finances and will be looking to apply downward pressure to grants. The Comprehensive Spending Review (CSR07) has been delayed until the Autumn which is unhelpful in terms of budget planning however early budget plans will seek to consider a range of options around budget reductions as well as developmental budgets.

5.6 *Firelink.* Firelink is the new replacement for the mainscheme radio system which is a pre-requirement for the implementation of Regional Control Centres. Although the contracts have already been signed by the Office of the Deputy Prime Minister there is no indication of how much this will cost at individual service level or indeed even of what the charging regime will be. The Authority has already set aside some budget for this but whether this will prove to be adequate remains to be seen.

5.7 *Regional Control Centre.* The East Midlands are in the first wave for the introduction of Regional Control Centres and whilst this is supposed to be a cash saving exercise it is becoming clear that the government take the view that this is on a nationwide basis and not at individual Fire Authority level. What costs or savings therefore ultimately come to Nottinghamshire is again unclear. Again some provision has been made within both Revenue Budgets and General Reserves to enable the effect of this to be minimised.

5.8 *Long Term Capital Sustainability.* As referred to above the Authority is relatively immature in terms of the build up of loan debt and leasing to support the capital base of the organisation. As time moves on however it will be prudent for the Authority to construct a credit ceiling for affordable borrowing. This is largely covered within the principles of the Prudential Code but will need to be more closely matched to the profile of the asset base. This is to ensure that the credit ceiling is not reached before the requirement to undertake major capital schemes is exhausted. The risk is that the Authority reaches the point of having used up its credit ceiling and thereby needs to redeem debt or sell assets before any further schemes can take place. A study is to be carried out on this issue during 2007/8 (See 6.8 below).

6. Components of the Medium Terms Strategy

6.1 This section briefly explains some of the processes and key components that underpin the medium term financial strategy.

6.2 *Revenue and Capital Budgets.* The process for the preparation of revenue and capital budgets is now mature but continues to develop each year. For the first time in 2006/7 there was positive involvement of business plan owners in the development of the budgets which have been drawn up side by side with business plans. This has been developed still further in the preparation of the Revenue Budget from 2007/8 to 2009/2010 and there is now increased ownership around budget decisions. This has meant that, as planned, budgets were being developed at the operational level from July onwards whilst discussions were taking place over the overall budget strategy. The Finance and Resources Committee had full involvement in the process and made proper recommendations to the Fire Authority for a meaningful consultation process to take place. As planned, the full three year budget was fully worked up before the Grant Settlement was announced in early December. This process worked well for 2007/8 and will be continued in 2008/9 albeit improved to give differing modelled options and outcomes.

6.3 *Fees and Charges.* The Authority is allowed to make charges for the provision of a range of services to the public and to commerce. It has however been the practice of the Authority to avoid making charges for services which the public have a reasonable expectation of receiving free of charge. For example the Authority could make a charge for pumping out a domestic cellar after a flood but it was decided some years ago that this would not be reasonable. Instead the Authority has concentrated on charging for the more unusual requests often where there is no risk of death or injury, such as filling swimming pools and gaining entry. In addition the Authority makes charges for pollution incidents whenever possible on the principle that the polluter should pay for the damage that they cause. A proactive approach to charging for such incidents will be adopted and other areas such as non-emergency attendances at Road Traffic Collisions will also be actively considered as part of the 2008/9 budget strategy.

6.4 *Treasury Strategy*. The Treasury Strategy for the Authority was set out in full in a report to the Finance and Resources Committee of the Fire Authority on 13th April 2007. This strategy complies fully with the Chartered Institute of Public Finance and Accountancy code of practice on Treasury Management which the Authority has adopted. The strategy relies for its success on the appointment of financial advisors who enable the Authority to lend and borrow as prudently as possible. The overarching policy for lending is that short term active cash will be placed with the Bank of Scotland Local Authority Account if planned, Barclays deposit if unplanned and longer term money will be placed on the capital markets with a range of approved institutions. Efforts will be made to ensure a sufficient spread of borrowers to minimise risk exposures.

6.5 *External Funding*. Efforts will continue to be made to secure as much external funding as possible either from Government Grant or from sponsorship and partnerships. These are managed carefully to ensure that the sudden withdrawal of funding does not have a negative impact on revenue budget nor cause the Authority embarrassment from having to close down successful projects due to lack of external funding.

There are no plans at the present time to enter into any Private Finance Initiative (PFI) funding for capital projects unless there is a strong indication that such a vehicle might prove cost effective. The Finance and Resources Committee has charged officers with carrying out a review of the Authority's long term capital requirements and make recommendations as to appropriate financing vehicles to be employed, which may of course include P~F~I vehicles if appropriate.

6.6 *Reserves and Provisions.* The Local Government Act 2003 requires that Authorities maintain adequate reserves and provisions to help ensure that the medium term policy programme is sustainable and that it can be delivered. In accordance with good accounting and financial practice, reserves and provisions will always be made in the accounts where appropriate. At present the authority only carries small reserves and provisions although it is likely that from time to time these may need to be increased substantially to ringfence monies for particular projects or to deal with sustainability issues such as those inferred by the LGA 2003. In simple terms the difference between a reserve and a provision is that a provision is made for a known liability of known value whereas a reserve is created for a known liability of uncertain value.

6.7 *Working Balances.* In addition to reserves and provisions the Authority is also required to maintain an adequate level of working balances and the Treasurer is required to certify that these are adequate under S25. Local government Act.

Balances are maintained at an appropriate level by carrying out a risk assessment of financial risk exposures and calculating a value for balances. Accepting that the value of balances may fluctuate to deal with both emergent and changing risk the Authority has decided to target a level of balances of £2m and to seek to achieve this over a three year period. By the 2006/7 year end it is anticipated that this target will have been achieved and no further contributions to balances will be required. This has again allowed some funds initially set aside for balances to be used to temporarily support the revenue budget to "smooth out" the effects of the changes in the grant formula. This is a device that will be used when appropriate to cushion the Council Taxpayer from variations in the Revenue Support Grant.

6.8 *The Prudential Code.* The freedoms provided by the Prudential Code for Capital Accounting are to be fully used to make the best possible investment decisions in relation to capital spending in order that meaningful choices can be made between borrowing, leasing and the use of capital receipts. Nevertheless it is still considered important that the Authority should not expose itself to unduly high levels of debt. This can be difficult to gauge as the Authority is maturing and therefore levels of debt will be expected to rise each year. However, it is necessary for a view to be taken as to how much debt is sustainable in the longer term. A review is to be carried out of this issue.

6.9 *Value for Money*. The Authority has already shown its commitment to Value for Money in the report that was originally approved on March 24th 2006. This has been followed up throughout 2006/7 with progress reports to the Finance and Resources Committee and a further strategy report in April 2007 setting out the targets for 2007/8. Value for money remains as an overarching descriptor which encompasses a number of activities namely:

The annual efficiency savings targets
Best Value Reviews
Management Reviews

The External Auditors in their CPA type review scored the Authority a level 3 for value for money but it is acknowledged that there is still more to do, primarily in the area of service benchmarking.

7. Partnership Working

7.1 The Authority is committed to working in partnership to achieve overall outcome objectives. Key to partnership activity is the involvement in the Local Area Agreements (LAAs) in both the City and County areas. These partnerships bring together a range of public service providers to concentrate efforts in a number of key areas. They are approved by government and there are monetary incentives if the targets set for the partnership are achieved. The Authority is committed to reinvesting any performance reward grants back into the community to further improve safety.

7.2 The challenge moving forward for the LAA is the development of the "new look" LAA from 2008 onwards and considering how the Authority can become a major player in the development of the systems and processes around the new Comprehensive Area Assessments (CAA) as a replacement for CPA from 2009 onwards. These assessments will require a much more active involvement in partnerships hence the inclusion of the Authority as a statutory partner in all the LAAs. Key to the success of this new LAA and the CAA is the provision of strong policy, community and civic leadership. The Fire Authority has well trained and motivated staff who can actively contribute to this process.

7.3 Although the LAAs constitute the greater part of partnership activity other partnerships and collaborations are to be actively encouraged providing that they remain focussed on the delivery of the Authority's objectives. This relies therefore on the identification of shared outcomes with potential partners.

7.4 A new initiative is to be launched in 2008/9 to enable stronger links to be forged with the voluntary sector by sponsoring some voluntary sector led projects in support of our Community Safety Plan objectives. This is a significant cultural change for the organisation which has generally led on initiatives rather than enabled others. For the first time the Authority will allow an external body to spend its money on shared objectives.

8. The Regional Dimension

The Authority remains committed to supporting the Regional Management Board in its regional activities which have been largely prescribed by the National Framework document. This involves the delegation of some powers and a financial commitment which is fixed annually. For the involvement in regional projects to be successful however it is sometimes necessary to put aside local priorities to respond to regional ones. By virtue of membership of the Regional Management Board the Authority is also a member of the East Midlands Improvement Partnership (EMIP) an th East Midlands Centre of Excellence(EMCE).

Appendix A

Value for Money Programme 2007/8

In the Report to the Finance & Resources Committee on 13 April 2007 the Authority set itself some targets for carrying out Value for Money (VFM) reviews during the coming year. These are set out below with additional detail relating to methodology.

Subject Area	**Methodology**
Participation and taking a leading role in the development of a benchmarking process for the Fire and Rescue Service.	Leading for the National Fire Finance Network in the development of a benchmarking model.
Linked to the above, continued analysis of expenditure patterns in relation to other Services	Continued analysis of CIPFA and other Statistical data
Benchmark assessment of Risk Management, leading on behalf of ALARM with Devon FRS. (Brought forward from 2006/7)	Peer review with Devon FRS
Continued support to the regional procurement project.	Taking part in the regional project and allocating resources to it.
Continued support to the Integrated Common Service project	Taking part in the regional project and allocating resources to it.
Review of Sickness Absence programmes	In house review of the effectiveness of existing programmes
Water usage, charging and environmental issues.	In house review
Storage of road fuel	In house review
Evaluation of BME engagement and consideration of equity issues	In house critical review – use of critical friends
Evaluation of RiskWatch via Quizclass or similar products	In house review using Quizclass
Continuance of Base Budget Review cost reduction process	In house process to release funds
Building/Grounds Maintenance	Examination of arrangements for both contract and non-contract maintenance
Baseline study of environmental impacts and development of an improvement programme.	Use of environmental consultants to develop environmental impact indices and improvement targets.
Development of improved financial reporting arrangements integrating with the performance management framework.	Development of PBViews to provide graphical budget visuals and consider both financial and non-financial budgets
An evaluation of the engagement with disabled citizens	In house critical review – use of critical friends

Appendix B

Treasury Management Strategy

The Treasury Management Strategy of the Authority was set out and reaffirmed at the meeting of the Finance and Resources Committee on 13th April 2007.

MANAGEMENT OF CASH RESOURCES

The Authority uses a main current account, an investment account and a number of local petty cash accounts. All of these accounts are held with Barclays Bank PLC and are managed using the online Business Master II system. This system allows the Authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained at a minimum level. All surplus funds are held either in the investment account for short periods, in an investment account with the Bank of Scotland or are lent to institutional borrowers over longer periods.

The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The Prudential Code report included an overdraft limit of £500,000 within the authorised limit to allow for such instances, however it is proposed that the overdraft facility remains at a level of £200,000 which is appropriate for most situations.

A three year cash flow projection is prepared together with a three month rolling cash flow forecast. The three month forecast is updated regularly and this process reveals when cash surpluses will arise. The Principal Accountant and the Senior Accountant can then determine the lending policy for the coming month. Lending is carried out using either the Bank of Scotland or two independent brokers (recommended by the County Council), restricted to an approved lending list (Appendix A).

The current bank account is cleared to zero on a daily basis with the balance being transferred to the Business Premium Account. When the balance on the latter account is greater than £250,000 but less than £1,000,000, it is transferred to the Treasury Deposit Account. This policy generates higher levels of interest.

Cash management processes have been examined by both internal and external auditors and have been shown to be robust.

BORROWING STRATEGY

The prudential indicators for 2007/08 are set out below. Background information relating to these indicators was contained within the Prudential Code for Capital Accounting report approved by Members on 23rd February 2007.

Authorised limit for borrowing:		£19,638,000
Operational limit for borrowing:		£17,553,000
Upper limit for variable rate interest exposures		30%
Upper limit for fixed rate interest exposures		100%
Loan Maturity:		
Under 12 months		less than 20%
12 months to 5 years		less than 20%
5 years to 10 years		less than 75%
Over 10 years	Greater than 25%	less than 100%

The capital financing requirement is the sum of money required from external sources to fund capital expenditure. For 2007/08 this figure is £19,085,000.

The Authority's strategy has been to borrow funds from the Public Works Loan Board (PWLB). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. Its interest rates are generally favourable compared to those applicable to borrowings from other sources within the marketplace. It is therefore proposed that the Authority continues to borrow funds from the PWLB in 2007/08 to finance capital expenditure, but keep this practice under continuous review to take account of any relevant changes in the marketplace.

INVESTMENT STRATEGY

The Authority's investment priorities are the security of capital and the liquidity of investments. The investment strategy for 2007/08 will again be to continue to aim for the optimum return on investments, whilst having due regard to appropriate levels of security and liquidity.

The Authority has a list of approved institutions to which it will lend surplus cash. This list is a subset of the County Council's approved borrowers list. Counterparties on the list must be:

UK based financial institutions graded F1 short term and support 1 or 2 by Fitch IBCA ;

UK based wholly owned subsidiaries of institutions in 5.2.1 above ;

F1 rated UK subsidiaries of overseas F1 short term and support 1 institutions

Overseas banks rated F1 short term and support 1

Other Local Authorities

AAA rated Money Market funds.

The Authority is alerted to changes in Fitch ratings by Sector. If a downgrade results in a counterparty no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. The Head of Finance and Resources has the Authority to remove any counterparty from the approved list but may not make additions without the approval of the Chair and Vice Chair.

The majority of past investments have been for periods of less than six weeks. It is proposed that no more than 10% of available investment should be committed beyond 365 days to ensure liquidity of funds.

Appendix C

Use Of Balances

The Authority uses a risk based approach to the maintenance of Working Balances and had carried out a full risk assessment during 2005/6 to establish the appropriate levels of balances for 2006/7 and beyond. This risk assessment has been reviewed as part of the budgeting process for 2007/8 – 2009/10.

This approach examines each of the risk exposures and considers both the impact on the Authority and the likelihood of occurrence. A risk score has been allocated to each risk which is then ranked from 1 (the lowest factor) to 5 (the highest). This is done for both likelihood and impact in order to give an overall risk factor. It should be noted that the underlying assumption is that not all these risks will occur simultaneously.

The approach also considers the extent to which these financial risks can be transferred to the private sector by way of insurances thus creating a balance of both insured and self financed risk.

Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within balances. The level of acceptable residual risk is usually referred to as the "Risk Appetite" of the Authority. It is considered that the Authority would be best advised to adopt a fairly low risk appetite at present. This corresponds to the Authority's declared intention to adopt a low risk "profile" overall.

The full results of the risk evaluation review exercise show that there has been no significant change in the overall risk value. The overall result is that the recommended level of balances should be approximately £2.0m.

The actual level of balances as at 31 March 2006 was £2.076m and is expected to rise to £2.401m by the end of 2006/07. However, some balances will be transferred to revenue in both 2007/08 and 2008/9 to support the Revenue Budget. This will leave an anticipated level of balances at £2.151m by March 2009. This position still remains compliant with the stated objectives in the previous Medium Term Financial Strategy to achieve balances of £2.0m by 31st March 2009. A review of the risk assessment will be carried out in the intervening years and Members will be requested to approve any adjustments to the target level of balances, if these occur as a result of the reviews. The pattern of contributions to and from balances over the period will be as shown in the following table.

Date	Narrative	Add £'s	Subtract £'s	Balance £'s
31/03/2006	Balance	0	0	2.076m
2006/2007	Contribution	0.325m	0	2.401m
2007/2008	Withdrawal	0	0.100m	2.301m
2008/2009	Withdrawal	0	0.150m	2.151m

Appendix D

Prudential Code Indicators and Targets

CAPITAL EXPENDITURE AND BORROWING

3.1 Estimates of Capital Expenditure Future Years and Actual Capital Expenditure 2005/06

2005/06 Actual £000's	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's
Capital Expenditure Total				
1,572	4,549	8,417	2,349	2,307
Capital Expenditure – Financed by Borrowing / Finance Lease				
1,412	2,630	6,819	1,622	1,828
Capital Expenditure – Financed by Revenue				
160	1,919	1,598	727	479

The estimates for 2007/08 to 2009/10 were submitted to the Fire Authority for approval on 23 February 2007. Various financing methods have been assumed for the future years but in reality, decisions relating to financing methods will be taken as part of options analyses which will consider the best long term options for the Authority. These options need to be assessed at the time of financing.

3.2 Estimates of Capital Financing Requirement Future Years and Actual Capital Financing Requirement 2005/06

2005/06 Actual £000's	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's
Capital Financing Requirement				
6,837	11,113	19,085	20,671	22,151

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure. It will therefore be the aggregate of all capital expenditure, less any revenue contributions or capital receipts. It is also important to note that the actual requirements for capital financing will depend to some extent upon the timing of the cash flows of the capital expenditure itself.

3.3 Estimates of Ratio of Financing Costs to Net Revenue Stream Future Years and Actual 2005/06

2005/06 Actual £000's	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's
Ratio of Financing Costs to Net Revenue Stream				
2.0%	2.1%	4.1%	5.7%	5.8%

3.4 Estimates of Incremental Impact on Council Tax (Band D) Future Years

2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's
Incremental Impact on Council Tax		
£2.66	£2.41	£0.37

3.5 Operational Boundary and Authorised Limit for External Borrowing

The Operational Boundary is the Authority's estimate of its total outstanding debt, gross of investments and other long-term liabilities. This is to reflect the most likely scenario and not the worst case. It is possible for the operational limit to be temporarily breached to take account of unusual movements in cash flow but this should not be a regular occurrence. A variation from the operational boundary is permissible, but must be reported to the Fire Authority.

3.6 The Authorised Limit is essentially the same as the Operational Boundary but allows headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Authority is exposed to at any given time. Any proposed variation from the authorised limit must be authorised by the Fire Authority

3.7 Cash flow forecasts have been prepared for 2007/08 to 2009/10 and indicate that there will be no difficulty in maintaining a positive current account balance on a month by month basis and therefore there is no proposal to seek an increase in the Authority's approved overdraft limit of £200,000. However, previous experience shows that these estimates can sometimes be wrong temporarily due to delays in income receipts and it has proved necessary in the past to negotiate temporary increases in this figure of up to £500,000. It is therefore proposed that this figure of £500,000 should be included within both the operational boundary and the authorised limit.

3.8 It is likely that the Authority will be paying for the construction of the new fire station at Hassocks Lane before the Dunkirk fire station site can be sold. The timing of cash flows will require some additional short term borrowing in the interim period. The additional borrowing ceiling required has therefore been included in both the Operational Boundary and the Authorised Limit.

	2007/08 £000's	2008/09 £000's	2009/10 £000's
Prudential Limits			
Operational Boundary	17,853	15,975	17,803
Authorised Limit	19,638	17,573	19,583

3.9 Actual External Debt

The Authority's external borrowing as at 31 March 2006 was £3.807m

TREASURY MANAGEMENT

3.10 In Nottinghamshire the Fire Authority carries out its own treasury management in accordance with the CIPFA Code of Practice for Treasury Management. Whilst the sums involved are relatively small it is nevertheless important to ensure that the Authority's best interests are protected. The Authority has an approved a list of institutions that it is prepared to lend to, and these constitute those with only the highest credit ratings. This policy is to continue. In terms of borrowing, it has always been considered prudent to use Public Works Loans Board (PWLB) Fixed Interest Loans. This is because on the basis of past performance the PWLB generally offers rates which cannot be obtained anywhere else in the marketplace. This practice will be kept under continuous review to take account of any relevant changes in the marketplace.

3.11 Interest Rate Risk Exposure

Whilst the PWLB has fairly strict rules for borrowing, the Authority meets all of its requirements and therefore it is proposed to continue with this strategy. As to the issue of fixed versus variable rate decisions it would not be prudent to rule out variable rates absolutely, and therefore it is considered that up to 30% of borrowing might come from variable rate sources if these are considered financially advantageous at the time of financing. For policy changes beyond this, however, it is suggested that Fire Authority approval should be sought. It is expected that borrowing rates may rise at the end of 2006/07 but then remain steady throughout 2007/08 and that investment rates are likely to remain steady during the same period.

The total value of lending is not expected to exceed £4,000,000 at its peak during 2007/08 however it is difficult to assess what the likely investment profile might be. At this stage it is unlikely that the Authority will engage in investment for any period longer than 12 months. Current investments are all short term and at rates fixed for short periods.

It is proposed therefore that the Authority sets the following limits for interest rate exposures for 2007/08, 2008/09 and 2009/10:

	2007/08 £000's	2008/09 £000's	2009/10 £000's
Interest Rate Exposures			
Upper Limit for fixed rate exposures	100%	100%	100%
Upper Limit for variable rate exposures	30%	30%	30%

3.12 Loan Maturity

The code of practice and CIPFA guidelines state that there should be no direct linkage between the assets financed and the term of loans taken out. The upper limit for loans with a term of more than 10 years has previously been set at 90% however the yield curve for fixed interest securities is currently displaying lower borrowing rates for longer term loans. It is therefore proposed that the upper limit for loans over 10 years is revised to 100% to enable the Authority to take advantage of this situation should it continue into 2007/08. It is proposed that upper and lower limits for loan financing should be set as follows:

Loan Maturity		
	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 5 years	20%	0%
5 years to 10 years	75%	0%
Over 10 years	100%	25%

Prudential Limit for Principal Sums Invested for Periods Longer than 364 Days

There are no proposals for the Authority to invest for periods longer than 364 days.

Appendix E

Capital Programme 2007/08 to 2009/10

	2006/07 Approved £	2006/07 Estimated Outturn £	2007/08 £	2008/09 £	2009/10 £
SDC garage			20,000		
Stn 1: BTS block refurbishment				200,000	
Security upgrade project: all premises			170,000		
	2,575,000	**1,286,000**	**5,566,000**	**20,000**	**900,000**
EQUIPMENT					
<u>New Programme</u>					
Specialist Rescue Equipment	600,000	570,000	80,000	80,000	80,000
Hydraulic Equipment for 2 Rescue Tenders		100,000			
Specialist Rescue - upgrade to UHRVs, RRVs, Boat		81,000			
	600,000	**751,000**	**80,000**	**80,000**	**80,000**
IT. & COMMUNICATIONS					
<u>2006/07 Slippage</u>					
Infrastructure refreshment	142,000	0			
HR System	300,000	0	100,000	100,000	
IT Security Business Continuity DRP	350,000	175,000	175,000		
Information Systems developments	40,000	40,000			
WiFi networking	40,000	10,000	30,000		
EISEC Caller Line Identification	16,000	16,000			
Mobile Computing	250,000	100,000	200,000		
Business expansion	100,000	100,000			
Replacement equipment	100,000	178,000			
MOBS Upgrade	135,000	135,000			
Vector Command Simulation	65,000	65,000			
IT Modernisation (05/06 cap prog)	0	178,000			
Incident Recording System (05/06 cap prog)	0	0	40,000		
<u>New 07/08 onwards</u>					
IT Security Business Continuity DRP			30,000	30,000	30,000
Replacement equipment			200,000	150,000	150,000
Information Systems developments			20,000	20,000	20,000
Business expansion			100,000	100,000	100,000
WAN Upgrade			50,000		
Workflow business process automation			150,000		
Replace UPS batteries			10,000		
Upgrade Station telephone switches			10,000		
New FEM database required			15,000		
FireLink Add Ons			100,000		
	1,538,000	**997,000**	**1,230,000**	**400,000**	**300,000**
	6,798,000	**5,421,000**	**8,417,000**	**2,349,050**	**2,306,900**

Appendix F

Variations to Base Budget 2007/08 to 2009/10

	2007/08	2008/09	2009/10
Base Budget	**39,847,091**	**41,771,708**	**43,319,151**
Pay Awards			
Wholetime	586,318	571,000	591,000
Post Conversions	-107,418	0	0
Control	19,000	28,000	30,000
Training Reserve reduction 06/07 only	90,000	0	0
Overtime	4,000	0	0
Retained	147,000	93,000	100,000
Principal Officers	12,000	14,000	15,000
Non-uniformed	112,145	115,509	118,975
Increments	70,169	79,422	53,877
Pay inflation - new posts	6,586	12,749	13,424
Finance and Resources (Pensions)			
Emp'er contributions old scheme	3,032,000	-25,000	-10,000
Emp'er contributions old scheme	-3,686,000	0	0
Emp'er contributions new scheme	212,000	71,000	66,000
Injury awards	56,107	16,300	17,100
Ill health charges	238,914	73,465	-91,919
Ill health deposit	-356,000	0	0
Injury award increases	147,800	12,800	13,900
Emp'er contributions new scheme Retained	160,625	0	0
New Contribution to Balances re Ill Health / Injury	50,000	0	0
Other			
General Inflation	71,662	62,601	83,620
Base Budget Review savings	0	0	0
Admin & Support Pay - changes to base	107,418	0	0
Shift Change - eliminate surplus base budget	-200,000	0	0
Admin Pay Issues Identified			
CBRN / Resilience admin post	4,131	0	0
ADC Administrator post not in establishment	21,429	0	0
Administrator Stn 21	19,501	0	0
Administrator Stn 26	19,501	0	0
Administrator Stn 8	19,896	0	0
Workplace Assessor	29,764	0	0
Regional HR Officer 2 yr FTC	9,200	0	-9,200
Capital Financing			
Operating Leasing	-772,975	339,000	39,000
Debt support to Cap Programme	336,354	424,050	9,268

Variations to Base Budget 2007/08 to 2009/10

	2007/08	2008/09	2009/10
New Demands 2007/08 to 2009/10			
Changes to Base Identified 2005/06			
Arson Task force, remove incorrect grant assumption	92,500	0	0
GIS Mapping	2,000	0	0
Impact Roadshow	3,000	0	0
New BA Equipment	90,000	0	0
CFRMIS development for electronic files	-7,000	0	0
Firesetters Intervention	21,000	0	0
HRA Development	-5,000	0	0
RTC Awareness day	1,000	1,000	0
Rank To Role Consultancy	0	-40,000	0
Training and Performance Development	-25,000	0	0
New Demands from Budget Returns			
CFO Woods			
East Midlands Marketing & Fundraising	13,499	0	0
Technical Fire Safety			
Loss of fire certificate income due to FIRE Safety Order legislation	6,339	0	0
Community Fire Safety			
Risk Watch folders & risky boxes	0	15,000	0
Seatsafe Programme – training	25,000	-25,000	0
Seatsafe Programme - ongoing costs	7,000	0	0
Firesetters Programme - payment of overtime at standard rate	25,000	0	0
Firesafe Programme	0	10,000	0
Bendigo - youth intervention programme	6,000	-4,000	0
Schools Liaison - setup incl toolbox	8,000		-3,000
Neighbourhood Team approach (LAA)	26,000	24,000	0
LSP / CDP Membership	25,000	0	0
Home Safety Check Delivery	22,230	0	0
Arson Task Force	0	0	45,240
Running costs of Farnborough Road building	70,000	0	0
New Community Safety Initiatives (future years)	0	0	150,000
Media - nil change			
Operational Equipment			
Operational Equipment	17,000	0	0
Fire Foam	4,000	0	0
Hose purchase and repair	6,000	-13,000	
Asset Management	15,000	0	0
Integrated Clothing Project	385,000	-500,000	0
Annual maintenance of PPE	50,000	0	0
Less earmarked reserve	-400,000	200,000	200,000
Specialist Rescue Equipment training	20,000	12,000	-22,000

Variations to Base Budget 2007/08 to 2009/10

	2007/08	2008/09	2009/10
IT & Comms for ICU vehicles	10,000	-10,000	0
Environmentally friendly foam - additional cost	2,500	2,500	0
I.T.			
IT Contracts	-30,000	-20,000	0
Communications			
Phones	7,721	0	0
FireLink and RCC transition costs	300,000	-300,000	0
FireLink running costs	0	104,000	312,000
FireLink savings arising in base budget	0	0	-22,000
	0	0	-78,500
Less earmarked reserve	-200,000	200,000	0
Administration			
Postage	-1,391	-1,000	-2,000
Stationery (not stations)	12,290	-3,000	-1,000
Furniture	-1,095	-1,500	-1,000
Office Equipment	4,838	-3,000	-3,000
Office Equipment Hire & Lease	-1,467	-3,000	-1,000
Non-Uniformed Travel	22,877	4,000	4,000
Training	8,500	0	0
Human Resources			
Interview expenses	335	0	0
Disturbance Allowance	1,086	0	0
Refund of NHS Charges	2,386	0	0
Westfield Health Scheme	48,000	0	0
Recruitment Advertising	6,637	0	0
Cost of H2 Appeals (new FF pension scheme)	30,000	0	0
Functional Testing (new FF pension scheme)	15,000	0	0
ID cards - new digital camera required	200	-200	0
Childrens Act – CRB checks	5,000	0	0
Salary protection for redeployees (new FF pension scheme)	25,000	25,000	0
Regional ADC's	20,000	0	0
Occupational Health			
New post - Health Care Assistant	0	10,400	10,400
Provide annual fitness tests on Stations – Van	0	10,920	-10,920
Provide annual fitness tests on Stations - Equipment & software	0	4,080	-4,080
Ongoing running costs	0	5,000	0
Learning & Development			
Operational pay	-16,000	0	0
Moreton & Retained Junior Officers	30,000	30,000	0
NVQ	19,192	0	0
Business rates	7,000	0	0
IT training equipment	20,000	-20,000	0
E-learning	12,000	-7,000	-3,000
IT trainer	21,588	0	0

Variations to Base Budget 2007/08 to 2009/10

	2007/08	2008/09	2009/10
IT trainer	1,539	0	0
IT trainer	2,871	0	0
Member training	10,000	0	0
Transport			
Fuel	22,000	0	0
MOT test	95	0	0
Fleet software training & development	7,500	-2,500	0
Finance and Resources			
Audit fees	18,450	0	0
Committee Services	2,790	0	0
Chief Executive	-55	0	0
Treasury Services	5,121	0	0
Private Mileage	3,140	0	0
Members Allowances	7,350	0	0
Members Allowances	-3,100	0	0
Members Expenses	-3,859	0	0
Subscriptions LGA	260	0	0
Subscriptions – Other	3,000	0	0
Legal Expenses	32,817	0	0
RMB Budget	13,100	0	0
Finance and Resources			
Increase base to cover uninsured losses in year	40,064	0	0
FEM (P Kennell)			
1 extra technician post following expansion:	9,468	9,465	0
Fire precaution equipment	32,270	0	0
Fuel	5,293	1,000	0
Workshop charges	-62	250	0
Tyres	1,800	200	0
Uniform	989	0	0
Subscriptions	1,217	150	0
Fire Hydrant Maintenance	22,000	0	0
FEM routine maintenance	-25,646	-34,000	0
FEM equipment	-73,606	0	0
Procurement & Estates			
Planned maintenance	-54,563	-28,000	35,000
Unplanned maintenance	60,000	20,000	-10,000
Periodic service agreements	55,000	35,000	5,000
Grade 2 supplies officer:	15,825	0	0
	1,003	0	0
	2,105	0	0
Revenue costs of HQ extension	30,000	-30,000	0
Revenue costs of closing Stations 21 & 22	0	10,000	-10,000
Princes Trust			
Public transport for students	9,500	0	0

Variations to Base Budget 2007/08 to 2009/10

	2007/08	2008/09	2009/10
Non uniformed travel	2,000	0	0
Uniform	1,250	0	0
Subsistence	-1,150	0	0
Rent & Hire of Premises	37,000	0	0
Training	-2,000	0	0
Princes Trust Income	-155,908	0	0
Station Mtce	-1,000	0	0
Electricity	-500	0	0
Gas	-430	0	0
Business Rates	-1,120	0	0
Water	-383	0	0
Sewerage	-100	0	0
Cleaning Materials	-100	0	0
Books & Publications	-50	0	0
Phones General	-900	0	0
Operational Equipment	-60	0	0
Office Equipment	-500	0	0
Elimination of earmarked reserve	-30,000	30,000	0
Commercial Training			
Increased surplus	-5,000	0	0
Stations			
Contract cleaning & window cleaning	55,000	0	0
Stationery	26,000	0	0
Targeted Procurement Savings	0	-59,219	-4,748
Budget Requirement	**41,371,708**	**43,319,151**	**44,944,587**
Contribution to Balances - reinstate budget	300,000	0	150,000
Contributions from balances	0	-50,000	0
Inflation Adjustment	1,343	2,519	-8,694
Net Budget Requirement	**41,673,051**	**43,173,013**	**44,789,755**