report

meeting	**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY** **FINANCE AND RESOURCES COMMITTEE**
date	**13 April 2006** agenda item number

REPORT OF THE CHIEF FIRE OFFICER

MEDIUM TERM FINANCIAL STRATEGY

1. PURPOSE OF REPORT

The purpose of this report is to present a Medium Term Financial Strategy to the Finance and Resources Committee in order that this may be approved and submitted to the full Fire Authority for ratification.

2. BACKGROUND

2.1 The Fire and Rescue 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 full 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 2006/7 – 2008/9
- Revenue Budget and Council Tax Predictions 2006/7 – 2008/9

3.3 It is proposed that the Authority should adopt this Medium Terms Financial Strategy and 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 approve the adoption of the Medium Term Financial Strategy and recommend its adoption by the full Fire and Rescue Authority.

9. BACKGROUND PAPERS FOR INSPECTION

None.

Paul Woods
CHIEF FIRE OFFICER

CONTACT OFFICER	
Name :	Neil Timms Head of Finance & Resources
Tel. No :	0115 967 5896
E-mail :	neil.timms@notts-fire.gov.uk

The Fire Authority's Medium Term Financial Strategy

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 issues around the classification of Operating Leases and a material error in the accounts relating to Financial Reporting Standard 17 both of which have been reported to Members and rectified. These Audit Letters are published on the Authority's website.

1.2 The Comprehensive Performance Assessment (CPA) of 2005 showed, via the Auditor's scored judgement that the Authority has sound arrangements for financial management and the Authority was rated 3 in this assessment. The Authority is aspiring to meet the standard required at that time for level 4 which an improved approach to Value for Money will achieve.

1.3 The new tests for CPA however, are anticipated to be somewhat higher than those previously used and therefore it may not be possible to achieve highest rating. Nevertheless to maintain a level 3 in this assessment is considered achievable.

1.4 Medium term planning is essential to the delivery of high quality services. Balancing priorities and resources requires us 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 whole focus of the organisation is set out in a fundamental strategy document, that being 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. It is essential that resources are effectively managed to achieve the outcomes set out in this plan.

2.2 This document sets out how finances are to be managed in such a way as to manage levels of Council Tax, Reserves and Balances 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 hold a working balance sufficient to respond to unexpected events and/or opportunities.
6. To be flexible and responsive to changes in needs and legislation
7. To support the continuance of the Authority's core services and strategies.
8. 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
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.

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 2006/7 to 2008/9 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 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 £130,000 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 24th March 2006.

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. Currently the Authority's advisors on Treasury matters are content that movements in the market are unlikely to be significant and will also advise the Authority particularly advantageous times for borrowing to minimise this risk. Again the strategy for borrowing is set out in the Treasury Management Strategy document and in the Prudential Code Report.

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 a recent actuarial review (mid term) has indicated that this is likely to be a small increase. The small number of staff in this scheme mean that this risk is small.

The Admission of Retained Duty Personnel into the new fire-fighters pension scheme could potentially be quite costly depending on the eventual rules which have yet to be consulted on. 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. Given current indications, it is likely that budgets could come under significant pressure from this unless the Authority can reduce the numbers.

5.5 *Grant Funding*. Revenue Support Grant settlements for 2006/7 and 2007/8 have already been announced and therefore there is some certainty until 2008/9. The budget has been prepared on the basis of a 4% rise in Grant for 2008/9. This is not unreasonable given that the Authority is no longer repaying transitional grants and that there will be a gradual decrease in amounts supporting the floor. Nevertheless the pattern of grant settlement over the years would indicate that there are few things less certain. This position will need to be kept under review.

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.

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. It is anticipated that the business plans of the organisation will begin to take shape from July onwards which will allow early budget thinking to begin. The Finance and Resources Committee will then come to a view about the outline budget requirement in September and the development of the full three year budget can commence between September and December. This will ensure that the budget is fully worked up before the Grant Settlement is announced in late November/early December. Importantly however this process will ensure the full involvement of budget holders and business managers in the budgeting process and enable any budget “hot spots” to be considered early by senior managers and Members.

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 considered.

6.4 *Treasury Strategy*. The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 24th March 2006. 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.

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 but to seek to achieve this over a three year period. This has enabled 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 approved on March 24th 2006. This report sets out a programme of work for Value for Money activity and brings together a number of strands of activity. Value for money is seen as an overarching descriptor which encompasses a number of activities namely:

The annual efficiency savings targets
Best Value Reviews
Management Reviews

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 Although the LAAs constitute the greater part of partnership activity other partnerships and collaborations are 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.

8. The Regional Dimension

The Authority is committed to support 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. This is difficult but because there is no overarching regional strategy needs to be responded to.

Appendix A

Value for Money Programme 2006/7

In the Report to the Fire Authority on 24th March 2006 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**
Overall cost comparators with other Fire and Rescue Service and analysis of differences where possible.	Analysis of costs from CIPFA statistics broken down by different types of Authority both in demographic, constitutional and deprivation terms.
Benchmark assessment of Risk Management, leading on behalf of ALARM with Devon FRS.	Peer review process with Devon Fire and Rescue
Consideration of Insurance arrangements to include regional and national options such as the use of captives and mutuals.	Firebuy inspired review. Taking part in the national project
Support to the regional procurement project including review of stores provision	Taking part in the regional project and allocating resources to it.
Support to the Integrated Common Service project	Taking part in the regional project and allocating resources to it.
Continuance of work with ORH around Demand Led Resourcing	Consideration of the DLR programme from a value for money perspective
Review of Sickness Absence programmes	In house review of the effectiveness of existing programmes
Continued examination of Non-Domestic Rating arrangements	Use of external experts to consider possible rating appeals
Water usage, charging and environmental issues.	In house review
Storage of road fuel	In house review
Evaluation of BME engagement	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

Appendix B

Treasury Management Strategy

The Authority set out and reaffirmed its Treasury Management Strategy at its meeting on 24th March 2006.

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 2006/07 are set out below. Background information relating to these indicators was contained within the Prudential Code for Capital Accounting report approved by Members on 24 February 2006.

Authorised limit for borrowing:		£15,117,000
Operational limit for borrowing:		£13,743,000
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 90%

The capital financing requirement is the sum of money required from external sources to fund capital expenditure. For 2006/07 this figure is £13,047,000, of which £6,614,000 has already been financed within existing revenue budgets.

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 2006/07 to finance capital expenditure, but keep this practice under continuous review to take account of any relevant changes in the marketplace.

Sector's view on PWLB interest rates is that :

- The 10 year PWLB rate will remain at 4.25% in quarter 1 of 2006/07 but will then rise to reach 4.5% in quarter 2 and 4.75% in quarter 4.
- The 25 to 30 year PWLB rate will remain flat at 4.25% until quarter 3 of 2006/07 when it will rise to 4.5%.
- The 50 year PWLB rate will remain flat at 4.0% until quarter 3 of 2006/07 when it will rise to 4.25%

This forecast indicates, therefore, that the borrowing strategy for 2006/07 should be set to take long dated borrowings in the first and second quarters of the year, before PWLB rates rise. The Authority's upper and lower limits for loan maturity will inform decisions about the length of borrowings taken in 2006/07.

INVESTMENT STRATEGY

The Authority's investment priorities are the security of capital and the liquidity of investments. The investment strategy for 2006/07 will 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. It is proposed that the Head of Finance and Resources be permitted to remove any counterparty from the approved list but may not make additions without the approval of the Chair and Vice Chair.

Sector's view on investment rates is that they are likely to fall by up to 0.5% by the end of 2006/07.

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 2004/5 to establish the appropriate levels of balances for 2005/6 and beyond. This risk assessment has been reviewed as part of the budgeting process for 2006/7 – 2008/9.

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.

The full results of the risk evaluation review exercise show that there has been an increase in the overall risk value. There are changes in pension legislation, which transfer the risk of inadequate pension provision to the Office of the Deputy Prime Minister with effect from 1 April 2006. However, the liability for Ill Health retirements remains with the Authority, and additional balances need to be held to counteract the risk that the number of ill health retirements provided for within the Revenue Budget may be underestimated. There have been other, less significant amendments and increases in values to reflect rising costs. The overall result is that the recommended level of balances should be £1.97m.

The actual level of balances as at 31 March 2005 was £1.3m and is expected to rise to £1.7m at the end of 2005/06. However, some balances will be transferred to revenue in 2006/07 to fund one-off expenditure and cushion the effect of the unexpected reduction in Revenue Support Grant next year. This issue is explained in more detail in the budget report to Members elsewhere on this agenda. The Authority plans to increase the level of balances in 2007/08 and 2008/09 and achieve the level of £2.0m by 31 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
31/03/2005	Balance	0	0	1.3m
2005/2006	Contribution	0.3m	0	1.6m
2005/2006	Underspend	0.2m	0	1.8m
2006/2007	Transactions	0.1m	0.5m	1.4m
2007/2008	Contribution	0.3m	0	1.7m
2008/2009	Contribution	0.3m	0	2.0m

Appendix D

Prudential Code Indicators and Targets

The prudential limits for the Authority for the 2006/07 financial year along with the implications of the proposed Capital Programme were accepted by the Authority at its meeting on 24th February 2006.

CURRENT POSITION WITH REGARD TO CAPITAL

In order to fully understand the implications of the issues set out below it is important to have a view of the current position of the Service with regard to capital and capital financing.

Nottinghamshire Fire and Rescue Service has a capital asset base for operational purposes which contains mainly property, fire appliances and some IT and communications assets. This is because the restrictions imposed by the old financing regime made the financing of smaller vehicles and most IT related assets impossible, other than by leasing or direct purchase from revenue. Consequently these items do not appear on the Balance Sheet of the Service and are not, therefore, assets of the Service.

If, however, the method of financing is disregarded, the true working asset base of the Service based on 2004/05 final accounts is:

	£000's
Operational Land & Buildings	23,762
Vehicles	3,223
Plant & Equipment	855
Total Fixed Assets	27,840
Leased Vehicles	619
Leased I.T	621
Leased Other	164
Total Leased "Assets"	1,404
Total All Assets	29,244

The financing of these assets has been carried out in a number of ways including the use of capital receipts, external borrowing and obligations under finance and operating leases. In terms of external obligations the picture is as follows:

	£000's
Total loans outstanding	2,036
Future finance lease obligations to 2009/10	4,155
Future operating lease obligations to 2009/10	3,426

The revenue impact of the existing capital base is therefore:

	Leasing £000's	**Borrowing £000's**
2005/2006	1,415	193
2006/2007	1,701	193
2007/2008	1,552	193
2008/2009	1,506	193
2009/2010	1,407	193

PROPOSALS FOR THE 2006/2007 – 2008/2009 CAPITAL PROGRAMME

It is usual to consider planning for capital expenditure over a period of three years or more and in the budget report Members will note that a three year programme has indeed been prepared.

In the past Government has set Basic Credit Approvals for authorities which limited the amount of capital expenditure. There are now no such limits however Government does set a level of Supported Capital Expenditure (SCE) within the Resource Needs Formula (RNF) allocated to authorities. This is nothing more than the amount of capital expenditure which Government support via the RNF formula. For the Fire Authority this amount is £948,000 for 2006/07.

The profile of Capital Expenditure including actuals for 2004/05 and estimates for 2005/06 to 2008/09 is as follows:

CAPITAL EXPENDITURE					
	2004/05 Actual £000's	**2005/06 Estimate £000's**	**2006/07 Estimate £000's**	**2007/08 Estimate £000's**	**2008/09 Estimate £000's**
Transport	78	294	2,085	1,410	1,810
Property	306	1,307	3,075	725	1,125
I.T. & Communications	489	704	1538	447	330
Total	873	2,305	6,698	2,582	3,265

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 cashflows of the capital expenditure itself. Estimates of the end of year capital financing requirement for the Authority for the current and future years and the actual capital financing requirement at 31 March 2005 are:

CAPITAL FINANCING REQUIREMENT					
	31/3/05 Actual £000's	**31/3/06 Estimate £000's**	**31/3/07 Estimate £000's**	**31/3/08 Estimate £000's**	**31/3/09 Estimate £000's**
Total	17,530	19,765	24,228	22,347	27,493

It is important to note that the above table provides sufficient "headroom" for a proper balance between leasing and borrowing to be considered.

Decisions relating to financing methods will be taken as part of an options analysis which will consider the best long term options for the Authority. These options need to be assessed at the time of financing as market conditions can affect these decisions markedly.

It is also important to note that the figure of £19.765m, showing as the estimated financing requirement for 2005/06, has already been financed within existing revenue budgets.

Therefore in 2006/07 the Authority will be required to finance £24.228m of capital expenditure (£19.765m already financed as explained above). This financing will be carried out over a number of different periods and different sources may be used. Nevertheless it is possible to estimate the ratio of financing costs to the net revenue stream of the Authority. These estimates assume that the Revenue Budget and the Capital Programme of the Authority, for 2006/07 and subsequent years, will be as reported to Members in the Budget elsewhere on this agenda.

RATIO OF FINANCING COSTS TO NET REVENUE STREAM					
	2004/05 Actual £000's	2005/06 Estimate £000's	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's
Financing requirement	17,530	19,765	24,228	22,347	27,493
Revenue Cost	439	971	1,347	1,826	2,126
Revenue Budget	38,469	39,776	39,847	42,657	44,897
Ratio	1.1%	2.4%	3.4%	4.3%	4.7%

EFFECT ON COUNCIL TAXES

It is a requirement of the Prudential Code that Members are given an estimate of the effect on council taxes of the proposals that are being made for Capital spending. This is not an easy calculation to carry out other than to make the assumption that the Fire Authority will continue to be spending above RNF and therefore all additional spending will fall directly onto the council tax. If this were the case then the amount of council tax to be raised to fund capital spending would be:

EFFECT ON COUNCIL TAXES AT BAND D			
	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's
Revenue Cost	214	200	166
Council Taxbase	322,034	322,034	322,034
Council Tax at Band D	£0.66	£0.62	£0.52

PRUDENTIAL LIMITS

Under the Prudential Code, the Authority is required to set prudential limits for the amount of indebtedness it can reasonably sustain. These limits are called the **Authorised Limit** and the **Operational Boundary.**

> 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.
>
> The **Authorised Limit** is essentially the same but allows headroom over and above the operational boundary to take account of such 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.

A variation from the operational boundary is permissible, but reportable, whereas any proposed variation from the authorised limit must be authorised by the Fire Authority.

These limits need to be set including both long term external borrowing and also short term borrowing in respect of overdrafts.

Cash flow forecasts have been prepared for 2006/07 to 2008/09 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. This is the same figure that was used for 2005/06.

Whilst not in the Capital Programme as an additional item it is likely that the Authority will be involved in a contract for the acquisition of land and carrying out building works in connection with the proposed Beeston/Dunkirk merger and relocation. The timing of cash flows will require some additional short term borrowing until the Dunkirk site can be marketed. Additional borrowing ceiling is therefore sought for £3,500,000 to enable this to take place.

It is therefore proposed that the Authority should set the following authorised limits and operational boundaries for the year 2006/07, 2007/08 and 2008/09:

PRUDENTIAL LIMITS			
Year	**2006/07**	**2007/08**	**2008/09**
Authorised Limit	15,117	14,108	17,699
Operational Limit	13,743	12,825	16,090

TREASURY MANAGEMENT

In Nottinghamshire the Fire Authority has always carried out its own treasury management in accordance with CIPFA guidelines. 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 the PWLB 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.

INTEREST RATE RISK EXPOSURE

Whilst the PWLB has fairly strict rules for borrowing, the Authority meets all of their requirements and therefore it is proposed to continue with this strategy. As to the issue of fixed vs. 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. The assumptions used throughout this report are that fixed interest rates are likely to remain steady for most of the year but then rise by up to 0.25% by the end of 2006/07 and that investment rates are likely to fall by up to 0.5% by the end of the same period.

The total value of lending is not expected to exceed £4,000,000 at its peak during 2006/07 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 2006/07, 2007/08 and 2008/09:

INTEREST RATE EXPOSURES			
	2006/07	**2007/08**	**2008/09**
Upper limit for fixed rate exposures	100%	100%	100%
Upper limit for variable rate exposures	30%	30%	30%

This means that the Head of Finance and Resources will manage fixed rate exposures from a minimum of 70% to a maximum of 100% and variable exposures from a minimum of 0% to an upper limit of 30%.

MATURITY OF LOANS

The majority of existing external loans are for periods of 40 years as they relate to land and buildings. Whilst the code of practice and various CIPFA guidelines state that there should be no direct linkage between the assets financed and the loans taken out it is considered that the life span of the assets purchased must inform this process. It is proposed therefore 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	90%	25%

MONITORING OF INDICATORS

It is proposed that prudential indicators should be monitored on a monthly basis by the Head of Resources and Finance and that a report is made to the Fire Authority on a quarterly basis to confirm that these limits are being adhered to.

Appendix E

Capital Programme 2006/7 – 2008/9

	2006/7	2007/8	2008/9
Transport	**£**	**£**	**£**
Pumping Appliances	952,000	960,000	925,000
Water Carrier	0	160,000	0
Breathing Apparatus Unit	0	160,000	0
Environmental Protection Unit	160,000	0	0
Command Support Unit	160,000	0	0
Foam Unit	160,000	0	0
Community Safety Outreach	100,000	0	0
Small Vehicles	224,569	130,000	160,000
Heavy Rescue Unit	160,000	0	495,000
Recovery Vehicle	0	0	150,000
Special Appliances	0	0	0
Fuel Tanks	168,000	0	0
General Purpose Lorry	0	0	80,000
Property			
Retentions	25,000	25,000	25,000
Harworth	150,000	0	0
Beeston Dunkirk	1,300,000	0	0
Acquisitions/Extensions	1,100,000		
Major schemes	0	0	700,000
Minor Schemes	400,000	400,000	400,000
Fuel Tank Renewal	20,000	300,000	0
Service Development Centre Garage	80,000	0	0
IT. Comms			
Infrastructure refreshment	142,154	66,514	50,000
HR System	300,000	0	0
MOBs Upgrade	20,000	0	0
MOBS Upgrade(secondary)	115,000	0	0
Wifi networking	40,000	0	0
WAN Upgrade	0	50,000	0
IT Security Business Continuity	350,000	30,000	30,000
Replacement Equipment	100,000	0	0
Information systems developments	40,000	40,000	40,000
Workflow business process automation		150,000	
Mobile Computing	250,000		
EISEC (CLI)	16,000	10,000	10,000
RCC	0	0	100,000
Business expansion	100,000	100,000	100,000
Vector Command Simulation	65,000	0	0
	6,697,723	**2,581,514**	**3,265,000**

Appendix F

Revenue Budget and Council Tax Predictions 2006/7 – 2008/9

	2006/7	2007/8	2008/9
Base Budget	**40,285,281**	**39,847,091**	**42,656,555**
Pay Awards			
Wholetime/Control	530,000	679,000	702,000
Training Reserve reduction 06/07 only	-90,000	90,000	
Overtime	-40,500		
Retained	94,000	98,000	101,000
Pos	14,000	14,000	15,000
Non-uniformed	91,000	94,000	97,000
Increments	102,000	105,060	108,212
Pensions			
Remove Pensions Deficit	-5,515,000	0	0
Add Back			
Employer Contributions (21.3)	3,686,000	5,000	-44,000
New Scheme	317,000	96,000	126,000
Ill Health Deposit	356,000	-356,000	0
Ill Health Charges	251,000	259,000	269,000
Other			
Leasing	-140,000	290,000	170,000
Debt support to Cap Programme	214,000	200,000	166,000
General Inflation	0	111,338	111,159
Base Budget Review savings	-78,500	0	0
New Demands 2006/7 to 2008/9			
Changes to Base Identified			
Shift Change Support - Addn'l 2.5%	339,980	0	0
IPDS Training Retained	-350,000	0	0
Specialist Equipment for Training around RTC's	-100,000	0	0
Co-Responder Training	-20,000	0	0
General Contingency	-40,000	0	0
Annualised Hours Administration	25,000	0	0
Annualised Hours Software	100,000	0	0
Rates	16,410	17,066	17,750
External Interest Earned	-80,000	0	0
GIS Mapping	3,000	2,000	0
Fire Safety Certificates	10,000	6,000	0
Superannuation increases	34,000	0	0
VMDS Running costs	30,000	0	0
IRMP 1			
Abandoned Vehicle Recovery	-53,000	0	0

Fire Safety Enforcement	-70,000	0	0
Risk Watch	-80,000	0	0
Arson Task Force	15,000	0	0
ALP Training	-10,000	0	0
ALP Training for Wholetime at Beeston	-2,500		
PPE and Training for ALP Recruits	-36,200	0	0
Pagers	-880	0	0
IRMP 2			
Impact Roadshow	6,000	3,000	0
RMB	16,000	0	0
Replacement for Holmatro	20,000	0	0
Community Safety Plan New Projects			300,000
Other			
Support to Firelink	0	250,000	100,000
New BA Equipment	0	110,000	0
New Demands from Budget Returns 2005/6			
Technical Fire Safety			
CFRMIS development for electronic files	7,000	-7,000	0
Advertising - New Fire Safety Order	2,000	0	0
Additional Legal Costs	25,000	0	0
Community Fire Safety			
Exhibition Equipment	0	5,000	0
Firesetters Intervention	54,000	21,000	0
Firesafe	0	10,000	0
Caring for Carers	0	5,000	0
Eyes and Ears	0	5,000	0
Palm tops	0	11,000	0
HRA Development	10,000	-5,000	0
RTC Awareness day	1,000	1,000	1,000
Development of materials for BME	0	5,000	0
Shortfall on Advocates	50,000	0	0
Human Resources			
Firstcare Scheme	60,000	0	0
Rank To Role JE Protections	25,000	0	0
Rank To Role Consultancy	40,000	-40,000	0
Information Services			
Consultation budget	10,000	0	0
Training and Performance Development	25,000	-25,000	0
I.T Services			
Internet uplink bandwidth upgrade	10,000	0	0
Homeworking	0	50,000	0
eFire	10,000	0	0
Microsoft Enterprise Licences	45,000	0	0
Business expansion	20,000	0	0

Finance and Resources			
Transport - Tyres Contract	36,000	0	0
Other Public Transport	20,000	0	0
General Mileage	20,000	0	0
CFA Governance	10,000	0	0
Members Allowances	60,000	0	0
Stationery	15,000	0	0
Legal Expenses	45,000	0	0
Office Equipment hire	15,000	0	0
Office Equipment purchase	25,000	0	0
Postages	20,000	0	0
Subsistence Allowances	20,000	0	0
Catering at Fires	12,000	0	0
Home to Base	30,000	0	0
PR Costs	20,000	0	0
Commercial training increased income	-30,000	0	0
FEM Increased Income	-20,000	0	0
Training			
Running Costs of Vector Command	20,000	0	0
General Training	-100,000	0	0
Recruits Travel	-3,000	0	0
Project Management	-6,000	0	0
Water Rescue	-3,000	0	0
Reduction in RSG 2005/6	73,000	0	0
Surplus on Collection	25,000		
Budget Requirement	**40,547,091**	**41,956,555**	**44,896,676**
Contribution to Balances	-700,000	700,000	0
Net Budget Requirement	**39,847,091**	**42,656,555**	**44,896,676**
Total AEF (assume 4.0% increase for 08/09)	20,251,897	21,073,429	21,916,366
To be met from Council Tax	19,595,194	21,583,126	22,980,310
Taxbase (assume 5% 07/08 & 1.5% 08/09)	322,034	338,136	343,208
Council Tax at Band D	60.85	63.83	66.96
Previous Band D	58.01	60.85	63.83
Increase	4.9%	4.9%	4.9%