



NOTTINGHAMSHIRE

Fire & Rescue Service

Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2011/12

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 09 July 2010

Purpose of Report:

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

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1. BACKGROUND

- 1.1 The Fire and Rescue Authority has a number of strategies in place for the good financial management and governance of the Authority.
- 1.2 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 Nottinghamshire Fire and Rescue Service Plan 2010 - 2013, the Workforce Plan and the ICT Strategy, and that the financial platform is sufficient to enable the delivery of the Authority's corporate objectives.

2. REPORT

- 2.1 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
- Impact of the UK Economic Downturn
- 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

- 2.2 The Strategy also contains appendices on:

- Value for Money Programme
- Treasury Management Strategy
- Use of Balances
- Prudential Code
- Capital Programme 2009/10 – 2011/12
- Revenue Budget 2009/10 – 2011/12
- Sustainable Capital Plans

- 2.3 It is proposed that the Authority should adopt this Medium Term Financial Strategy and continue to review this annually.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

There is no requirement for an equality impact assessment for this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. LEGAL IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

8. 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 organisation's objectives.

9. RECOMMENDATIONS

That Members note the contents of this report.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY



NOTTINGHAMSHIRE
Fire & Rescue Service

Medium Term Financial Strategy 2010/11 to 2012/13

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Appendix A Value for Money Programme

Appendix B Treasury Management Strategy

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Appendix E Capital Programme 2009/10 – 2011/12

Appendix F Revenue Budget 2009/10 Cash Limited Subjective Analysis

Appendix G Revenue Budget 2009/10 to 2011/12

Appendix H Sustainable Capital Plans

Other References:

**Property Strategy
Fleet Strategy
ICT Strategy
IRMP
Community Safety Plan
Workforce Plan**

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 Fire Authority in respect of their audit of accounts. There have again been a number of changes in the presentation of the accounts for 2009/10 which primarily relate to the preparations for the full implementation of International Financial Reporting Standards (IFRS). This requires that the accounts are restated to reflect these changes.
- 1.2 This change to the presentation of accounts presents a significant challenge not only to the financial administration of the Authority but also to other areas of the organisation previously unaffected by changes to accounting regulations. Progress in this area is being monitored closely by the Finance and Resources Committee and it is an area where the External Auditors are understandably showing a keen interest.
- 1.3 The process of external assessment has now changed from the old Comprehensive Performance Assessment (CPA) but nevertheless the Use of Resources element still remains albeit in a wider format encompassing both financial and non-financial elements. The last inspection reported in 2009 and graded the Authority as a level 2 overall against a more challenging set of criteria than had previously been applied. Nevertheless the Authority was successful in achieving a level 3 in the Workforce Planning element.
- 1.4 The inspection for 2010 has recently completed although the results are not yet available. It is clear that performance has improved in the financial management area but changes are probably not embedded enough in other areas for the score to change significantly. A new areas for inspection this year has been Environmental Sustainability which will prove a challenge for everyone as this is effectively a standing start. Nevertheless the Authority had the foresight to appoint a sustainability manager who is making very good progress in this area and it is hoped that a positive response will be forthcoming from the Auditors.
- 1.5 It is considered important however that the Authority focuses on improving the Use of Resources score as it is part of the overall organisational assessment and therefore a significant amount of effort will directed to achieving this over 2010/2011.
- 1.6 Medium term financial planning is recognised as 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. The deteriorating state of the economy generally and the continuing legacy of the banking crisis serve to complicate the financial environment still further and make medium term planning even more essential.

2. Context of the Strategy

- 2.1 The primary focus of the organisation is set out in a fundamental strategy document, the Service 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 2010-2013 plan represents a significant overhaul of the previous plan and begins to take into account some of the financial challenges going forward. It has as its

centrepiece a fundamental review of fire cover in the County which is the first major review of fire cover for more than 20 years. It is important to consider the changing face of risk and consider carefully the way that the service responds to it and this review will be far reaching and challenge many of the established assumptions about fire cover. With this in mind it is important that workforce strategies, property strategies, fleet strategies and most of all financial strategies take this into account and remain sufficiently flexible to respond to the outcomes.

- 2.3 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 Service 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 stable financial foundation to assist the decision making process.
2. To be fully cogniscent of other supporting plans and strategies such as the workforce plan, equalities objectives and ICT strategies in order to provide a cohesive framework.
3. To enable the Authority to be proactive rather than reactive in terms of financing
4. To show how resources support the Authority's Service Plan over its full term.
5. To support sustainable service delivery by the use of revenue budgets, reserves and balances.
6. To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.
7. To hold a working balance sufficient to respond to unexpected events and/or opportunities.
8. To be flexible and responsive to changes in needs and legislation
9. To support the continuance of the Authority's core services and strategies.
10. To ensure that the capital base of the Authority can be maintained within affordable and sustainable limits.
11. To provide forward looking indications of Council Tax levels.

Within this overall set of objectives the strategy must seek to find creative ways of using resources to minimise the impact of reduced funding from Central Government.

- 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 Service 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. Capital will be financed using the most advantageous method prevailing at the time finance is required. Full options appraisal will be carried out before financing decisions are taken.

5. Capital development will only be carried out where there is a synergy with existing plans and where the investment fits into the sustainable capital plan.
6. The rate of return on investments will take account of the advice received from the Authority's external advisors
7. Investment decisions will be based on a balance of risk and return, remain biased towards low risk activity and follow the CIPFA principles of Liquidity, Security and Yield in that order.
8. 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.
9. Charging for services will remain sensitive to the needs of communities and their expectations of the service.
10. Sponsorship funding will not be sought to underpin front line or core service delivery unless a long term plan for sustainability has been developed.
11. The Authority will continue to direct resources to the areas of greatest need in our communities and seek to address the wider safety agenda.
12. The Authority will actively seek to work with partner organisations in both setting and delivering priorities.
13. The Authority will apply any year end surpluses to balances and/or reserves notwithstanding the commitment to allow sums to be carried forward until such time as the target level of balances has been achieved.
14. Longer term financial planning will take account of the possible use of reserves and balances to minimise the effect of reductions in funding as a means of transition but not of permanent support.

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.

The production of longer term procurement strategies for ICT, Transport, Property and Equipment such that financial planning can be carried out both within and beyond the window of the medium terms financial strategy.

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.

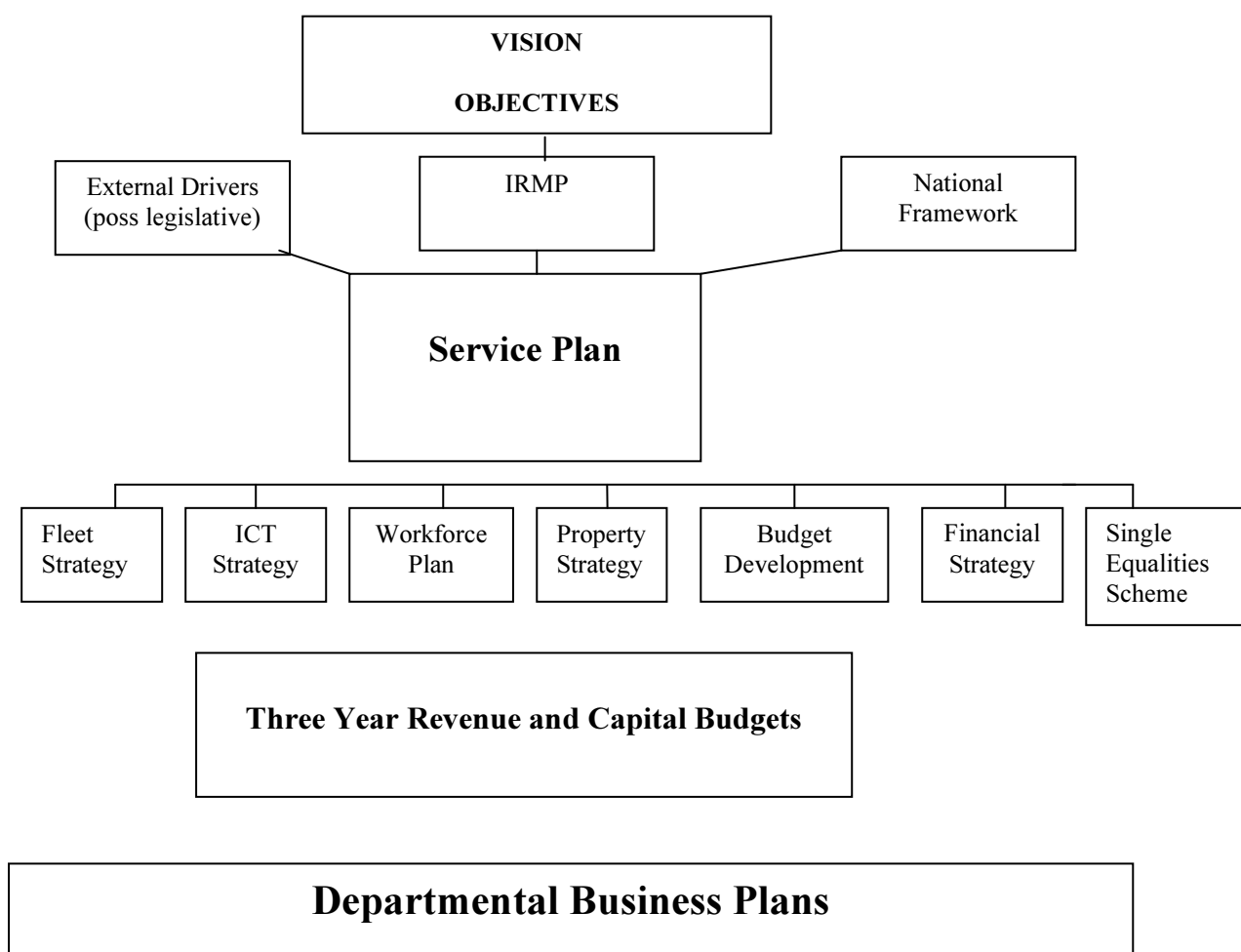
Production of specific reports addressing the issues created by the banking crisis and economic slowdown. These particularly relate to Treasury policy although other issues are considered. For example the possible impact of

increased unemployment of retained call outs and the knock on financial impact of that.

Production of the Strategy document dealing specifically with the prospect of significant cuts in central funding in future years.

4. Funding Priorities and service improvements

- 4.1 The funding priorities of the Authority relate entirely to those set out in the Service 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 the budget and resource planning processes. The detailed working underlying the Authority’s budget proposals for 2010/2011 to 2012/13 shows 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 Underpinning the plan a number of further priorities have been agreed for funding and budget allocation. These include a commitment to financial stability, a commitment to the implementation of the plan and working with partners. The most significant area however is that of equality. The service recognises that the fire service in general and Nottinghamshire in particular will fail to meet equality objectives unless these are given an appropriate level of priority for funding. This is not a simple objective for the achievement of external targets but a recognition that the service will be better and more effective for being more representative of the community it serves and also will be able to access a wider pool of talent which may otherwise go unrecognised.
- 4.4 Notwithstanding the primacy of the Service Plan there is a framework of interrelated plans and strategies which together provide the basis for the continued provision of and development of the service. This is best illustrated by the following diagram:



4.5 The development of departmental plans and strategies and the alignment of these with other plans both departmental and corporate has been improved beyond measure since changes in the internal governance structures have been introduced.

4.6 These changes allow budget holders, service managers, Finance, HR and other support functions to work together to develop plans which consider interdependencies, pressure on both financial and non-financial resources, and relative priority of proposed developments and their relevance to the plan. This process has also “sharpened up” medium term revenue and capital planning.

4.7 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 (where resources are temporary or not core activity)

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

- 4.9 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.
- 4.10 A full commitment to the Comprehensive Area Assessment will (via the Local Strategic Partnership) create strong local partnerships in support of our wider objectives allow resources to be targeted more effectively and create opportunities for co-operation and collaboration in the drive to create safer communities.
- 4.11 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.
- 4.12 A pro-active approach to the achievement of Value for Money by seeking to embed VFM principles continues to release resources to improve service delivery.
- 4.13 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. During 2010 it is planned to create a wholly owned arms length company to carry out trading activities and to allow previously internal trading to compete more effectively in the private sector.

5. Impact of UK Economic Downturn

- 5.1 It would be inappropriate to consider a Medium Term Financial Strategy without making some mention of the current economic position in the UK and considering how its effects might be managed and/or mitigated. These are certainly extraordinary times which whilst a proactive response might be desirable a reactive response might be all that is available.
- 5.2 The financial year 2009/10 has seen a significant downturn in the UK and global economic climate, which has impacted on the Authority. Reports to Finance and Resources Committee, Policy and Strategy Committee and the Fire and Rescue Authority during the year have kept Members informed of the latest position.
- 5.3 One of the main impacts so far has been on treasury management activity. Falling interest rates have reduced the level of investment interest the Authority may expect to receive. Conversely, the Authority may benefit from lower interest rates on borrowing. However the problem facing the Treasury manager is that whilst ordinarily the Authority would consider borrowing money at low rates and reinvest it at higher market rates this is not a sensible option at the present time. Markets are not so volatile as they were during 2008/9 but there are still issues such as the impending Euro crisis which the UK will not be immune from. This could in turn increase the borrowing costs of the authority.
- 5.4 The main focus of investing surplus cash will be to protect the Authority's capital and higher interest rates will not be taken at the expense of security. Regular risk assessments will continue to take place which will result in regular amendments to the approved counterparty list. All additions to this list are approved by Members whereas deletions may be approved by the Head of Finance and Resources.

- 5.5 The falling price of property will also have a significant impact on the Authority's finances as the balance sheet value of properties will fall which may result in some impairment charges being made to the Revenue Account.
- 5.6 It is a general assumption that Fire and Rescue Services throughout the country may experience increasing demand for their services as the economy shrinks however there is no indication of this so far.
- 5.7 By far the most significant consideration for the Medium Term Financial Strategy is the general state of Central Government Finances. The UK as a whole is in huge deficit and central government will need to make radical cuts in expenditure and increases in taxation to turn this situation around. The prospect of the Service suffering cuts in external funding of 15-20% is by far the greatest issue that this strategy has to face.

6. Medium Term Risks

- 6.1 There are a number of risks over and above budget cuts which can affect this strategy in the medium term, some of which are beyond the direct control of the Authority. The rapidly changing economic climate at the present time brings with it a number of risks any one of which could significantly impact upon this strategy.
- 6.2 *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. The Authority raised approximately £200,000 from interest in 2008/2009 however falling rates have reduced this by 75% in 2009/10. This situation may well not be improved during 2010-2013 as the outlook for rates is still very low. This means that vetting and the choice of borrower is becoming more important. The process for managing these funds is set out in the Treasury Management Strategy document which was approved by the Finance and Resources Committee on 9th April 2010
- 6.3 *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. At the present time loan rates are at a low point and therefore the Authority might expect to benefit from this and opportunities to restructure debt will be considered should these arise.
- 6.4 The Authority has adopted 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 if shorter term interest rates fall in relation to long rates.
- 6.5 *Pensions* There are a number of risks associated with pensions:

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

That employers contributions for uniformed personnel will rise significantly.

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

- 6.6 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 pension funds had been appalling in recent years but the recent performance by the Stock Market has delivered significantly increased returns over 2009/2010. The Nottinghamshire fund shows a bias of fund investments towards equities rather than fixed interest bonds and so has benefitted from this change. Similar exposures to property had an impact during 2008/2009 but again recovery is anticipated.
- 6.7 Since the passing of pension liabilities for fire fighters to the CLG, employers have been required to make a 21.3% of salary contribution to the scheme for those staff in the old 1992 scheme. For those in the 2006 scheme the contribution is 11%. It seems increasingly unlikely that these levels of contribution can be sustained given recent changes to longevity assumptions and the large increases in commutations recently announced. The current view expressed by the CLG however is that this is offset significantly by the reductions in ill health retirements although recent decisions of the courts may make the incidence of ill health retirements rise. This is not a risk that can be managed other than by the maintenance of adequate balances.
- 6.8 The biggest risk in the short and medium term however remains in the area of both Ill Health and Early retirement mentioned above. All the costs from such retirements now fall directly on to Authority budgets and costs per early retiree could be as high as £120,000. The Authority continues to maintain a budget for ill health retirements based on historical data and also has set aside a specific reserve to ensure that the volatility of these payments is "smoothed" through to the revenue account in a manageable fashion.
- 6.9 *Grant Funding.* The Revenue Support Grant settlement for the years 2008/9 to 2010/11 was announced in December 2007 and so therefore there has been a measure of certainty about grant funding for that period. In the longer term though funding streams remain uncertain due to the issues mentioned above relating to overall levels of government debt and the likely cut backs in public
- 6.10 *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 CLG there is still no real indication of how much this will cost at individual Authority 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.
- 6.11 *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 this will be far from the reality. The Regional Fire Control Company has now been formed and ultimately the costs that are transferred to each Authority in the region will be determined by that company. As these are as yet

unknown it is impossible to predict what the impact on budgets may be. The company itself remains in a vulnerable financial position as it is effectively controlled by the five regional authorities. Whilst on the one hand it may attempt to determine a budget which is generous, it may also be effectively starved of funds if Fire Authorities budgets come under any significant pressure. It has been recently announced that this project has been delayed by a further ten months making the likely go live date for Nottinghamshire the Autumn of 2011.

- 6.12 *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. Progress is being made on the construction of a locally determined credit ceiling for affordable borrowing which, whilst largely covered within the principles of the Prudential Code, will 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 Authority has considered the sustainability of its capital plans in terms of the ICT Strategy, the Fleet Strategy and the Property Strategy and these have been mapped out over a 20 year period to ensure that the revenue budget can continue to support them. The results of this process are shown as an appendix to this report.

7. Components of the Medium Term Strategy

- 7.1 This section briefly explains some of the processes and key components that underpin the medium term financial strategy.
- 7.2 *Revenue and Capital Budgets.* The process for the preparation of revenue and capital budgets is now mature but continues to develop each year. There is now 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 continued to be developed still further in the preparation of the Revenue Budget from 2010/11 to 2012/2013 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 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 continues to work well.
- 7.3 The maturity of other plans and strategies has also proven useful in this process as retirement and recruitment profiles from the workforce strategy have informed the revenue budget process and the strategies for ICT, Fleet and Property have enabled a cohesive Capital Programme to be developed. It is important to understand that the process of constructing a revenue and capital budget is an iterative one which is driven entirely by outside influences. The service's plans and strategies directly drive the budget and not the other way around. Of course, affordability is a key consideration hence the iterative nature of the process but it is important that when financial constraints are imposed the impacts on service development and/or delivery are fully transparent. There fore there is a direct relationship between the Fleet strategy and the Capital Programme because the Capital Programme was developed from that strategy and the two are in complete alignment. The same is true for other strategies also.
- 7.4 *Council Tax.* As part of the budget setting for 2010/2011 to 2012-2013 the Authority agreed indicative budgets for 2011/12 and 2012/13 of £48,596,164 and £49,069,663 respectively. This would imply estimated Council Tax at Band D to be £70.81 for

2011/12 and £71.87 or 2012/13. This was based upon an assumption of an increase of 1.5% for each of these years. Following the emergency budget on 22 June 2010, guidance has been given that Council Tax increases should be kept to 0%.

- 7.5 *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. There has been much discussion nationally about whether Fire and Rescue Service could, or should, consider charging for attendances at Road Traffic Collisions (RTC). It has been decided that in Nottinghamshire at least there will be no move to charge for such attendances as the public have a realistic expectation that this service will be provided as part of the general business of the Authority. This is also clearly the expectation of government. The fees and charges currently levied have not been reviewed for some time and there is presently a wide ranging review taking place.
- 7.6 *Treasury Strategy.* The Treasury Strategy for the Authority was set out in full in a report to the Finance and Resources Committee of the Authority on 9th April 2010. 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. As referred to above, the overarching policy for lending remains 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.
- 7.7 *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.

- 7.8 *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. In simple terms the difference between a reserve, a provision and a balance 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.

- 7.9 *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 2003.

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 £3.3m. At the end of 2008/9 the level of balances was £3.5m and it is anticipated that this level will be reduced to the target level over a number of years.

At present the Authority has fairly high levels of balances although it is possible that some of these may be used as “invest to save” money to reduce future revenue requirements or indeed to cushion the transition to a tighter financial regime in future years.

- 7.10 *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. This position has been reviewed and it is clear that given the strategies in place for Fleet and Property over the next 20 years levels of debt can be maintained to a level where the revenue effects of borrowing do not exceed 8% of overall revenue resources available.
- 7.11 *Value for Money.* The Authority continues to show its commitment to achieving Value for Money from the initial report that was approved in 2005/6 to the latest report in April 2010 which sets out the strategy for the coming year. Throughout 2009/10 the general strategy has been followed and progress reports have been given to the Finance and Resources Committee. 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

- 7.10 *Financial Health.* Work is currently being undertaken to develop a number of high level financial health indicators which will inform senior managers and Members about the general state of the Authority’s finances. These will be reported to the Finance and Resources Committee during 2010/11 in the form of several “at a glance” performance indicators.

8. Partnership Working

- 8.1 The Authority is committed to working in partnership to achieve overall outcome objectives. Key to partnership activity is the involvement in a range of Local Partnerships such as the Local Strategic Partnerships, the Nottinghamshire Efficiency and Improvement Partnership, the One Nottingham Board etc. as well as regional partnerships with the Regional Management Board and the Regional Efficiency and Improvement Partnership. These partnerships generally bring together a range of public service providers to concentrate efforts in a number of key areas.

The Government introduced the concept of Comprehensive Area Assessments in 2009/10 which requires a much more citizen focussed approach to the use of resources. The Authority is fully involved with this process and has already contributed resources to assist with Red Flag areas in other authority areas.

- 8.2 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 and a recognition of commissioning opportunity with the third sector. Again the common thread of equality can run through some of this partnership work where the Service seeks to build trust and respect amongst disadvantaged groups both for the benefit of service delivery and recruitment.
- 8.3 The new initiative launched in 2007/8 to enable stronger links to be forged with the voluntary sector by sponsoring some voluntary sector led projects in support of our Service Plan objectives has begun to gain momentum. As the voluntary sector have become accustomed to this fund being available, demands on it have increased and the objective have become more focussed. In consideration of this the Authority has agreed to put more funds into this area.

9. The Regional Dimension

- 9.1 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 Regional Improvement and Efficiency Partnership (RIEP).
- 9.2 The commitment to the Regional Control Centre remains high on the Authority's priorities as this will provide an efficient method of call handling and mobilisation. A Local Authority Controlled Company has been created to run the centre and early indications are that despite predictions of savings at the national level locally there could be increased costs.
- 9.3 The Authority is currently collaborating with Leicestershire and Derbyshire in the joint procurement of a new financial system which will be shared between all three authorities. This not only provides a cost effective solution but also increases the resilience of the financial functions.

Value for Money

Progress against the 2009/10 Value for Money Programme

A report was presented to the Finance & Resources Committee in March 2009 which set out the programme of work for 2009/10.

A key component of the VFM programme is the achievement of cashable efficiency savings. The Comprehensive Spending Review 2007 (CSR07) set a national three year target of £110m for the three year period 2008/09-2010/11, which equates to 1.6% of the 2007/08 expenditure baseline. There are no mandatory targets for individual fire authorities.

Members agreed an internally set efficiency savings target of £500k for 2009/10, which is approximately 1.2% of the 2007/08 baseline. Progress against this target is regularly reported to the Finance and Resources Committee. The forecasted savings total for 2009/10 currently stands at £467k, and the cumulative savings for 2008/09 and 2009/10 are estimated to be £921k against a target of £947k.

The remainder of the 2009/10 VFM programme focuses primarily on four areas:

- The continuing development of methods to integrate performance management data with cost information;
- The improvement of benchmarking processes and identification of benchmarking opportunities;
- Engaging service staff with the VFM agenda, and setting up a forum which will allow people to suggest and discuss ideas for improving value for money;
- Targeting areas where procurement savings might be made.

Work is ongoing to develop methods for integrating performance management information and cost data. This will enable performance information to be viewed in a financial context, which will give a clearer picture of how effectively resources are being put to use. The new finance system will record data in a way that will enable costs to be analysed at a much greater depth than they are currently. This will allow the baseline costs for current levels of performance to be more accurately identified, so that the financial impact of changes to working practices can be monitored more easily.

The Response Delivery Manager is developing a new way of recording and analysing the different types of activities performed by retained staff. As a result it will be possible to combine cost information with activity data. At present, the time spent by retained staff on activities other than operational incidents is recorded using a paper-based system. In order to be able to analyse trends, benchmark, and identify possible opportunities for efficiency savings, retained staff need a standardised way of recording station work and administrative duties electronically. This will help to ensure that retained resources are being utilised effectively. Other departments are also beginning to record the time spent on certain activities so that managers can

ascertain whether the level of resources being consumed by an activity is appropriate. Managers will be able to track the impact of changes to systems and processes in order to judge whether the changes are having the desired effect. They are also able to see the impact of new activities or new priorities on the workloads of their departments.

The Performance Management Team routinely carries out benchmarking against data supplied by other authorities who are members of the performance Family Group, and it is aiming to increase the range of indicators that are measured. However, in 2009/10 its efforts have been somewhat hampered by the departure of two key members of staff and the workload pressures created by the implementation of the new Incident Recording System. Despite this, Nottinghamshire is planning to adopt at least some of the value for money indicators that have been developed by the UK's public sector audit agencies. As some other Family Group members have also committed themselves to adopting these indicators it is hoped that external benchmarking can take place in the future. The adoption of these indicators will assist the Authority in demonstrating how it is achieving value for money improvements. The Chief Fire Officer Association (CFOA) has devised a new set of performance indicators which are designed to fill the gap left by the removal of the Best Value Performance Indicators. These proposed indicators are currently subject to consultation. The Family Group members are committed to adopting these performance measures once the final indicator set has been decided. The proposed indicators are primarily designed to measure the effectiveness of fire authorities, and they are intended to form part of a balanced view of performance.

In the previous report which set out the 2009/10 value for money programme, it was suggested that an 'Efficiency Group' could be set up which would be comprised of a cross-section of staff and would provide a forum for investigating and assessing ways to improve value for money within the service. However, after further investigation it was decided that it would be difficult for such a group to operate effectively. This is because in order to be properly representative of the entire organisation, the group's membership numbers would probably be so large as to render it unmanageable. Also, due to the locations of fire stations and other premises throughout the county, attendees at efficiency meetings would inevitably incur travelling time and travel expenses, which is arguably not a good use of time and resources. Instead, the VFM Accountant will work with the Corporate Communications department to explore the possibility of setting up a 'virtual forum', using the new intranet as a tool for sharing ideas about VFM improvement. In theory this could be combined with a reward scheme which would provide an incentive for people to participate. The costs of such a scheme could be met from the savings generated by peoples' ideas and suggestions. However, this idea will need to be explored fully in order to assess whether such a scheme would be feasible.

The 2009/10 VFM programme set a procurement savings target of £20k. Reviews of existing contracts and suppliers have generated estimated savings of approximately £25k, including potential savings of £9.5k relating to telephone call charges and line rental. Not all of these procurement savings can be classed as cashable efficiency savings as some are one-off savings and therefore don't meet the criteria. Despite this they still represent an improvement in value for money.

In addition to the activities specifically included in the 2009/10 VFM programme, numerous other projects and reviews have been undertaken or are planned which will improve the value for money delivered by the service:

- Numerous environmental 'spend to save' projects have been recommended by the Environment and Sustainability Manager. These projects will not only generate savings, they will also reduce the Authority's carbon footprint. The 'payback' period of some of these activities is as little as one to three years, with savings being generated thereafter. Examples include the replacement of existing lighting with energy efficient lighting, the installation of automated meter readers for electricity, gas and water, and the replacement of existing boilers with condensing boiler units.
- A review of fire cover is currently being carried out. This project is due to be completed by September 2010. The review will seek to ensure that Nottinghamshire Fire and Rescue Service is able to provide the most appropriate level of fire cover, and that resources are targeted effectively. It will also identify opportunities for efficiency savings to be realised.
- An independent review of the retained duty system has taken place, and the final report was presented to Members in July 2009. The report contained many recommendations, one of which was that the Authority should evaluate the cost effectiveness of using retained staff to carry out home safety checks (HSCs). In response to this recommendation, a decision has been taken to employ two specialist non-uniformed Home Safety Check Operatives to carry out HSCs instead of retained crews. This is expected to generate efficiency savings in excess of £65k, and will free up time for retained staff to dedicate to operational matters.
- The introduction of self rostering arrangements for wholetime crews from 1 April 2009 has so far led to a reduction in short term sickness absence, a reduction in the amount spent on travel expenses arising from detached duties, and an increase in the availability of wholetime appliances. All of these outcomes have contributed to an increase in the level of value for money provided by the Service.
- There are plans to enter into a Knowledge Transfer Partnership (KTP) with Nottingham Trent University. The purpose of this KTP is to establish which prevention activities most successfully improve community safety. This will allow prioritisation of spending and enable the sharing of evidence based best practice.

Value for Money Programme 2010/11

The proposed Value for Money Programme for 2010/11 consists of two main elements: the continuation of activities included in the 2009/10 programme, and carrying out targeted base budget reviews. Specifically, the activities from the 2009/10 programme that will continue as part of the 2010/11 programme are: the achievement and reporting of cashable efficiency savings, the improvement of benchmarking processes, the further development of methods to incorporate cost data into performance management information, and finding ways of engaging staff with the VFM agenda. Additionally, a new procurement savings target of a further £20k will be set for 2010/11.

The approved efficiency savings target for 2009/10 is £500k, which equates to approximately 1.2% of the 2007/08 baseline. The cumulative target for 2008/09 and 2009/10 is £947k. As mentioned above, the forecasted savings total for 2009/10 is £467k, which will give a cumulative savings total of £921k for 2008/09 and 2009/10. It is recommended that a target of £500k be adopted for 2010/11. This will be a challenging target as there is now less scope for cashable efficiency savings to be achieved in the short term. However, major reviews of the Authority's key areas of service provision are underway and it is hoped that these reviews will uncover opportunities for efficiency savings in the longer term. Savings will undoubtedly be identified during the forthcoming financial year as the Authority targets its resources more effectively in order to balance the medium-term budget, but these savings may not meet the sustainability or quality cross-check criteria that must be satisfied in order for them to be labelled as 'efficiencies'. The Corporate Management Board will identify areas where efficiency savings are expected to arise, and these will be reported to Members in due course.

The budgeting process for 2010/11 to 2012/13 highlighted the potential difficulties that the Authority could face if the revenue support grant settlements for 2011/12 onwards are as tough as predicted. It is therefore more important than ever that resources are targeted effectively. In order to ensure that budgeted resources match the Service's priorities, a series of base budget reviews will be carried out during 2010/11. These reviews will challenge the assumptions upon which budgets are currently based, and budget holders will be expected to demonstrate clear links between budgets and objectives. This will provide strategic managers with more information about the Authority's cost base, and will assist them to make informed choices about resource allocation during the budgeting process for 2011/12.

The proposed Value for Money Programme for 2009/10 is largely a continuation of the work identified in the 2008/09 Programme. It consists of two key elements: the achievement and reporting of cashable efficiency savings, and the improvement of value for money in its wider sense across the organisation.

There are no mandatory efficiency targets for individual fire authorities, but all authorities are expected to demonstrate that they are contributing to the national three year target of £110m. A local efficiency savings target is required for 2009/10 to enable the Fire Authority to effectively monitor its progress in achieving efficiency gains. Following on from the 2008/09 approved target of £447k, it is recommended that a target of £500k be adopted for 2009/10. This equates to approximately 1.2% of the 2007/08 baseline. The Corporate Management Board will identify areas where efficiency savings are expected to arise, and this will be reported to Members in due course.

In order to contribute to the efficiency savings target, efficiency gains must meet certain criteria. They must be cashable and they must be sustainable. Cashable savings can be defined as changes that maintain or increase the quality of service provision whilst reducing the resources required to deliver the service. A sustainable gain is one which exists for the current year and at least two subsequent financial years afterwards. The achievement of such savings is important but we must also continue to encourage the achievement and recognition of efficiency improvements

that do not meet these criteria, for example one-off savings, or initiatives that improve productivity but do not lead to a reduction in the resources used to deliver a service. Such achievements will therefore be monitored and reported to the Corporate Management Board.

Work on the activities outlined in the 2009/10 programme will continue throughout 2010/11. The development of methods to link cost information with performance data and the improvement of benchmarking processes are both considered to be of particular importance, especially as these were highlighted as areas requiring improvement in the 2008 Use of Resources Judgement.

The efficient and effective use of resources was one of the recurring themes that arose from the Cultural Values Workshops. People from across the Service were keen to highlight areas where they felt the use of resources could be improved by, for example, tackling perceived areas of waste and improving energy efficiency. This creates a useful opportunity to get staff from all sections of the organisation engaged in the value for money agenda. The Organisational Development Manager who has been leading the Cultural Values project has recommended that a study group be set up to examine these issues further. This idea requires further exploration, but it is envisaged that this "Efficiency Group" could be comprised of a cross-section of staff from across the Service, and could be a forum for investigating and assessing ideas for reducing waste and improving efficiency across the organisation. The potential use of the intranet as a tool for raising awareness of VFM and sharing ideas for improvement will also be investigated.

In previous years the Authority has set an overall target for efficiency savings but this target has never been broken down into specific categories. The lack of a specific target relating to procurement was commented upon in the 2008 Use of Resources Judgement. It is difficult for the Authority to set targets relating to joint procurement, as this is led at regional and national levels by the Regional Management Board and FireBuy respectively. Instead targets will be implemented at a local level only. An overall target of £20k will be set for procurement savings arising from a review of existing contracts and suppliers. In addition to this, the Efficiency Group will be given the task of investigating ways in which value for money can be improved in specific areas. These areas include travel, telecoms, water charges and the use of agency staff.

Treasury Management Strategy

THE REVISED CIPFA TREASURY MANAGEMENT CODE OF PRACTICE 2009

It is a requirement of the revised Code that the Authority creates and maintains:

- A treasury management policy statement, which states the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices, setting out how the Authority will seek to achieve those policies and objectives and how activities will be controlled and managed.

The revised Code sets out requirements for reporting on treasury management. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Authority will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

<u>Area of Responsibility</u>	<u>Committee</u>	<u>Frequency</u>
Treasury Management Policy Statement (revised)	CFA	Initial adoption in 2010
Treasury Management Strategy / MRP policy	CFA	Annually before the start of the year
Treasury Management Strategy / mid year report	CFA	Mid year
Treasury Management Strategy / MRP policy – updates or revisions at other times	CFA	
Annual Treasury Management Outturn Report	CFA	Annually by 30 September after the end of the year
Treasury Management / Prudential Code Monitoring Reports – performance monitoring	Finance & Resources Committee – provide scrutiny	Quarterly
Treasury Management Practices	Finance & Resources Committee – provide scrutiny	Review every two years

TREASURY MANAGEMENT STRATEGY FOR 2010/11

The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy: this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Sector Treasury Services.

The strategy covers:

- Prudential and Treasury Indicators

- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

BALANCED BUDGET REQUIREMENT

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

ECONOMIC BACKGROUND

Previous reports to Members have described the credit crunch and its impact on both the UK and world economies. Economic growth has now started but predictions vary on how quickly the major world economies will recover from the recession and how

strong that recovery will be. The following issues will all impact on growth and they are difficult to forecast:

- the general election and potential policy changes affecting interest rates and gilt yields

- timing and amounts of the reversal of quantitative easing

- potential changes in financial regulation affecting financial institutions

- speed of recovery of banks' profitability and balance sheet imbalances

- changes in the consumer savings ratio

- rebalancing of the UK economy towards exporting

- the risk of a "double-dip" recession, with falling demand, falling inflation and wages and rising unemployment

Sector Treasury Services has provided a forecast on the bank interest rate, which draws on current City forecasts:

Sector Bank Rate Forecasts	
As at 31 March 2010	0.50%
As at 31 March 2011	1.00%
As at 31 March 2012	3.00%
As at 31 March 2013	4.50%

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 online. 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 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. It is proposed that the overdraft facility remains at a level of £200,000.

A 3 year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3 month forecast is updated regularly and this process reveals when cash surpluses will arise.

The current bank account is cleared to zero on a daily basis with the balance being transferred to the investment account (Business Premium Account).

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

BORROWING STRATEGY

The prudential indicators for borrowing are set out in the Prudential Code report to Members on 9th April 2010. Background information relating to these indicators was contained within the Prudential Code for Capital Accounting report approved by Members of the Fire Authority on 19 February 2010.

The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2010/11 this figure is £33,326,000. Current levels of actual debt and lease commitments are in the region of £22m, which demonstrates that up to £11m could be borrowed before reaching the capital financing requirement amount.

The Authority's strategy in the past 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. However, in 2007/08, a £4m loan was borrowed from a bank, with a fixed interest rate which was lower than the equivalent PWLB rate. It is therefore proposed that the Authority continues to borrow primarily from the PWLB, but considers fixed rate market borrowing when market rates are lower than PWLB rates.

Sector's view on PWLB interest rates for 2009/10 is:

	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Mar 12	Mar 13
Bank Rate	0.50%	0.50%	0.50%	0.50%	1.00%	3.00%	4.50%
5 yr PWLB	3.05%	3.10%	3.15%	3.20%	3.40%	4.50%	4.85%
10 yr PWLB	4.35%	4.35%	4.45%	4.50%	4.60%	4.95%	5.15%
25 yr PWLB	4.75%	4.75%	4.80%	4.85%	4.90%	5.20%	5.35%
50 yr PWLB	4.75%	4.75%	4.80%	4.85%	4.90%	5.15%	5.30%

In view of the above forecast the Authority's borrowing strategy will be based upon the following information.

Rates are expected to gradually increase during the year so it should therefore be advantageous to time new long term borrowing for the start of the year when 25 year PWLB rates fall back to or below the central forecast rate of about 4.75%, a suitable trigger point for considering new fixed rate long term borrowing.

Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing. The Authority's prudential limit for exposure to variable rate borrowing is 30%.

PWLB rates on loans of less than ten years duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority may mean that longer term borrowing at a higher cost is required to give a balanced loans portfolio.

There is expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This would maximise the potential for debt rescheduling and allow the Authority to rebalance its debt maturity profile.

Consideration will also be given to borrowing fixed rate market loans at 0.25% – 0.50% below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change in position:

if it were felt that there was a significant risk of a sharp **fall** in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

if it were felt that there was a significant risk of a much sharper **rise** in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

The amount of the Authority's cash balances and investments is currently low and the net debt position is therefore largely similar to the gross debt position. Over the next three years, investment rates are therefore expected to be below long term borrowing rates and this would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). However, the Authority has already adopted this strategy to some extent over the last two years, and internal cash balances have been depleted to ensure security of funds.

On 18 December 2009, Members of the Fire Authority approved the proposal, outlined in a paper entitled "Revision to Treasury Management Strategy 2009/10, to reinstate the Authority's investments. Liquid investments should be in place to "cash-back" the Authority's reserves in case there is a requirement to call upon these reserves. This reinstatement will take place in stages over the next three years by way of borrowing and will result in a widening gap between the Authority's gross and

net debt positions. It should be pointed out that this is not borrowing for the purpose of investment per se, but borrowing to reinstate liquid investments supporting the Authority's reserves, which have previously been realised and used to finance capital expenditure during the economic crisis. The investment strategy is outlined later in this report.

The Authority can expect to borrow in the region of £6m in 2010/11 to finance the capital programme and up to £2m to reinstate cash to support reserves. The figure of £6m may vary depending upon the results of options appraisals to determine whether assets are financed by leasing or borrowing. A final decision will be taken on loan terms at the time of borrowing, which will take account of interest rates at that time and the maturity profile of the existing debt portfolio. Caution will be adopted with the 2010/11 treasury operations - Officers will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds. In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

The rescheduling of debt involves the early repayment of existing borrowings and its replacement with new loans. The opportunity to reschedule debt may arise during the year and the reasons for pursuing this course of action include:

- the generation of cash savings and / or discounted cash flow savings,

- enhancing the balance of the portfolio by amending the maturity profile

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

INVESTMENT STRATEGY

The Authority will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in

Public Services Code of Practice and Cross Sectoral Guidance. The Authority's investment priorities are:

- (a) the security of capital and
- (b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

Investment opportunities will arise either when there are temporary cash surpluses or when funds are borrowed for the purpose of reinstating reserves (as outlined in paragraph 2.25). To determine the institutions with which investments may be placed, the Authority uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

credit watches and credit outlooks from credit rating agencies

Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings

sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. In previous years, the investment strategy has specified a minimum credit rating, however because a combination of information from different sources is now used this is not possible. Instead, Sector's colour codes are used by the Authority to determine both the credit-worthiness of institutions and the duration for investments. The Authority is satisfied that this service now gives a much improved level of security for its investments.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

Blue	1 year (only applies to nationalised UK Banks)
Orange	1 year
Red	6 months

Green 3 months

Institutions within the “purple band” (24 months) or with no colour band will not be used.

This Authority will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys is currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Authority with few banks on its approved lending list. The Sector creditworthiness service does use ratings from all three agencies but, by using a scoring system, does not give undue preponderance to just one agency’s ratings.

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide

Previously, a list of institutions meeting the minimum lending criteria has been appended to the Treasury Management Strategy report to Members. Sector has advised that, with the current levels of uncertainty in the financial markets, the publication of such lists by local authorities might have a material impact on an institution which has been excluded from lists. Instead, the latest credit list provided by Sector will be made available to Members at the meeting.

In accordance with its low risk appetite, the Authority may undertake the following types of “specified” investments:

Deposits with the Debt Management Agency (Government)

Term deposits with Banks and Building Societies

Term Deposits with uncapped English and Welsh local authority bodies

Triple-A rated Money Market Funds

UK Treasury Bills

The risks associated with investing will be reduced if investments are spread e.g. over counterparties or over countries. The Authority will therefore limit its investment with any single counterparty to £2m. It is, however, difficult to impose any further spreading requirement due to the relatively small size of the Authority’s investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.

The majority of past investments have been for periods of 3 months or less. In the current financial climate, no term deposit investments will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and

Resources Committee. The Authority will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

All credit ratings will be monitored at least weekly, and the credit rating of any proposed counterparty will be checked on the day immediately prior to investing. The Authority is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Use Of Balances

The Fire Authority uses a risk based approach to the maintenance of Working Balances and has carried out a full risk assessment during 2008/9 to establish the appropriate levels of balances for 2009/10 – 2011/12.

A full review of the risk assessment has recently been carried out jointly by the Authority's Risk Manager and Principal Accountant. Managers across the Service were involved in the review.

There are three main categories of risk shown in the assessment: the risk of legal action being taken against the Authority, resulting in a financial loss; the risk of financial loss arising specifically from financial activities; operational risks which could lead to financial loss. Where risks have been identified, control measures are in place to minimise either the likelihood or the impact of the risk.

The approach has examined each of the risk exposures and considered both the possible financial impact on the Service and the likelihood of occurrence. A risk factor has been allocated to each risk reflecting the likely frequency of occurrence of the risk based on history and professional judgement. It should be noted that the underlying assumption is that not all of these risk events will occur simultaneously and, to reflect this, the potential value of each financial impact is multiplied by its risk factor.

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 between 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 revenue budgets or balances. The level of acceptable residual risk is usually referred to as the "risk appetite" of the Service. The Authority has already determined that it wishes to adopt a low risk appetite and therefore the estimated levels of balances reflect this position.

The risk assessment review identified some changes in risks, both in terms of additional risks identified and the increase (or sometimes decrease) in the potential costs of existing risks.

The updated risk assessment shows that an appropriate level of working balances would be £3.6m.

The actual level of balances as at 31 March 2009 was £3.5m. During the current financial year, the revenue budget is underspending and the reasons for this have been reported to the Finance and Resources Committee. In January 2010 that Committee approved some additional expenditure in the year and the creation of earmarked reserves, both designed to contain budget aspirations within an acceptable council tax level. Despite this, there is still likely to be an underspend to

be transferred to the general reserve at year end, which will increase the level of the reserve beyond £3.5m.

Prudential Code Indicators and Targets

PRUDENTIAL INDICATORS FOR AFFORDABILITY

Estimates of the Ratio of Financing Costs to Net Revenue Stream for 2009/10, 2010/11, 2011/12 and 2012/13 and Actual Ratio of Financing Costs for 2008/09

2008/09 Actual £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Ratio of Financing Costs to Net Revenue Stream				
3.3%	4.3%	5.9%	6.9%	7.5%

On 24 October 2008 the Finance and Resources Committee considered a report on Sustainable Capital Plans. This report concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the ratio of financing costs to net revenue stream should not exceed 8%.

Estimates of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D) for 2010/11, 2011/12 and 2012/13

2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Incremental Impact on Council Tax		
£2.67	£1.49	£1.04

PRUDENTIAL INDICATORS FOR PRUDENCE

Net Borrowing and the Capital Financing Requirement

This indicator requires that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement estimated up to the end of 2012/13. Performance against this indicator will be monitored throughout the year.

Treasury Management

As required by this indicator, the Authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND EXTERNAL DEBT

Estimate of Total Capital Expenditure to be Incurred in 2009/10, 2010/11, 2011/12 and 2012/13 and Actual Capital Expenditure for 2008/09

2008/09 Actual £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Capital Expenditure Total				
10,031	7,113	6,689	3,943	3,862
Capital Expenditure – Financed by Borrowing / Finance Lease				
8,686	6,375	5,743	943	3,862
Capital Expenditure – Financed by Capital Grant				
0	738	946	0	0
Capital Expenditure – Financed by Capital Receipt				
1,345	0	0	3,000	0

The estimates for 2010/11 to 2012/13 are submitted to the Fire Authority for approval elsewhere on this agenda. 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.

Estimate of Capital Financing Requirement as at the end of 2009/10, 2010/11, 2011/12 and 2012/13 and Actual Capital Financing Requirement as at 31/03/09

2008/09 Actual £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Capital Financing Requirement				
24,170	29,186	33,326	32,423	34,233

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure, and represents the Authority's underlying need to borrow for capital purposes. It will therefore be the aggregate of all capital expenditure, less any revenue contributions, capital grants or capital receipts. It is also important to note that the actual requirements for capital financing in a year will depend to some extent upon the timing of the cash flows of the capital expenditure itself.

The Sustainable Capital Plans report referred to above also concluded that in order to meet the Prudential Code requirements of affordability and sustainability, the capital financing requirement in future years should not exceed £40m.

Operational Boundary and Authorised Limit for External Debt

The Operational Boundary is the Authority's estimate of its total external debt, excluding investments but including other long-term liabilities which are separately identified. 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 will be reported to the Fire Authority.

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

Cash flow forecasts have been prepared for 2009/10 to 2012/13 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.

	2010/11 £000's	2011/12 £000's	2012/13 £000's
Operational Boundary			
O.B. for borrowing	31,569	31,713	34,068
O.B. for other long term liabilities	1,177	1,130	1,085
Total - Operational Boundary for External Debt	32,746	32,843	35,153
Authorised Limit			
A.L. for borrowing	34,726	34,885	37,475
A.L. for other long term liabilities	1,295	1,243	1,193
Total - Authorised Limit for External Debt	36,021	36,127	38,668

Actual External Debt as at 31/03/09

	2008/09 £000's
Actual borrowing	16,765
Actual other long term liabilities	1,277
Total – Actual External Debt	18,042

INDICATORS FOR TREASURY MANAGEMENT

The Service carries out its own treasury management in accordance with the CIPFA Code of Practice for Treasury Management, which was revised in 2009. The Authority has adopted a low risk approach to treasury management, which seeks to ensure that investments are secure and that there is sufficient liquidity of funds to enable the Authority carry out its business.

Gross and Net Debt

The amount of actual external long term debt as at 31/03/09 was £16,765k, as reported in paragraph 2.10. In addition, short term debt as at the same date totalled £1,500k. At the same date, the amount of investments was £2,000k, giving a net debt position of £16,265k as at 31/03/09.

On 18 December 2009, the Fire and Rescue Authority considered and approved the recommendation in a paper entitled “Revision to Treasury Management Strategy 2009/10”. This recommendation was to return to the original strategy agreed for the year, which had been markedly tightened in the wake of the world economic and banking crisis. Improvements in market conditions mean that is now desirable to reinstate the Authority’s investments which have been depleted over the past year to ensure security of funds. Liquid investments should be in place to “cash-back” the Authority’s reserves in case there is a requirement to call upon these reserves. This reinstatement will take place in stages over the next three years by way of borrowing and will result in a widening gap between the Authority’s gross and net debt positions. It must be pointed out that this is not borrowing for the purpose of investment per se, but borrowing to reinstate liquid investments supporting the Authority’s reserves, which have previously been realised and used to finance capital expenditure during the economic crisis.

Interest Rate Risk Exposure

In terms of borrowing, it has been considered prudent to use Public Works Loans Board (PWL) fixed interest loans on most occasions. This is because the PWLB generally offers rates which cannot be obtained elsewhere in the marketplace. However the Authority did take out a market loan in 2007/08, benefiting from an advantageous rate. Unlike lending, borrowing is a low risk activity so future borrowing arrangements will be entered into on the basis of what is most advantageous for the

Authority at the time. Any proposals to borrow from alternative sources to the PWLB will be discussed and agreed with the Treasurer.

Borrowing in the past has been at fixed interest rates although variable rates are not ruled out. It is therefore 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 total value of lending is not expected to exceed £6,000,000 at its peak during 2010/11 however it is difficult to assess what the likely investment profile might be. Current investments are all for less than 1 year and at rates fixed for short periods. If borrowing is taken out during the year as a single transaction, then the aim will be to reduce risk by investing funds in more than one institution. Members should note, however, that it is not feasible to set a maximum limit for investing with any one institution as the numbers of UK banks and building societies which meet our minimum credit rating criteria is now very few and even those on the list will not always accept our investments as the Authority is a “small player”. It is more likely that borrowing will be taken in smaller blocks during the year, to reduce any risks associated with investing in the prevailing market conditions.

It is proposed that the Authority sets the following limits for interest rate exposures:

	Benchmark %	2009/10 £000's	2010/11 £000's	2011/12 £000's
Interest Rate Exposures				
Upper Limit for fixed rate exposures	100%	100%	100%	100%
Upper Limit for variable rate exposures	30%	30%	30%	30%

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. Upper limits in terms of loan maturity are set to ensure that the Authority is not exposed to the risk of having to repay loans and then re-borrow in the short term when interest rates might be high.

Limits on the Maturity Structure of Borrowing		
	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	20%
Over 20 years	100%	20%

Principal Sums Invested for Periods Longer than 364 Days

Investments arising from borrowing to support the capital programme are unlikely to exceed one year in duration, however for borrowing to reinstate reserves as explained in paragraph 2.13 it may be desirable to invest monies for a slightly longer period to achieve a level of certainty around interest receipts and perhaps beneficial interest rates. Such decisions will be influenced by market conditions at the time and the liquidity of funds will be of paramount importance. It is proposed that Officers should be able to invest monies for longer than a year if this appears to be an advantageous strategy, but that a maximum limit of £2m be applied to any such investments. This will contain the Authority’s exposure to the possibility of loss arising from having to seek early repayment of investments.

2010/11 £000's	2011/12 £000's	2012/13 £000's
Prudential Limits for Principal Sums Invested for Periods Longer than 364 Days		
2,000	2,000	2,000

APPENDIX E

CAPITAL PROGRAMME 2010/11 TO 2012/13

	2009/10 Approved £	2008/09 Slippage £	2009/10 £	2009/10 Slippage to 2010/11 £	2010/11 £	2010/11 including Slippage from 2009/10 £	2011/12 £	2012/13 £
TRANSPORT								
Rescue Pump replacement programme	981,540	1,018,000	2,000,000		1,103,980	1,103,980	1,126,080	1,148,560
Special Appliances	155,000	197,000	352,000		795,000	795,000	0	0
Appliance CCTV Camera Systems	48,000	30,000	78,000					
Community Safety Outreach Vehicle		100,000	100,000					
Small vehicle replacement programme	362,790	43,000	405,790		213,890	213,890	80,410	202,840
	1,547,330	1,388,000	2,935,790	0	2,112,870	2,112,870	1,206,490	1,351,400
PROPERTY								
Station Improvements & Refurbishments								
Highfields Fire Station	118,000		118,000					
Southwell Fire Station Phase 2	292,000		262,000		10,750	10,750	0	
Mansfield Station former BTS	320,000		300,000	300,000	60,000	360,000		
East Leake Fire Station	21,300				9,700	9,700	0	
Blidworth Fire Station	18,000				20,000	20,000	360,000	
Misterton Fire Station Refurbishment	320,000		300,000		11,800	11,800	0	
Stockhill Fire Station Roof & BA Prep Room	83,000		75,000		3,250	3,250	0	
HQ Occupational Health					22,000	22,000		
Tuxford Fire Station	340,000		300,000	215,000	465,000	680,000	0	
Newark Fire Station						0	0	132,000
Bingham Barn		148,000	148,000		0	0	0	
Arnold FS Refurbishment						0	475,000	6,000
Bingham Fire Station Refurbishment						0	385,000	11,000
Strategic New Build Projects								
Major Rebuilds - Carlton (include fees at this point in time)	1,750,000		1,825,000	1,400,000	1,660,000	3,060,000	90,000	
Sale of Carlton House					-100,000	-100,000		
Carlton Project - other costs			40,000			0		
Hucknall Fire Station (include fees at this point in time)	-				0	0	1,000,000	1,000,000
Central (include fees at this point in time)						0		500,000
New build Retained Station TBC (possibly Retford)						0		600,000

**CAPITAL PROGRAMME
2010/11 TO 2012/13**

	2009/10 Approved	2008/09 Slippage	2009/10	2009/10 Slippage to 2010/11	2010/11	2010/11 including Slippage from 2009/10	2011/12	2012/13
	£	£	£	£	£	£	£	£
Estate Wide Projects								
Fixtures & Fittings	40,000				40,000	40,000	50,000	50,000
Battery Chargers 110 volt		15,000	15,000			0		
Battery Chargers 24 volt upgrade	-		-		45,000	45,000		
Fuel Tanks		52,000	52,000			0		
Retentions 2.5% of total capital expenditure	78,500		80,000		45,263	45,263	57,750	
Professional Fees			191,000	80,000		80,000		
	3,380,800	215,000	3,706,000	1,995,000	2,292,763	4,287,763	2,417,750	2,299,000
EQUIPMENT								
Specialist Rescue Equipment	0	30,000	30,000		0	0	0	0
	0	30,000	30,000	0	0	0	0	0
IT. & COMMUNICATIONS								
HR System Upgrade	60,000	58,000	118,000				107,000	
Business Continuity & Disaster Recovery	75,000	85,000	160,000		30,000	30,000	30,000	30,000
Information Systems Development	17,000	-	17,000		0	0		
Mobile Computing	15,000	143,000	158,000	28,000		28,000		
FireLink Add Ons	-	90,000	90,000		0	0	0	0
Business Expansion	40,000	-	40,000		40,000	40,000	40,000	40,000
Replacement Equipment	150,000	-	150,000		90,000	90,000	90,000	90,000
Business Process Automation	-	128,000	128,000		25,000	25,000	25,000	25,000
Regional Finance System	150,000	-	150,000		49,000	49,000	0	0
CFRMIS Ops intel Database - Software					16,000	16,000	0	0
CFRMIS Ops intel Database & Handheld Devices- Hardware					10,000	10,000	27,000	27,000
	507,000	504,000	1,011,000	28,000	260,000	288,000	319,000	212,000
	5,435,130	2,137,000	7,682,790	2,023,000	4,665,633	6,688,633	3,943,240	3,862,400

Memorandum Note:

The capital grant due in 2009/10 and 2010/11 plus the expected capital receipt from the sale of Dunkirk Fire Station have been taken into account when calculating the revenue implications of financing the capital programme.

Appendix F

Cash Limited Revenue Budget 2010/2011

DESCRIPTION	Opening Budget for 2009/10	Virements		Pay Contingencies		Revised Estimate	Reversal of Temps	Base Budget for 20010/11	Policy for 2010/11	Inflation	Opening budget for 2010/11	
	OB0001	Temp	Perm	PYE	FYE							Temp
		TV0001	PV0001	PC0001	FC0001							TV0001
WHOLETIME OPERATIONAL PAY	23,607,419	-637,500	81,275	0	224,163	23,275,357	637,500	23,912,857	163,070	0	24,075,927	
PART TIME OPERATIONAL PAY	3,440,471	-110,500	0	0	0	3,329,971	110,500	3,440,471	-105,571	0	3,334,900	
CONTROL STAFF	1,067,003	0	0	0	0	1,067,003	0	1,067,003	0	0	1,067,003	
ADMIN & CLERICAL	4,907,034	-67,140	115,029	1,905	247,297	5,204,125	67,140	5,271,265	-93,754	0	5,177,511	
OTHER EMPLOYEE EXPENSES	692,666	51,300	-46,700	0	0	697,266	-51,300	645,966	164,260	6	810,232	
PENSION COSTS	919,856	0	0	0	0	919,856	0	919,856	-118,571	15,905	817,190	
PREMISES	1,850,817	190,500	30,890	0	0	2,072,207	-190,500	1,881,707	140,287	0	2,021,994	
OPERATIONAL EQUIPMENT	658,997	34,500	500	0	0	693,997	-34,500	659,497	153,750	0	813,247	
OTHER SUPPLIES AND SERVICES	3,672,273	-175,795	117,399	0	0	3,613,877	175,795	3,789,672	107,202	0	3,896,874	
TRANSPORT	2,131,068	0	-16,085	0	0	2,114,983	0	2,114,983	-46,008	9,179	2,078,154	
SUPPORT SERVICES	537,596	89,500	-32,310	0	0	594,786	-89,500	505,286	32,118	3,990	541,394	
CAPITAL FINANCING	2,003,905	250,000	0	0	0	2,253,905	-250,000	2,003,905	710,530	0	2,714,435	
DEMOCRATIC COSTS	161,285	0	0	0	0	161,285	0	161,285	-2,000	6,417	165,702	
INCOME	-1,016,213	0	0	0	0	-1,016,213	0	-1,016,213	30,663	0	-985,550	
CENTRAL	-10,891	375,135	-23,000	0	0	341,244	-375,135	-33,891	70,202	0	36,311	
CONTINGENCIES	1,706,527	0	-226,998	-1,905	-471,460	1,006,164	0	1,006,164	396,547	163,949	1,566,660	
							0					
TOTAL (SUM OF ABOVE)	46,329,813	0	0	0	0	46,329,813	0	46,329,813	1,602,725	199,446	48,131,984	

APPENDIX G

Detailed Revenue Budget Changes for 2010/2011			
<u>General Heading</u>	<u>Detail</u>	<u>Amount</u>	<u>Summary</u>
Admin and Support Pay	Healthcare Assistant	-22,845	
	Misc	2,091	
			-20,754
Operational Pay	Post conversion in H&S	-23,470	
	NI	1,098	
			-22,372
Pensions	Savings re revised assumptions on ill health etc.	-144,374	
	Injury Allowances	20,138	
	Non-Uniformed Pension Increase	20,640	
	Movement between schemes	151,793	
	Other	930	
			49,127
	RDS Superannuation	1,794	1,794
Capital Financing			
	Capital	664,972	664,972
Car Allowances			
	Trainee Travelling	-11,000	-11,000
Community Safety			
	Schools	-12,000	
	Anti Social Behaviour Project	50,000	
	General	-1,205	
	Museum	1,000	37,795
Contingencies			
	Admin & Support pay	144,519	
	JE Contingency	10,000	
	Control Pay	-12,099	
	Nonpay inflation contingency	-32	
	RDS Pay	34,438	
	Wholetime Pay	437,955	
			614,781
Members			
	Allowances and Expenses	4,417	4,417
Employees Other			
	Staff Suggestion Scheme	10,000	
	Employee Benefits Scheme	-8,000	
	Training	137,950	
	Prof subscriptions	1,351	
	Other	-5,327	
			135,974

Income	Firelink New Burdens grant	-136,000	
	Loss of income re Fire Reports	2,500	
	Eliminate Cross Border income budget	15,000	
	Eliminate Special Service Charges income budget	20,181	
	Eliminate environmental recharge income	16,400	
	Reduce interest receivable budget	170,000	
	Catering income	-1,332	
	Premises income	1,803	
	Fire Alarm agreement licences	-6,600	
	Recovered costs of enforcement cases	-5,000	76,952
Insurance	Savings on premium	-13,303	-13,303
Operational Equipment	L&D equipment for RTC training	20,000	
	PPE New recruits	3,750	
	Op equipment: earmarked reserves to fund	-68,000	
	Replace Thermal Image cameras	20,000	
	New equipment for SRT, rescue from confined spaces	15,000	
	Inner Cordon Equipment	20,000	
	BA Cylinders 3 year replacement	30,000	
	SRT Equipment	20,000	
	Improvement of respiratory protection	20,000	
	Other PPE	70,000	
	Video Cameras for court evidence	2,500	153,250
Premises	Business rates revaluation	85,861	
	Revenue impact of capital refurbishment	7,219	
	Increased costs re Central Fire Station recharge (energy)	21,480	
	Various minor amendments	3,232	
	Drainage System improvements (environmental)	15,000	
	Repairs & maintenance	7,331	140,123
RDS Review	Savings in RDS Community Safety work (pay)	-74,852	
	1 CM instead of FF per RDS Station (pay)	20,000	
	Disestablishment of RSOs & RLMs (pay)	-52,513	
	PDR management system	7,920	
	Events for RDS Employers	5,000	
	RDS HSC Operatives (pay)	33,649	
	RDS HSC Operatives (vehicle costs)	6,351	-54,445
Supplies & Services	Firelink Net Costs – nonpay	83,589	
	Communications – licences & purchases	-1,250	
	IT licences general	19,060	
	Ops Intel database CFRMIS ongoing cost	3,200	
	Fixed Asset System ongoing cost	2,000	
	Occupational Health system ongoing cost	3,000	
	Development of fleet management system	6,000	
	PDR Management system	16,280	
	HSC handheld devices ongoing cost	4,000	

	IT minor purchases	-12,000	
	Skid car frame (L&D)	26,000	
	Increased costs re Highfields Station	6,500	
	Savings re publicity	-11,138	
	Savings on maintenance of fitness equipment	-18,542	
	Contribution to partnership working - Risk response	50,000	
	Net additional costs of Pos awaydays	1,449	
	Equalities - Victoria Cup sponsorship	8,500	
	Cross Border Charges (expenditure)	19,000	
	Savings on hydrant maintenance installation	-18,650	
	Procurement of specialist tax advice	5,000	
	Legal fees re Fire Protection enforcement	20,000	
	Treasury Services	-2,094	
	Audit Fees	6,084	
	Catering Charges	2,124	
	Savings on office equipment	-8,000	
	Enhanced CRB checks - legal requirement	7,800	
	Savings in Community Safety	-7,133	
	Equalities subscriptions	1,000	
	Saving in public consultation	-10,000	
	Various Miscellaneous	-5,478	196,301
Transport			
	CFO European work	2,500	
	Fleet Maintenance	62,450	
	Fuel	9,179	
	Fleet Accidents & repairs	-44,100	
	Fleet modifications	-38,500	
	Purchase of vehicle equipment	-46,775	
	Pos blue light installation	19,705	
	Various Miscellaneous	-736	-36,277
Other			
	Efficiency Savings	-65,043	
	Other	7,960	
	Surplus on Collection / Govt Grant	-62,109	-119,192
Princes Trust			
	Transport	1,000	
	Transfer to earmarked reserves	59,311	
	Income	-63,150	
	Training Princes trust	-7,500	-10,339
Trading Company			
	Transport	-6,313	
	Supplies & Services	-19,264	
	Premises	76	
	Income	37,098	
	Misc	1,892	
	Car Allowances	938	14,427
Total	Increase in Council Tax 3.0%	1,802,171	1,802,171

Sustainable Capital Plans

The introduction of the Prudential Code into Local Government was seen as a positive way forward for capital planning. The removal of centrally imposed credit ceilings allowed authorities such as Nottinghamshire Fire and Rescue Service to set their own capital plans in accordance with their ability to pay for the revenue implications.

There is, however, a significant 'downside' to this approach. Under the old regime no thought needed to be given to the ceiling of capital expenditure over time, as this was effectively decided by the centrally determined capital allocation. Under the prudential regime however, authorities decide their own ceilings for borrowing and overall debt.

The fundamental problem with the prudential regime is that the budget process it supports is quite short term, being over a three year period, and is therefore focussed on the affordability of relatively short term activity levels.

Nottinghamshire and City of Nottingham Fire and Rescue Authority was formed on 1 April 1998 and inherited no debt from Nottinghamshire County Council. Whilst this might be seen as an advantage, the downside is that it also inherited no budget for the servicing of that debt. Therefore all new spending must be met from new debt which will have a direct impact upon the revenue budget (ie: there is no established 'base' save that built up from 1/4/1998).

A point will inevitably come where the amount of debt being serviced by the Authority has reached a maximum – ie: where the revenue impact of that debt is the maximum that can be sustained in the longer term. When this point arrives, the only way that the Authority will be able to continue a capital programme will be by redeeming existing debt or realising assets. There is of course the option of using the 'supported capital expenditure' element of revenue support grant (RSG), but this moves away from the general preference for treating RSG as being unhypothecated.

This problem is exacerbated by treasury management strategies which do not (and under guidance should not) match asset lives against outstanding debt periods. This means in effect that there is no direct linkage between the asset and the financing required for it and therefore a computer could effectively be financed over 50 years. In Nottinghamshire we have attempted to deal with this potential problem by considering the 'average life' of the total asset portfolio and matching this against the 'average life' or maturity of outstanding debt over time.

This does not mean that at any given moment average debt life will always equal average asset life, but that there is an aspiration to return to a position where it does. For example, at the present time the Authority has a high proportion of debt on very long credit arrangements of 50 and in one case 70 years. However, this has been done to take advantage of very good long term fixed interest rates. It is the intention to re-finance this debt over shorter periods to return to a more balanced portfolio when market conditions improve. The important thing is to understand where the desired position is and continue to work towards achieving it.

Although this is confusing it is important to understand that the impact on the revenue account of capital financing is represented by the minimum revenue provision (MRP)

which under recent changes to regulations is now calculated in such a way as to reflect asset lives in the charges to the revenue account. The actual impact on cash however is still that which is derived from the Treasury Management Strategy.

Looking forward over a period of 20 years or so it is clear that the Authority will need to make significant investment in capital schemes primarily related to property. The profile of the Service's property assets shows a high number of them requiring replacement or substantial refurbishment over this period. The Property Strategy Group has considered this issue and 'broad brush' plans are already in place. Suffice to say that expenditure of the order of £3.2m per annum will be required consistently for a number of years to come. Some analysis of this can be seen below.

The private finance initiative (PFI) has been seen by some as something of a panacea for dealing with this problem for some authorities and indeed as a short term 'fix' this may seem attractive. This is because PFI credits (additions to grant) can often alleviate the effects on the revenue account. However, since government have made clear that the days of PFI credits may be numbered this option looks less attractive. That is not to say that it might still be the only option if a strong capital programme cannot be sustained.

The issue for Nottinghamshire then remains whether an anticipated capital spend per annum on property of £3.2m each year for the next 10 years or so can be sustained within the confines of the revenue budget, bearing in mind that this knocks on into Council Tax.

A bigger concern is that the pace of property development is limited not so much by available capital finance, but by the organisation's capacity to deliver on major capital projects. The effect of this has been to develop capital programmes which contain a number of smaller schemes which can be more easily achieved but which, in reality, may be consuming the capital resources which will be required for much more critical schemes in the future.

Other fire and rescue authorities have been contacted to ascertain what their position is on this and disappointingly, almost without exception, they seem to have adopted a short term strategy based on the principles of the prudential code rather than a long term capital plan. This is not a strategy that could be viewed as being acceptable here in Nottinghamshire, where there is a reputation for prudent and sound financial management which should be continued.

Planned levels of capital investment are mirrored in the Capital Financing Requirement (CFR) of the Authority and over the period 2007/2008 to 2012/2013 these are anticipated to be as follows:

Year	CFR (£000s)
2007/2008	15,203
2008/2009	24,170
2009/2010	29,186
2010/2011	33,326
2011/2012	32,423
2012/2013	34,233

A full assessment of the sustainability of capital plans was carried out in 2008/9 and this will be revisited in 2010/2011. Suffice to say that none of the sustainable targets have been breached in the 2010-2013 plans.