

# COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY



## REVENUE AND CAPITAL BUDGETS 2009/2010 Including MEDIUM TERM FINANCIAL PLAN 2009/2010 to 2011/2012

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## **COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY MEMBERSHIP**

The Authority comprises of 21 elected members nominated by Durham County Council and 4 elected members nominated by Darlington Borough Council.

The present membership together with the Senior Officers of the Fire and Rescue Service and the Authority are detailed below.

**CHAIRMAN** C. Magee (Durham County Council)

**Vice Chairman** C. Carr (Durham County Council)

**COUNCILLORS (DURHAM)**

- R. Bell
- M. Campbell
- C. Carr
- J. Chaplow
- A. Cox
- P. Gittins
- S. Iveson
- P. Jopling
- J. Lethbridge
- R. Liddle
- C. Magee
- B. Myers
- R. Ord
- M. Plews
- J. Robinson
- J. Shuttleworth
- M. Simmons
- L. Thomson
- J. Wilson
- A. Wright

**COUNCILLORS (DARLINGTON)**

- Mr N. Wallis
- Mrs J. Maddison
- Mr B. Jones
- Mrs D. Jones

### **SENIOR FIRE & RESCUE OFFICERS**

<b>Chief Executive</b>	S. Johnson OBE
<b>Director of Community Safety</b>	P. Reay
<b>Director of Corporate Services</b>	J. Hewitt
<b>Director of Operations</b>	J. Adamson
<b>Director of Organisational and People Development</b>	M. Whelan

### **SENIOR OFFICERS OF THE AUTHORITY**

<b>Clerk</b>	L. Davies LL.B
<b>Treasurer</b>	S. D. Crowe CPFA



## **INTRODUCTION**

Welcome to County Durham and Darlington Fire and Rescue Authority's Budget Book for the financial year 2009/2010. This book incorporates the report presented and agreed at the Combined Fire Authority meeting outlining the proposed revenue budgets, the Medium Term Financial Plan, the capital budget and the associated resolutions. This is followed by a report on the financial resources required to provide a fire and rescue service in the County Durham and Darlington area, and the agreed Medium Term Financial Strategy.

### **The Budget and Strategic Planning Process**

The preparation of the annual budget is integral to the Authority's strategic planning framework and is set within the context of the medium term financial plan and medium term improvement priorities.

Our priorities for 2009/10 are:

- Protecting and preventing
- Developing motivated people to deliver effectively
- Value through sustainable improvement

The Authority is in the process of implementing two national modernisation projects, Firelink (new national radio system) and Fire Control (new regional fire control centre). These will have a financial impact in the medium term. The annual budget and associated medium term financial plan provides the financial planning framework against which these projects can be progressed.

The Authority's overall plans for improvement are set out in the Strategic Plan. The Strategic Plan forms the basis for ongoing performance management, ensuring that the Authority focuses on Value for Money in its use of resources and service delivery to the public.

### **Budget Consultation – having your say on how we spend our budget**

We recognise that spending decisions have a direct impact on the amount paid by Council Tax and Non-domestic ratepayers. For this reason we consult with residents through the Citizen's Panel and representatives from trade and industry on our spending plans and priorities.

The budget for 2009/10 and associated medium term plan, as well as the priorities on which the budget has been based, have been subject to consultation with members of the Citizen's Panel. Details of the Citizen's Panel meetings are included in this document.

### **Budget Highlights**

- The Fire and Rescue Authority has set a Budget Requirement (the amount it needs to meet from grants and Council Tax payments) of £30.419million.
- The Council Tax charge at Band D has been increased by 3.38% to £85.41. This is an increase of £2.79 from the 2008/09 figure.
- The Government Formula Grant, which includes Revenue Support Grant and Non-Domestic Rates, totals £14.193m, an increase of £0.408m (2.96%) from 2008/09.

## Use of Resources and Direction of Travel Scores

Our financial and management arrangements are subject to scrutiny by the Audit Commission as part of their overall performance assessment framework. The Authority has been assessed as performing well, consistently above minimum requirements.

### Further Information

We hope that this document proves to be both informative and of interest to readers. We continually aim to improve the content and presentation of the information we produce and welcome feedback on any issues relating to this budget book.

If you have suggestions and comments on either the format of the report or its content, or you would like any further information, please contact either,

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or write to:



The Chief Executive  
Service Headquarters  
Finchale Road  
Framwellgate Moor  
Durham  
DH1 5JR

The Treasurer  
Durham County Council  
County Hall  
Durham  
DH1 5UE

If you require this information summarised in other languages or formats, such as Braille, large print or talking tapes, please contact: (0191) 383 3544

"إذا كنت بحاجة إلى تلقي خلاصة هذه المعلومات في اللغة العربية فيرجى الاتصال بالرقم 0191 383 3544"

如果你想得到廣東話的資訊，請致電 0191 383 3544

यदि आपनि बांग्लाएर এই তথ্যগুলির একটি সারসংক্ষেপ চান তবে অনুগ্রহ করে 0191 383 3544 নম্বরে ফোন করুন।

यदि आप इस सूचना का सार हिन्दी में चाहते हैं, तो कृपया 0191 383 3544 पर फोन करें।

ਜੇਕਰ ਤੁਸੀਂ ਇਸ ਸੂਚਨਾ ਦਾ ਸਾਰ ਪੰਜਾਬੀ 'ਚ ਚਾਹੁੰਦੇ ਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ 0191 383 3544 'ਤੇ ਫੋਨ ਕਰੋ

"اگر آپ کو ان معلومات کا خلاصہ اردو میں چاہئے تو براہ مہربانی 0191 383 3544"

# County Durham and Darlington Fire and Rescue Authority

17 February 2009

**Budget 2009/10 incorporating the  
Medium Term Financial Plan 2009/10  
to 2011/12**



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## Joint Report of Stuart Crowe, Treasurer and Susan Johnson, Chief Executive

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### Purpose and Structure of the Report

1 The purpose of the report is to enable the Authority to:

- approve a revised revenue budget for 2008/09;
- set a revenue budget for 2009/10;
- approve the Medium Term Financial Plan;
- approve the capital budgets for 2008/09 to 2009/10;
- calculate the Fire Authority precept;
- approve the associated resolutions.

2 The report is divided into 10 sections:

Section A - Background and Summary of Recommendations (page 8)

Section B - Strategic Aims and Objectives (page 10)

Section C - Budget Consultation (page 11)

Section D - Local Government Finance Settlement (page 12)

Section E - Revenue Budget (page 13)

Section F - Medium Term Financial Plan (page 15)

Section G - Capital Programme and Budget (page 19)

Section H - Fire Authority Precept (page 20)

Section I - Prudential Code (page 23)

Section J - Treasury Management (page 27)

## **SECTION A**

### **BACKGROUND**

- 1 A meeting of the Audit and Finance Committee was held on 12 February 2009 to consider the revenue budget. This meeting took place after the deadline for circulation of this report. The Chair of the Audit and Finance Committee will provide a verbal update at this meeting and the recommendations regarding the overall budget amount and the level of council tax for 2009/10 will be considered alongside this report.

### **SUMMARY OF RECOMMENDATIONS**

- 2 Set out below is a summary of the recommendations contained in the following sections on which Member's views are sought.

#### *SECTION B* – Strategic Aims and Objectives (page 10)

That Members confirm the strategic aims and objectives against which investment and efficiency decisions are made.

#### *SECTION C* – Budget Consultation (page 11)

That Members take into account the views of those consulted as they consider the budget and Medium Term Financial Plan proposals.

#### *SECTION D* – Local Government Finance Settlement (page 12)

That Members note the grant settlement.

#### *SECTION E* – Revenue Budget

##### **Revised 2008/09 Revenue Budget Recommendations** (page 13)

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2008/09 be approved;
- (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2008/09.

##### **2009/10 Revenue Budget Recommendations** (page 13)

That the Authority approves the revenue estimates for the year ending 31 March 2010 as detailed in Appendix A. The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.

#### *SECTION F* – Medium Term Financial Plan (page 15)

That the Authority:

- (a) Agrees the Medium Term Financial Plan and the investments within.

- (b) Notes the Treasurer's comments on the robustness of the estimates and the adequacy of reserves and the risks in the budget.
- (c) Reaffirms the current policy for Reserves.

*SECTION G – Capital Programme and Budget (page 19)*

That the Authority approves the capital budgets for 2008/09 to 2009/10.

*SECTION H – Fire Authority Precept (page 20)*

That Members determine the level of Council Tax for 2009/10 based on the Budget Requirement of £30,418,571. It is recommended for the year ending 31 March 2010:

- (i) That the 'council tax base' for the whole of the Authority's area be 188,178.43.
- (ii) That there be no Authority expenses relating to a part only of the Authority's area.
- (iii) That the Authority adopts a council tax at Band D of £85.41, an increase of 3.38% over the 2008/09 figure.
- (iv) That the Budget Requirement be £30,418,571 and that, (after taking into account 'Revenue Support Grant' of £2,661,526, Redistributed Non-Domestic Rates of £11,531,096 and a surplus on the collection fund of £153,629), precepts totalling £16,072,320 be issued to Durham County Council and Darlington Borough Council.

*SECTION I – Prudential Code (page 23)*

- (a) That the Authority notes the prudential indicators.
- (b) That the Authority approves the MRP Statement.
- (c) That the Authority approves the following limits for external debt in 2009/10:
  - (i) Authorised Limit of £12,000,000
  - (ii) Operational Boundary of £10,000,000

*SECTION J – Treasury Management (page 27)*

- (a) That the Authority formally adopts the key recommendations of the CIPFA code.
- (b) That the Authority notes the Annual Treasury Management Strategy.
- (c) That the Authority sets an upper limit on its fixed interest rate exposures for 2009/10, 2010/11 and 2011/12 of 100% of its net outstanding principal sum.
- (d) That the Authority sets an upper limit on its variable interest rate exposures for 2009/10, 2010/11 and 2011/12 of 50% of its net outstanding principal sums.

## SECTION B

### STRATEGIC AIMS AND OBJECTIVES

- 1 The Authority's corporate plan sets out its vision of '**Safer People, Safer Places**'. To achieve this vision, the Authority has three strategic aims and seven objectives:-

#### **Protecting and Preventing**

- identifying and reducing risks from fire and other hazards to achieve safer, stronger communities
- responding effectively and competently to prevent loss of life, injury and damage, with resources targeted to risk
- defining and delivering our role in the community to improve the well-being and quality of life for our communities

#### **Developing Motivated People to Deliver Effectively**

- investing in the skills and potential of all our people through continuous personal and professional development
- optimising the contribution of all our people in a rewarding, challenging and safe environment

#### **Value Through Sustainable Improvement**

- developing an organisation that is fit for purpose to meet the changing needs of our communities
- delivering value for money with prioritisation of available resources based on risk

- 2 The Authority places significant importance on ensuring that investments made in delivering and improving services are aligned to the strategic aims and objectives. In addition, efficiencies that are identified are assessed in relation to their impact on the Authority achieving strategic aims. This is achieved through a process of resource allocation based on an open and consultative approach known as "decision conferencing".

- 3 **It is recommended that Members confirm the strategic aims and objectives against which investment and efficiency decisions are made.**

## SECTION C

### BUDGET CONSULTATION

#### Citizens Panel Meetings

- 1 The first Citizen's Panel was held on 15th December 2008. Members of the public attended with officers of the Service and the Fire Authority. There were presentations on the strategic direction of the Fire Service, the budget and funding position for the forthcoming year, and the Integrated Risk Management Plans (IRMP) for 2009/10.
- 2 A further Panel meeting was held on 29th January 2009. Presentations were made in relation to the 2009/10 budget requirement, the final formula grant settlement and the range of council tax options available. The panel was also provided with specific information relating to the IRMP and associated outcomes and were asked to comment on the proposals.
- 3 The majority of respondents to the council tax consultation viewed the council tax charged by the Authority to be acceptable, agreed with the investment priorities and efficiencies, and would support an increase in the order of 3 to 4%.

#### Business Community

- 4 Consultation on the 2009/10 budget also took place with members of the County Durham and Darlington business community on 10th December 2008 and 16th January 2009. They were generally supportive and felt that they received a good level of service.
- 5 **It is recommended that Members take into account the views of those consulted as they consider the budget and Medium Term Financial Plan proposals.**

## SECTION D

### LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2009/10

- 1 In 2007, the Minister of State for Local Government (John Healey) announced a three-year finance settlement which incorporated the Government's decisions following the review of the formula grant distribution system.
- 2 Members will need to have regard to the Minister's statement that the Government expects to see average council tax increases in England in 2009/10 substantially below 5%.
- 3 The key elements of the provisional three-year settlement are:
  - **Formula Grant 2009/10 £14.193m** - This is a cash increase of £0.408m over 2008/09 or 2.96%.
  - The average increase in formula grant for Combined Fire Authorities is 2.0%.
  - The Authority's contribution towards the floor to support other Shire Fire Authorities is £0.681m.
  - **Formula Grant 2010/11 £14.529m** - This is a cash increase of £0.336m over 2009/10 or 2.37%.
  - The average increase in formula grant for Combined Fire Authorities is 2.0%.
  - The Authority's contribution towards the floor to support other Shire Fire Authorities is £0.385m.
- 4 **It is recommended that Members note the grant settlement.**

## SECTION E

### REVENUE BUDGET

#### Introduction

- 1 This section deals with the revised revenue budget for 2008/09 and the revenue budget requirement for 2009/10.

#### Revised Revenue Budget 2008/09

- 2 During the year the revenue budget is monitored and reports outlining spending against budget are regularly considered. Estimates are revised as pressures and opportunities for savings are identified, and virement is exercised in accordance with the financial regulations of the Authority.
- 3 The latest forecast revenue expenditure position reveals a projected underspend of £489,065 against original budget, in the main due to a delay in progressing the new Headquarters building, savings in staffing budgets and contingencies.
- 4 This offers the opportunity to consider various options in 2008/09 including transfers to reserves in part to address some of the risks facing the Authority. These options will be further considered as part of the 2008/09 closing of accounts process when the actual outturn position is known. The revised 2008/09 estimates are set out in Appendix A.
- 5 **The following resolutions are recommended to the Authority:**
  - (a) That the revised revenue budget for 2008/09, summarised above and detailed in Appendix A be approved;
  - (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2008/09.

#### Revenue Budget Requirement 2009/10

- 6 The standstill budget for 2009/10, as reported to the Audit and Finance Committee on 12 February 2009, amounts to £30,318,571. The standstill has been prepared by updating the 2008/09 budget for known variations and adding pay awards and price increases.
- 7 Areas of service development aligned to the strategic objectives have been identified and the effectiveness of each development in meeting the strategic objectives has been evaluated. The service developments amounting to £315,000 are considered to have a positive impact on the achievement of the objectives. Efficiency gains totalling £215,000 have been identified; these are not considered to have a negative effect on the Authority meeting its strategic priorities. Full details of service developments and efficiency gains are set out under *Investments and Savings* within the Medium Term Financial Plan.

- 8 The development priorities exceed the efficiency gains by £100,000 and when added to the standstill budget results in a 2009/10 budget requirement of £30,418,571, summarised as follows and detailed in Appendix A.

Budget Requirement 2009/10

	£
Standstill Budget	30,318,571
Add: Service Developments	315,000
Less: Efficiency Gains	<u>-215,000</u>
<b>Budget Requirement</b>	<b><u>30,418,571</u></b>

- 9 **It is recommended that the Authority approves the revenue estimates for the year ended 31 March 2010 as summarised above and detailed in Appendix A. The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.**

## SECTION F – MEDIUM TERM FINANCIAL PLAN

### Basis of the Preparation of the Medium Term Financial Plan 2009/10 to 2011/12

#### Base Budget

- 1 The Base budget has been reviewed and uplifted for the following items:

	2009/10 %	2010/11 %	2011/12 %
Price inflation	2.3	2.3	2.3
Pay inflation	2.4	2.4	2.4
Pensions contributions increase	3.6	3.6	3.6

#### Resources

- 2 The details of the local government settlement are outlined in Section D. On that basis it is possible to forecast, as part of the MTFP, an increase in grant of 2.4% for 2010/11. No increase in formula grant has been assumed for 2011/12.
- 3 The Authority's share of Collection Fund surplus (the excess council tax collected by Durham County Council and Darlington Borough Council over that which they had budgeted to collect) receivable in 2009/10 amounts to £153,629. No surplus or deficit has been incorporated into the plan for future years.
- 4 With regard to council tax levels the Medium Term Plan is based on a 3.38% increase levied in 2009/10 and 4.5% for subsequent years. This is for illustrative purposes only and Members will need to review these assumptions noting that each 1% change in council tax results in a variation of £155,000.

#### Investments and Savings

- 5 Members have previously been made aware of the areas of growth and efficiency identified within the service.
- 6 The investment proposals are summarised below:

Service Development	2009/10 £	2010/11 £	2011/12 £
PFI Community Fire Stations	115,000	30,000	250,000
Smoke Alarms	100,000	-	-
Targeted Community Safety Schemes	50,000	-	-
Resilience Cover Arrangements	50,000	-	-
Premises Related	-	150,000	-
Global Staffing	-	160,000	-
<b>TOTAL</b>	<b>315,000</b>	<b>340,000</b>	<b>250,000</b>

The priorities are directly linked to the Authority's vision of "Safer People, Safer Places". The funding for the PFI schemes will provide the Authority with state of the art Community stations that will deliver improved community safety facilities

and assist the Authority to increase awareness of safety and well being within local communities. The new stations also provide excellent facilities and improved working conditions for fire fighters. The investment in smoke alarms further evidences the Authority's commitment to improving community safety and will enable the continuation of Home Fire Safety Checks and the installation of free smoke alarms across County Durham and Darlington.

7 The savings proposals are summarised below:

<b>Efficiency Gain</b>	<b>2009/10 £</b>	<b>2010/11 £</b>	<b>2011/12 £</b>
Reduction in Ill Health Retirements	-181,000	-	-
Corporate Services Restructure	-34,000	-	-
Global Staffing	-	-	-80,000
<b>TOTAL</b>	<b>-215,000</b>	<b>0</b>	<b>-80,000</b>

The reduction in ill health retirements is as a direct result of focused management of long term sickness within the organisation resulting in a reduced requirement to provide funding to meet the capitalised costs of ill health retirements in accordance with the Firefighters Pension Fund guidelines. The review of Corporate Services has examined streamlining the corporate functions provided by the Service.

#### *Medium Term Financial Plan Summary*

8 The above assumptions and information have been incorporated in to the MTFP summary as outlined below:

	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
<b>Standstill Budget</b>	30,319	31,016	32,022
Service Development	315	340	250
Efficiencies	-215	0	-80
<b>Budget Requirement</b>	<b>30,419</b>	<b>31,356</b>	<b>32,192</b>
Formula Grant	14,193	14,529	14,529
Council Tax	16,072	16,795	17,551
Surplus on Collection Funds	154	0	0
<b>Available Resources</b>	<b>30,419</b>	<b>31,324</b>	<b>32,080</b>
<b>Resource Deficit</b>	0	32	112
Council Tax Base	188,178.43	188,178.43	188,178.43
Band D Charge	£85.41	£89.25	£93.27
Projected Council Tax Increase	£2.79	£3.84	£4.02
Projected Percentage Council Tax Increase	3.38%	4.5%	4.5%

- 9 With a projected council tax increase of 4.5% in years 2010/11 and 2011/12 there would be a deficit of £32,354 and £111,877 respectively. An increase of 4.7% in 2010/11 and 5% in 2011/12 would be required to fund a standstill budget.

## **Financial Reserves**

- 10 The current strategy for the Authority is based on the assumption that for the period of the Medium Term Financial Plan general reserves will stay broadly within the reserves policy.
- 11 Reserves are held as:-
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
  - A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
- 12 The current policy is that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
  - Aim to maintain, broadly, general reserves of between 7.5% and 10% of the budget requirement, currently between £2.3m and £3.0m respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

## **Risks**

- 13 The Authority is paying increasing attention to the risk management process across the Service.
- 14 In our budget setting process a number of specific risks have been identified which we believe can be managed using, where necessary, contingencies and reserves. Members should be aware of these items when considering the budget and any changes they may wish to make:
- (a) Firefighters Pensions  
A significant area of risk in recent years has been the volatile nature of firefighters pensions. From April 2006 new pension funding arrangements removed much of this volatility. However, uncertainty around ill health retirements and outstanding national issues in relation to retained pensions remains and any unforeseen ill health retirements will need to be met from reserves.

- (b) **Modernisation**  
The Authority is in the process of introducing two key national modernisation projects, Firelink (new national radio system) and Fire Control (regional control room). There is considerable uncertainty surrounding the potential cost of both of these projects and the extent to which any additional cost may need to be met locally. Whilst provision has been made in the budget for known expenditure any additional costs will have to be met from reserves.

### **Value for Money**

- 15 It is important that the Authority delivers value for money as it spends public funds. Various mechanisms are used to test value for money, and the Authority has an improvement project underway to better assess its position in relation to measuring value for money and identifying where improvements can be made.

### **Recommendations**

- 16 **It is recommended that the Authority:**
  - (a) Agrees the Medium Term Financial Plan and the investments within.
  - (b) Notes the Treasurer's comments on the robustness of the estimates and the adequacy of reserves and the risks in the budget.
  - (c) Reaffirms the current policy for Reserves.

## SECTION G

### CAPITAL BUDGET 2008/09 TO 2011/12

- 1 The proposed capital budget for the years 2009/10 to 2011/12 and the revised capital budget for 2008/09 are set out in Appendix B and are summarised in the table below:

Year	Capital Budget £
2008/09 Revised	1,761,100
2009/10	11,316,800
2010/11	5,200,500
2011/12	694,600
	18,973,000

- 2 Under the Prudential framework the Authority is free to make its own borrowing decisions according to what is affordable as guided by the Prudential Code. Central Government support for borrowing continues to be given on the basis of a named amount of capital expenditure, which the borrowing will support i.e. the amount of SCE(R). The Authority's SCE(R) for 2009/10 has been notified as £643,000. Expenditure in excess of this support will be funded through prudential borrowing, capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.
- 3 **It is recommended that the Authority approves the capital budgets for 2008/09 to 2009/10.**

## SECTION H

## FIRE AUTHORITY PRECEPT

### Council Tax Options

- 1 Taking into account the revenue resources of the Authority, the base spend and the increased spending and savings proposals detailed in previous sections, it is possible to construct a budget which would allow a Council Tax increase of substantially below 5% as the Government expects.
- 2 The Audit and Finance Committee have considered the following Council Tax options:

	Council Tax Increase					
	5%	4%	3.38%	3%	2%	1%
<b>Budget Requirement</b>	£000 30,419	£000 30,419	£000 30,419	£000 30,419	£000 30,419	£000 30,419
<b>Funding</b>						
Formula Grant	14,193	14,193	14,193	14,193	14,193	14,193
Council Tax	16,325	16,169	16,072	16,014	15,858	15,703
Surplus on Collection Funds	154	154	154	154	154	154
<b>Total Funding</b>	30,672	30,516	30,419	30,361	30,205	30,050
Surplus (increase reserves)	251	95	0	0	0	0
Shortfall (reduce reserves)	0	0	0	60	216	371

- 3 If the Authority were to precept at a level to raise sufficient funds to meet the 2009/10 Budget Requirement, a Basic Council tax of £85.41 would be required. This would represent an increase of 3.38% over the 2008/09 figure of £82.62.
- 4 Members are requested to consider the above the information and determine the level of Council Tax for 2009/10.

### Calculation of the Precept

- 5 The calculation of the precept takes the Authority's budget requirement and deducts from it contributions from Government in respect of Revenue Support Grant and Redistributed Non-Domestic Rates. Allowance also has to be made for the Authority's share of any surplus or deficit on Durham County Council and Darlington Borough Council collection funds.

- 6 Assuming a budget requirement of £30,418,571 the calculation is shown in the following table:

	<b>£</b>	<b>£</b>
Fire Authority's Budget Requirement		30,418,571
Less:		
Revenue Support Grant	2,661,526	
Re-distributed Non Domestic Rates	11,531,096	14,192,622
		16,225,949
Less:		
Estimated overall net surplus on Collection Funds at 31st March 2008		153,629
<b>Amount Required from Precept</b>		<b>16,072,320</b>

### Council Tax Base

- 7 The 'council tax bases' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the Fire Authority's total precept to be levied on each Authority. The tax base is the estimated full year equivalent number of chargeable 'Band D' dwellings with two or more liable adults in respect of which tax will be received. The 'council tax bases' for 2009/10 as notified to the Fire Authority are set out in the table below:

Authority	Council Tax Base	Precept
		<b>£</b>
Durham County Council	153,744.70	13,131,335
Darlington Borough Council	34,433.73	2,940,985
Total	188,178.43	16,072,320

### Calculation of Fire Authority's Basic Council Tax

- 8 The Basic Council Tax for the Fire Authority is calculated by dividing the precept by the aggregate of tax bases as shown below:

$$\frac{\text{Precept}}{\text{Aggregate Council Tax Base}} = \text{Basic Council Tax (At Band D)}$$

$$\frac{\underline{\pounds 16,072,320}}{188,178.43} = 85.41$$

- 9 A Basic Council Tax of £85.41 represents an increase of 3.38%, £2.79 more than the 2008/09 Basic Council Tax of £82.62.

### Precept Instalments

- 10 Following discussions with the Treasurers of the collecting authorities, the following dates for the payment of the precept in ten equal instalments have been agreed:

1 <sup>st</sup> May 2009	8 <sup>th</sup> October 2009
4 <sup>th</sup> June 2009	10 <sup>th</sup> November 2009
7 <sup>th</sup> July 2009	15 <sup>th</sup> December 2009
6 <sup>th</sup> August 2009	14 <sup>th</sup> January 2010
8 <sup>th</sup> September 2009	12 <sup>th</sup> February 2010

- 11 **Based on the Budget Requirement of £30,418,571 and a Council Tax of £85.41 it is recommended that the Authority adopts the following resolutions:**

That for the year ended 31 March 2010:

- (i) the 'council tax base' for the whole of the Authority's area be 188,178.43;
- (ii) there be no Authority expenses relating to a part only of the Authority's area;
- (iii) the 'basic amount of council tax' be £85.41 (and the amount of the council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of 'Basic Amount')	Council Tax
		£
A	(6/9)	56.94
B	(7/9)	66.43
C	(8/9)	75.92
D	('basic amount')	85.41
E	(11/9)	104.39
F	(13/9)	123.37
G	(15/9)	142.35
H	(18/9)	170.82

- (iv) the Budget Requirement be £30,418,571 and that, (after taking into account 'Revenue Support Grant' of £2,661,526, Redistributed Non-Domestic Rates of £11,531,096 and a surplus on the collection fund of £153,629), precepts totalling £16,072,320 be issued to Durham County Council and Darlington Borough Council.

## SECTION I

## **PRUDENTIAL CODE**

### **Background**

- 1 The framework of the prudential capital finance system, which came into effect from 1 April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on “credit approvals” were abolished with effect from 1 April 2004. The Authority is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the Authority’s decision on what it can afford. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
- 2 The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 3 To demonstrate that the above objectives have been fulfilled, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the Authority to set.
- 4 Previously, credit approvals from Central Government set the limit of a local authority’s long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the new system, unless, exceptionally, a national limit is imposed, the Authority is free to make its own borrowing decisions according to what it can afford. Central Government support for borrowing through RSG continues to be given on the basis of a named amount of capital expenditure which borrowing will support. The Authority will take the totality of Central Government support into account in setting its prudential limits.

### **Prudential Indicators**

- 5 The estimates of capital expenditure to be incurred for the current and future years are contained in Section G of this report and are as follows:

Capital Expenditure
---------------------

2007/08 Actual £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
1,417	1,761	11,317	5,201	695

- 6 Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2009 are:

Capital Financing Requirement				
2007/08 Actual £000	2008/09 Estimate £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
2,623	2,518	9,859	13,203	13,069

- 7 The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Fire Authority does not associate borrowing with particular items or types of expenditure. The Authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority's treasury management strategy and annual plan for 2009/10 is shown in Section J. The Fire Authority has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Authority's underlying need to borrow for a capital purpose.
- 8 CIPFA's Prudential Code for Capital Finance includes the following as a key indicator of prudence:
- "In order to ensure that over the medium term net borrowing will only be for a capital purpose the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*
- 9 There are no difficulties envisaged for the current or future years in meeting this requirement. This view takes into account current commitments, existing plans, and the proposals contained in this budget report.
- 10 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 200708 are:

Ratio of Financing Costs to Net Revenue Stream
--

2007/08 Actual %	2008/09 Estimate %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
0.8	0.7	1.2	1.9	2.1

### Minimum Revenue Provision (MRP) Statement

- 11 The Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP). CLG Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options have been provided to replace the existing Regulations, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:
- i. For capital expenditure incurred before 1 April 2008, or which in the future will Supported capital Expenditure, the MRP policy will be:
    - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 2).
  - ii. From 1 April 2008 for all unsupported borrowing the MRP policy will be:
    - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3).

### External Debt

- 12 In respect of external debt, the Authority has set the following Authorised Limits for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Authorised Limit for External Debt			
	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Borrowing	12,000	15,000	15,000
Long-term liabilities	-	-	-
Total	12,000	15,000	15,000

- 13 The Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.

- 14 The Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the Treasurer's estimate of the most likely, prudent but not worst-case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

Operational Boundary for External Debt			
	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Borrowing	10,000	13,000	13,000
Long-term liabilities	-	-	-
Total	10,000	13,000	13,000

- 15 The Authority's actual external debt at 31 March 2008 was £2m, comprising £2m borrowing and no other long-term liabilities. It should be noted that actual external borrowing differs from the Authorised Limit and Operational Boundary, since actual external debt reflects the position at one point in time.

### Council Tax

- 16 The Prudential Indicators have been calculated using a 3.38% Council Tax increase in 2009/10 and assuming a 4.5% increase during years 2010/11 and 2011/12.

### Recommendations

- 17 **It is recommended that the Authority:**
- (a) Notes the prudential indicators.
  - (b) Approves the MRP Statement
  - (c) Approves the following limits for external debt in 2009/10:
    - (i) Authorised Limit of £12m
    - (ii) Operational Boundary of £10m

## SECTION J

### TREASURY MANAGEMENT 2009/10

- 1 The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:
  - (i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
  - (ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities
  - (iii) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this
  
- 2 The Authority has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains, as the cornerstone for effective treasury management:
  - a treasury management policy statement stating the policies and objectives of its treasury management activities. This is attached as Annex J1.
  - suitable treasury management practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are attached as Annex J2.
  
- 3 Reports will be presented to members of the Authority on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. The annual strategy for 2008/09 is shown in Annex J3. The Authority delegates responsibility for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

## Treasury Management Indicators

- 4 The Authority has set an upper limit on its *fixed* interest rate exposures for 2009/10, 2010/11 and 2011/12 of 100% of its net outstanding principal sum.
- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2009/10, 2010/11 and 2011/12 of 50% of its net outstanding principal sums.
- 6 The Authority's upper and lower limits for the maturity structure of its borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate		
	Upper Limit %	Lower Limit %
Under 12 months	20	0
12 months and within 24 months	20	0
24 month and within 5 years	30	0
5 years and within 10 years	50	0
10 years and above	100	0

- 7 The Authority does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

## 8 Recommendations

### It is recommended that the Authority:

- a) Adopts the key recommendations of the CIPFA code.
- b) Notes the Annual Treasury Management Strategy as set out in Annex J3.
- c) Sets an upper limit on the Authority's fixed interest rate exposures for 2009/10, 2010/11 and 2011/12 of 100% of its net outstanding principal sum.
- d) Sets an upper limit on the Authority's variable interest rate exposures for 2009/10, 2010/11 and 2011/12 of 50% of its net outstanding principal sums.

## **Annex J1: Treasury Management Policy Statement**

1 The Authority defines its treasury management activities as:

*“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*

2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

## Annex J2: Treasury Management Practices

### 1 TMP1 - TREASURY RISK MANAGEMENT

#### 1.1 The Treasurer shall:

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below
- Report at least annually on the adequacy/ suitability thereof, and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**.

#### 1.2 *Liquidity*

The Authority will ensure it has adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the Authority at all times to have the level of funds available which are necessary for the achievement of its service objectives.

#### 1.3 *Interest Rates*

The Authority will manage its exposure to fluctuations in interest rates with a view to containment of its net interest costs, or securing its interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6 Reporting requirement and management information arrangements**.

#### 1.4 *Credit and Counterparties*

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the Authority's investment activities to the instruments, methods and techniques referred to in **TMP4 Approved Instruments, methods and techniques**.

#### 1.5 *Rescheduling & Refinancing of Debt*

The Authority will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

## 1.6 *Legal and Regulatory*

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1.4 *Credit and Counterparties***, the Authority will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

## 1.7 *Fraud, Error and Corruption, and Contingency Management*

The Authority will seek to ensure that it has identified the circumstances which may expose the Authority to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Accordingly, it will design and implement suitable systems and procedures, and will maintain effective contingency management arrangements to counter such risks.

## 1.8 *Market Risk*

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

## **2 TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT**

2.1 The Authority will actively work to promote best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

## **3 TMP3 - DECISION-MAKING AND ANALYSIS**

3.1 The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

## **4 TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

4.1 The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy that is shown in Annex J3.

## **5 TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

- 5.1 The Authority's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.
- 5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 5.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with **TMP6 Reporting requirements and management information arrangements**, and the implications properly considered and evaluated.
- 5.4 The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.
- 5.5 The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 5.6 The Treasurer will fulfil all delegated responsibilities in respect of treasury management in accordance with Authority's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

## **6 TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

- 6.1 Regular reports will be prepared for consideration by the Authority on:
- the implementation of its treasury management policies
  - the effects of decisions taken and the transactions executed in pursuit of those policies
  - the implications of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the treasury management function
- 6.2 As a minimum, Authority will receive:
- an Annual Report on the strategy and plan to be pursued in the forthcoming year

- an Annual Report on the performance of the treasury management function in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices

## **7 TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 7.1 The Authority will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements.
- 7.2 The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

## **8 TMP8 - CASH AND CASH FLOW MANAGEMENT**

- 8.1 All Authority monies shall be aggregated for treasury management purposes and will be under the control of the Treasurer. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2 Liquidity**.

## **9 TMP 9 - MONEY LAUNDERING**

- 9.1 Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

## **10 TMP 10 - STAFF TRAINING AND QUALIFICATIONS**

- 10.1 The Authority will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

## **11 TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS**

- 11.1 When external service providers are employed by the Authority, the Treasurer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented, and subjected to regular review.
- 11.2 Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, Authority Standing Orders and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the Treasurer.

## **12 TMP 12 - CORPORATE GOVERNANCE**

- 12.1 The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 12.2 The Authority has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the Treasurer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **Annex J3: Treasury Management Strategy 2009/10**

The CIPFA Code of Practice for Treasury Management in the Public Services recommends that the Authority draw up an annual Treasury Management Strategy before the start of each financial year, which it may vary at any time.

In implementing this strategy, the Authority will give priority to security and liquidity, rather than yield. However the Authority will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the Authority approach to borrowing and the use of external managers.

The main areas of the strategy are as follows:

### **1 Specified Investments**

Specified Investments are defined as those satisfying the following conditions:

- a) Denominated in sterling
- b) To be repaid or redeemed within 12 months of the date on which the investment was made
- c) Do not involve the acquisition of share capital or loan capital in any body corporate
- d) Are made with the UK Government, local authorities, parish councils, community councils, or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency

The Authority will invest surplus money in specified investments, by means only of short-term deposits with the institutions set out below for the amounts, on the terms and conditions and for the periods which the Treasurer considers most suitable for the Authority. In making investment and repayment arrangements the Treasurer shall take all responsible action to ensure the security of the sum invested and interest due. In doing so, the Treasurer will have regard to guidance issued by CIPFA and the Department for Communities and Local Government (CLG).

- (i) UK Government;
- (ii) UK Local Authorities;
- (iii) UK clearing banks and other banks or licensed deposit takers which are 100% owned by a clearing bank;
- (iv) Major building societies (provided that the Treasurer is satisfied as to financial standing);
- (v) Former major building societies acquiring or having acquired 'bank' or 'public limited company' status;
- (vi) Non-UK banks incorporated in the UK or European Economic Area (EEA) entitled to accept deposits through a branch in the UK, as regulated by the Financial Services Authority (FSA) (provided that the Treasurer is satisfied as to financial standing);
- (vii) Money Market Funds.

## 2 **Non-specified Investments**

Non-specified investments are those not meeting the definition in Section 1 above. It is proposed that during 2009/10 the Authority will not invest in non-specified investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

## 3 **Liquidity of Investments**

In normal circumstances:

- a) The maximum period for which funds may prudently be committed is 364 days.
- b) The minimum amount to be held during the financial year in investments other than long-term investments is to be 100% of the Authority's overall investments.

## 4 **Short-Term Borrowing**

Money may be borrowed to meet the short-term requirements of the Authority for the amounts, from the sources, on the terms and conditions and for the periods which are considered the most suitable for the Authority.

## 5 **Medium and Long-Term Borrowing (Capital Financing)**

Money may be borrowed from the Public Works Loan Board or from other appropriate sources using any appropriate loan instruments permitted by statute, to meet the Authority's requirements, for the amounts, on the terms and for the periods which are considered the most suitable for the Authority.

## 6 **External Managers (other than those relating to the Pension Fund)**

The Authority may, upon the recommendations of the Treasurer, appoint one or more external managers to manage the short-term investment of surplus Authority money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

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**COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY****REVENUE BUDGET**

<b>Original Estimate 2008/09</b>	<b>Revised Estimate 2008/09</b>	<b>Budget Heading</b>	<b>Original Estimate 2009/10</b>
<b>£</b>	<b>£</b>		<b>£</b>
		<b>Employees</b>	
16,051,795	16,400,127	Operational personnel - Pay and Allowances	16,578,117
3,132,611	2,955,659	Non-uniformed personnel - Pay and Allowances	3,102,360
		Firefighter's pensions	
2,382,000	2,512,730	Employers Contributions	2,420,670
333,000	333,000	Ill Health Charges	153,000
66,000	66,000	Retained Firefighters Pension Costs	66,000
371,000	371,000	Injury Pensions	371,000
388,299	435,664	Recruitment & training	337,334
23,532	23,532	Employees Insurances	24,350
10,310	10,310	Other	10,310
<b>22,758,547</b>	<b>23,108,022</b>		<b>23,063,141</b>
1,431,269	1,492,769	<b>Premises</b>	1,325,830
879,110	892,485	<b>Transport</b>	936,130
2,381,124	2,730,034	<b>Supplies</b>	3,315,000
578,521	569,227	<b>Support costs</b>	0
1,375,435	1,375,435	<b>Capital Charges</b>	1,493,463
579,000	169,150	<b>Contingencies</b>	588,000
<b>29,983,006</b>	<b>30,337,122</b>	<b>TOTAL EXPENDITURE</b>	<b>30,721,564</b>
		<b>Less Income</b>	
-92,698	-92,698	Recharges	-77,230
-175,290	-463,189	Fees & Charges	-147,020
-356,270	-422,487	Other income	-156,270
<b>-624,258</b>	<b>-978,374</b>	<b>TOTAL INCOME</b>	<b>-380,520</b>
1,440,986	1,440,986	Capital Financing	1,570,990
-1,375,435	-1,375,435	Reversal of Capital Charges	-1,493,463
<b>29,424,299</b>	<b>29,424,299</b>	<b>BUDGET REQUIREMENT</b>	<b>30,418,571</b>

**COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY**

**CAPITAL BUDGETS 2008/2009 (REVISED) AND 2009/2010 TO 2011/2012**

<b>Capital Project Details</b>	<b>Total Estimated Cost</b>	<b>Revised Estimate 2008/2009</b>	<b>Estimate 2009/2010</b>	<b>Estimate 2010/2011</b>	<b>Estimate 2011/2012</b>
<b><u>Existing Commitments c/f</u></b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Due for Completion by 31/3/2009</b>					
Premises Improvements	7,533,000	510,000	-	-	-
7 Fire Appliances b/fwd from 2009/10	0	450,000	-	-	-
Special Rescue Unit	300,000	300,000	-	-	-
Other Vehicle Purchases	295,000	210,000	-	-	-
Equipment	137,100	291,100	-	-	-
<b>TOTAL EXISTING COMMITMENTS</b>	<b>8,265,100</b>	<b>1,761,100</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>New Commitments</u></b>					
<b>Due for Completion by 31/3/2010</b>					
Premises Improvements	10,100,000	-	10,100,000	-	-
7 Fire Appliances	670,000	-	670,000	-	-
Other Vehicle Purchases	216,800	-	321,500	-	-
Other Equipment	330,000	-	225,300	-	-
	<b>11,316,800</b>	<b>-</b>	<b>11,316,800</b>	<b>-</b>	<b>-</b>
<b>Due for Completion by 31/3/2011</b>					
Premises Improvements	4,100,000	-	-	4,100,000	-
2 Fire Appliances	320,000	-	-	320,000	-
1 Arial Ladder Platform	500,000	-	-	500,000	-
Vehicle Purchases	166,500	-	-	166,500	-
Other Equipment	114,000	-	-	114,000	-
	<b>5,200,500</b>	<b>-</b>	<b>-</b>	<b>5,200,500</b>	<b>-</b>
<b>Due for Completion by 31/3/2012</b>					
Premises Improvements	100,000	-	-	-	100,000
2 Fire Appliances	320,000	-	-	-	320,000
Vehicle Purchases	30,000	-	-	-	30,000
Other Equipment	244,600	-	-	-	244,600
	<b>694,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>694,600</b>
<b>TOTAL NEW COMMITMENTS</b>	<b>17,211,900</b>	<b>-</b>	<b>11,316,800</b>	<b>5,200,500</b>	<b>694,600</b>
<b>TOTAL ALL COMMITMENTS</b>	<b>18,973,000</b>	<b>1,761,100</b>	<b>11,316,800</b>	<b>5,200,500</b>	<b>694,600</b>



**County Durham and Darlington  
Fire and Rescue Authority**

**17 February 2009**

**Budget 2009/10  
Report under Section 25 of Local Government  
Act 2003**



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**Report of Stuart Crowe, Treasurer**

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**Purpose of the Report**

- 1 The purpose of this report is to provide Members with information on the robustness of the estimates and the adequacy of reserves, so that Members have authoritative advice available when they make their decisions.

**Background**

- 2 Local Authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
- 3 The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
  - a) making prudent allowance in the estimates for each of the services, and in addition;
  - b) ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 4 Section 25 of the Local Government Act 2003 requires that an authority's Chief Financial Officer reports to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have authoritative advice available to them when they make their decisions.
- 5 Section 25 also requires Members to have regard to the report in making their decisions.

## **Robustness of Estimates**

- 6 The budget process has involved Members, the Chief Executive and her staff, and my own staff in a thorough examination of the budget now recommended to the Authority.
- 7 The investments in service development and proposals for efficiency savings identified for 2009/10 have been reviewed and reported to the Audit and Finance Committee. A decision has been taken to incorporate these areas into the budget for 2009/10.
- 8 In coming to the decision to include funding for unavoidable service pressures and savings in the budget, risks have also been identified. It is anticipated that these risks can be managed using contingencies and, if necessary, reserves.
- 9 The budget has been the subject of extensive consultation and challenge. The Citizens Panel and the representatives of the National Non-domestic Rate-payers have had the opportunity to comment on the budget and the proposals in consultation meetings.
- 10 In my view, the robustness of the estimates has been ensured by the budget process, which has enabled all practical steps to be taken to identify and make provision for the Fire Authority's commitments in 2009/10.
- 11 It should be noted that plans for 2010/11 and 2011/12 are based on a range of assumptions and no account has yet been taken of a number of national projects where information is unavailable. Estimates for these years are therefore less robust at this stage.

## **Adequacy of Reserves**

- 12 The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 55) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's 2003 Statement on the Role of the Finance Director in Local Government. It would be best practice to follow this guidance.
- 13 The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances. A well run authority, with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves.
- 14 The Fire Authority has adopted a policy for reserves as follows:
  - Set aside sufficient sums in earmarked reserves as it considers prudent to do so. The Treasurer will be authorised to establish such reserves as are required and to review them for adequacy and purpose on a regular basis reporting to the Authority.

- Aim to maintain, broadly, general reserves of between 7.5% and 10% of the budget requirement currently between £2.3m and £3.0m respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

- 15 In coming to a view on the adequacy of reserves, account needs to be taken of the risks facing the Fire Authority. The Annual Governance Statement, within the Authority's Statement of Accounts, gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.
- 16 The risk management process has identified a number of key risks associated with national modernisation projects which could impact on the Authority's resources. In particular these risks are likely to impact in the short term.
- 17 The setting of the level of reserves is an important decision, not only in the budget for 2009/10, but also in the formulation of the medium term financial plan.
- 18 In my view, if the Fire Authority were to accept the Audit and Finance Committee's recommendations regarding the increase in council tax, investments in service development, proposals for efficiency savings and capital expenditure, then the level of risks identified in the budget process, alongside the Authority's financial management arrangements, suggest that the level of reserves is adequate.

## **Recommendation**

- 19 **IT IS RECOMMENDED** that
- a) Members have regard to this report when approving the budget and the level of council tax for 2009/10.

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**Contact: Stuart Crowe      Tel: 0191 3833550**

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**County Durham and Darlington Fire and Rescue Authority**

# **MEDIUM TERM FINANCIAL STRATEGY**

**2009/10 to 2011/12**

**Incorporating the 2009/10 Budget**



**SAFER PEOPLE, SAFER PLACES**

## Contents

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## 1 Background

County Durham and Darlington Fire and Rescue Authority operates in a climate of significant and unprecedented change. There is a requirement for effective financial planning and control to ensure that future modernisation requirements are both affordable and sustainable.

This medium term financial strategy provides background to the key features of the Authority's financial position, and incorporates the 2009/10 budget to allow a full picture of the financial arrangements of the Authority to be clearly understood.

## 2 Introduction

The strategy demonstrates in financial terms how the Authority will work towards its vision of "Safer People, Safer Places".

The strategy outlines revenue resource requirements for County Durham and Darlington Fire and Rescue Service (the Service) for the three year period commencing 1<sup>st</sup> April 2009.

The modernisation of the Service provides difficult challenges in relation to forecasting revenue resource requirements. However the Service recognises that sound financial planning requires a financial strategy to be in place that identifies and plans for future costs and income arising from modernisation activities. This strategy provides a financial framework against which decisions can be made as modernisation progresses, and which complements the Integrated Risk Management Plan from which the core of this strategy is drawn.

The Comprehensive Spending Review for the three year period 2008/2009 to 2010/2011 (CSR07) is challenging. It is therefore essential that medium term financial planning provides effective direction in terms of the resources that are likely to be available to the Authority over this period.

## 3 Specific Objectives of the Medium Term Financial Strategy

The specific objectives of this strategy are to:

- Demonstrate the financial position of the service over the medium term
- Identify the financial risks facing the Authority and set out strategies for managing these risks
- Identify the implications of planned financial resource allocations and potential future allocations
- Provide assurances that the strategic plan priorities and objectives have been allocated appropriate financial resources
- Determine the revenue effects of any major capital investment decisions
- Identify external factors and their financial implications

- Determine existing and future reserve levels
- Assess the implications of future spending decisions on council tax levels

## 4 Available Resources and Funding

### Background

As part of the Comprehensive Spending Review 2007 (CSR07), the Government has issued a final grant settlement for 2008/09 and 2010/11 and a provisional settlement for 2011/12 – this being the first three year grant settlement for local government.

Key issues within the CSR include value for money and the requirement to deliver year on year efficiencies.

### Grant Distribution Formula and Allocation

Historically, the Service has argued that the allocation of grant funding received from central government has been based on an outdated formula. The formula failed to recognise the modernisation agenda and the move away from providing national standards of fire cover (represented within the formula as 'A' risk)

Changes to the grant distribution formula effective from 2006/2007 removed the 'A' risk element from the grant distribution formula, as well as introducing a number of other changes that impact on the financial resources that are available to the Service in the future. The main implications of the financial settlement and the changes made to the funding formula are set out below.

### Financial Settlement

The finance settlement covers financial years 2008/09 to 2010/11 as detailed in the table below.

**Table 1 - Financial Settlement**

Year	Final Settlement £M	Actual Settlement £M	Increase %
2008/09	13.785	13.785	5.6
2009/10	14.193	14.193	3.0
2010/11	14.529	14.529	2.4

### Funding Formula

A new formula has been implemented for the distribution of grant to all local authorities including the Fire and Rescue Service. The formula allocates grant to individual Authorities depending on a number of variables.

### Council Tax

The government has clearly indicated its intention to maintain future council tax increases at substantially below 5%. This policy limits the income that the Authority can generate from council tax increases. The

Authority has a high band D council tax in comparison to other combined fire authorities.

### **Pensions Funding Arrangements**

As well as changing the terms and conditions of the fire fighters pension scheme from 1<sup>st</sup> April 2006, significant changes to the funding of fire fighters pensions have also been implemented. The 2009/10 budget is the fourth year of operation of the new scheme and budgets have been revised and refined to reflect the new funding arrangements.

### **Local Area Agreements (LAA's)**

Key indicators and targets are being agreed that will form the basis of LAA funding priorities in the medium term. The impact of the indicators that are adopted by the LAA upon the Fire Service are being considered and the Service has adopted a cutting edge approach to identifying resource requirements arising from partnership work through its LAA toolkit. Future medium term strategies will consider the implications of LAA targets and outcomes upon Fire Service budgets.

## **5 Efficiency Gains**

### **Background – The CSR07 Efficiency Targets**

A national target of 4.8% of spend has been set for the Fire Service. Applying this target to the budget of County Durham and Darlington Fire and Rescue Service results in an efficiency target of approximately £1.3M to be achieved between April 2008 and March 2011.

### **Achievements to Date**

The Authority achieved significant savings in the previous efficiency round (2005 – 2008), releasing over £1.6M for reinvestment into prevention activities. The scope for efficiencies on a similar scale is extremely challenging. Up to and including the 2009/10 financial year, the Authority has identified cashable efficiencies totalling £296,000. Work is ongoing to identify other areas of savings that can be made that meet the efficiency criteria.

### **Looking Ahead**

The Audit Commission has published a report entitled “Rising to the Challenge” that identifies efficiencies that have been realised by other Fire and Rescue Services and identifies areas for consideration by other Services. The Authority is reviewing the report and will undertake a self assessment to establish its baseline position in relation to the best practice identified in the report.

Work is also ongoing to determine the impact of implementing national initiatives and their contribution to the efficiency target, as well as pursuing regional and shared service working in other areas. The service has developed a strategic approach to delivering efficiency gains and is working with front line staff and regional partners to identify new initiatives and to work towards the three year target.

## 6 Inspection and Improvement Initiatives

The performance assessment framework for the Fire and Rescue Service will change from April 2009. The process will examine how well the Service works in partnership with other public sector agencies and whether its outcomes are in line with priorities.

The performance assessment framework currently in place assesses the Authority in relation to its Use of Resources, Direction of Travel and Operational Assessment of Service Delivery. The latest position of the outcomes from these assessments are summarised below:

### **Use of Resources**

The Service has been assessed by the Audit Commission in an assessment of its Use of Resources. This assessment focuses on five key areas,

- Financial Reporting
- Financial Management
- Financial Standing
- Internal Control
- Value for Money

The Authority scored 3 (out of 4) for its overall use of resources assessment and is classified as “well above minimum standards, performing well.” (2007/08 assessment results)

### **Direction of Travel**

The Service has also been subject to an assessment of whether it is improving under the terms of the Comprehensive Performance Assessment. The Authority is classified as ‘improving well’ (2007/08 assessment results)

### **Operational Assessment of Service Delivery**

In addition to the Use of Resources and Direction of Travel inspections, the service has been inspected to assess its level of operational performance. The service inspection outcomes scored the Service as ‘performing well’ (2007/08 assessment results)

### **Regional Management Board**

As required by the Fire and Rescue National Framework, a Regional Management Board (RMB) has been established consisting of the four north east services. A key requirement of the RMB is the furtherance of collaborative working in relation to the following key work streams

- Procurement
- Human Resources and Personnel
- Common and specialist services
- Training
- Resilience
- Control Centres

## 7 Asset Management

The Service is in the process of completing its estate strategy and associated asset management plan. These strategies are complemented by the capital strategy with a view to ensuring investment in assets and capital schemes is controlled and provides value for money.

### Buildings

The Authority operates from fifteen operational fire stations and one headquarters building. Historically, the Service has operated to a premises strategy that outlines maintenance requirements and identifies the associated resource requirements to maintain buildings in an operational state and make improvements where prioritised.

The estates strategy focuses on strategic asset management and provides the Authority with direction for the future investment requirements for the estate as a whole.

The financial implications of asset management have been considered in this financial strategy

### Vehicles and Equipment

A fifteen year replacement plan is maintained for vehicles and equipment that is reviewed annually. This plan provides accurate financial resource requirements for vehicles and equipment for short, medium and long term planning purposes.

## 8 Capital Expenditure

### Funding

The Service finances capital expenditure through a mixture of borrowing, revenue contributions and capital grant. The government supports capital expenditure through revenue grant funding. The grant funding relates to the borrowing costs of a specified amount of capital expenditure (known as the SCER – Supported Capital Expenditure (Revenue)). The Authority has been advised that it will receive capital grant of £865,000 in 2009/10 and again in 2010/11.

For 2009/10 to 2011/12, the supported level of capital expenditure through revenue support grant is as follows:

**Table 3 – Supported Capital Expenditure**

2009/10 £	2010/11 £	2011/12 £
643,000	661,000	661,000(e)

Expenditure in excess of the SCE(R) support will be funded through either prudential borrowing, capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.

### Prudential Code

The prudential code was introduced on the 1<sup>st</sup> April 2004, and provides the Authority with flexibility over the financing of the capital programme. Previous central controls over the amount of borrowing that authorities may undertake are no longer in place. It is now for each authority to determine its own level of borrowing using the prudential code to ensure such borrowing is both prudent and affordable.

### Capital Programme Requirements 2009/10 to 2011/12

The capital programme for the service for 2008/2009 to 2010/2011 is outlined below:

**Table 4 – Capital Programme 2009/10 – 2011/12**

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Vehicles	991,500	986,500	350,000
Equipment	225,300	114,000	244,600
Premises	10,100,000	4,100,000	100,000
<b>Total</b>	<b>11,316,800</b>	<b>5,200,500</b>	<b>694,600</b>

The main elements of the capital programme are as follows:

#### Vehicles

The service has a rolling replacement programme for front line appliances and fleet vehicles, based on whole life vehicle costs. The Service will also procure a specialist vehicle in 2008/09 that will result in efficiencies for the service over the medium term.

#### Equipment

Expensive operational and training equipment is capitalised and written off over the useful life of the asset. As with vehicles, a fifteen year rolling replacement plan is maintained for all equipment acquired from capital.

#### Premises and Estates Improvements

Premises improvements are planned across the Fire Service estate with specific reference to improving community safety provision for the public and staff. The investment in the estate over the medium term is significant in comparison to previous years, however the investment is considered essential if the Authority is to provide facilities that promote community safety within County Durham and Darlington. The revenue consequences of the capital investment proposals have been assessed as being affordable and prudential indicators have been reviewed as part of this assessment.

## PFI

### Round 5

For two large scale building projects, the service has sought Private Finance Initiative (PFI) funding as part of a partnership arrangement with two regional services. Future building procurement will identify the most appropriate funding and procurement options that are available to the Authority.

### Round 6

The Authority has been successful in securing further PFI funding for redeveloping its retained stations. This funding is anticipated to be the final round of PFI for the Fire and Rescue Service and will assist the Authority to deliver significant estate improvements to further develop the estate to enhance community safety in local communities.

## Impact of the Capital Programme on the Revenue Budget

Capital schemes impact on the revenue budget as a result of:

- Debt servicing costs in relation to borrowing to fund the project
- Revenue contributions
- Use of revenue reserves
- Ongoing running costs of the project

Based upon the central support (SCER), the additional support to the capital programme from 2008/09 to 2010/11 is shown below:

**Table 5 – Required Additional Support**

	2009/10 £	2010/11 £	2011/12 £
Capital Programme	11,316,800	5,200,500	694,600
SCE(R)	643,000	661,000	661,000
Required Additional Support	10,673,800	4,539,500	33,600

## 9 Financial Planning

### Approach

The Service has an integrated approach to planning. The budget setting process and this financial strategy are based on the strategic priorities and aims that the Service works towards. These aims are reviewed in consultation with the public and staff to ensure that resources are directed at areas considered appropriate by the public, members and staff. The IRMP drives the work of the Service and existing service provision is focused on achieving the outcomes in the IRMP.

The level of modernisation within the Service at the present time does provide some difficulties in estimating the financial consequences of large scale change projects. However, the Authority has ensured that, through the planning process, the budget and medium term financial plans take due account of the strategic priorities and plans of the service, including the strategic plan, the Integrated Risk Management Plan (IRMP) and the

“driving improvement” work streams arising from the Comprehensive Performance Assessment (CPA) undertaken in 2005 and subsequent Use of Resources and Direction of Travel assessments.

### Identifying Efficiencies and Priorities for Service Development

The Service undertook a decision conferencing approach to setting the budget for 2008/09 that ensures transparency in decision making and provides a direct link between service development and the priorities of the Authority, as well as identifying the effect of efficiencies on the Authority’s priorities. This exercise has been undertaken in 2009/10 in relation to identifying the options available for a global staffing review across the Service area.

The results of these exercises have been incorporated into the 2009/10 budget and future years budgets. The process will be further refined as the Authority seeks to ensure value for money is at the heart of service delivery.

## 10 Service Development and Efficiencies

The following table identifies the agreed service development priorities and end efficiency savings that have been identified.

**Table 6a – Funding Requirements 2009/10 - ongoing commitments**

	2009/10 £	2010/11 £	2011/2012 £
<b>Community Safety</b>			
Smoke Alarms	100,000	-	-
PFI Community Fire Stations	115,000	30,000	250,000
Targeted Community Safety	50,000	-	-
	<b>265,000</b>	<b>30,000</b>	<b>250,000</b>
<b>Operational</b>			
Resilience Arrangements	50,000	-	-
Premises Related	-	150,000	-
Global Staffing	-	160,000	-
	<b>50,000</b>	<b>310,000</b>	-
			-
<b>TOTAL</b>	<b>315,000</b>	<b>340,000</b>	<b>250,000</b>

**Table 6b – Efficiency Savings 2009/10 - ongoing**

	2009/10 £	2010/11 £	2011/12 £
Reduction in Ill Health Retirements	-181,000	-	-
Corporate Services Restructure	-34,000	-	-
Global Staffing			-80,000
<b>Total Efficiencies 09/10 – 11/12</b>	<b>-215,000</b>	-	<b>-80,000</b>

The net service development increase for 2009/10 is £100,000. The standstill budget for 2009/10 totals £30.319M. It is assumed that future service development growth will be met from further efficiencies that will be identified over the course of 2009/10 and 2010/11.

The following table outlines the budget of the Authority over the next three years (2009/10 to 2011/12), assuming the provisional grant settlements and a 4.5% council tax increase in 2010/11 and 2011/12.

**Table 7 – Medium Term Budgets**

<b>Budget Requirements</b>	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
Standstill Budget	30,319	31,016	32,022
Net Funding Requirements	100	340	170
<b>Total Requirement</b>	<b>30,419</b>	<b>31,356</b>	<b>32,192</b>
Funded By:			
Central Government Grant	14,193	14,529	14,529
Collection Fund Surplus	154	-	-
Precept Income	16,072	16,795	17,551
<b>Total Funding</b>	<b>30,419</b>	<b>31,324</b>	<b>32,080</b>
<b>Council Tax Increase</b>	<b>3.38%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>Shortfall (-) / Surplus</b>	<b>0</b>	<b>-32</b>	<b>-112</b>

## 11 Financial Risk Management

There are a number of risks that have the potential to impact on the Authority's financial position. This section of the strategy identifies how these risks are being managed.

### **FireControl (Regional Control Centre – RCC)**

FireControl may require a financial commitment from the Authority when it becomes operational. The financial position is not yet clear and further information needs to be provided. The financial position for the Authority depends on decisions made at national, regional and local level. It is therefore prudent to recognise that FireControl represents a possible risk to the Authority.

This risk within the budget is recognised and any future additional costs relating to the FireControl project will need to be met from efficiency savings from within existing budgets over the medium to long term. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications.

### **FireLink**

As with FireControl, the Firelink project may require an additional financial commitment from the Authority when it becomes a chargeable service at RCC go-live. The final cost of the Firelink radio system will be dependant on the level of service taken by the Authority and any optional services that are subscribed to.

This risk within the budget is recognised and any future additional costs relating to the FireControl project will need to be met from efficiency savings from within existing budgets over the medium to long term. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications.

### **Capital Investment Affordability**

The Authority is entering a period of significant planned investment in its building stock, in addition to the routine capital replacement programme. The programme requires a significant financial investment to ensure that the building stock and estate is brought up to the latest building design standards and to ensure that facilities are provided that provide the asset base for delivering on the Authority's vision. The impact of the current and future level of capital receipts and borrowing rates are also significant risks in progressing these investments.

This risk within the budget is recognised. A significant amount of work has been undertaken to ensure that future capital commitments are affordable over the medium to long term. This has included examining the various options for funding the capital programme, including utilising the most economic, efficient and effective procurement processes. The risk will be managed by ensuring that ongoing updates of affordability and prudential indicators are presented to Members on a regular basis, taking account of the revenue costs of the capital programme, and the preferred procurement route.

### **Existing PFI Schemes**

The Authority is part way through the procurement of two new community fire stations funded through the PFI route. The stations are due to become operational during 2009/10 financial year.

This risk within the budget is recognised and is significant as the PFI scheme commits the Authority to a 25 year agreement. The risk has been managed to date by ensuring effective representation at the PFI project board and a competitive procurement process throughout the procurement phase of the project. Affordability thresholds have been set for the PFI scheme, and the existing medium term financial plan makes provision for this affordability threshold. The risk will continue to be managed through effective input to the project group, ensuring effective competition up to financial close of the project, and Members will continue to be kept informed of the affordability position.

### **New PFI Schemes**

The Authority has an approved Expression of Interest for PFI funding for new retained stations. This scheme is in the early stages of Outline Business Case development.

This risk is significant as the scheme will require Authority funding in addition to the PFI grant that is received. The risk will be managed through ensuring regular updates on anticipated affordability are provided to Fire Authority Members.

### **Future Ruling on Retained Pensions**

A number of retained fire fighters from Kent and Berkshire have taken a case against their employer for being denied access to the fire fighters pension scheme (1992 scheme). The outcome of this case may result in backdated costs of paying retained pensions being incurred. There is currently no guidance as to whether individual authorities would bear this cost should the case be successful, and retained duty staff are granted retrospective access to the pension scheme.

This risk within the budget is recognised. Subject to the outcomes of the ruling, part of the Authority's strategy at that time will be to discuss the options for funding any agreed backdated costs with CLG. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications.

### **New Dimensions – specialist resilience assets**

The transfer of New Dimension Assets to individual Fire Services poses a risk should sufficient funding to manage the assets not be provided. At present, the costs of any servicing and maintenance work is fully funded. The Authority will also need to plan for the replacement cost of these assets when they reach the end of their useful lives.

This risk within the budget is recognised. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications. Any additional costs will be met from efficiency savings within existing budgets over the medium to long term.

### **Fire Buy – the national procurement company for the Fire Service**

A national procurement company, Firebuy, is being established to ensure common procurement standards within the service at a reduced cost over the medium to long term. Consultation is currently ongoing as to how Authorities will be charged for the costs of operating the Firebuy company that are estimated at circa £2M nationally.

This risk within the budget is recognised. The Authority will continue to communicate with the CLG to ensure that any costs relating to the operation of the Firebuy company offer value for money. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications. In the long term, it is assumed that efficiencies generated through utilising Firebuy will more than offset the operational costs of the company.

### **Increasing Demands**

The impact of the current economic situation has the potential to increase the response activity of the Service as behaviours change within local communities. This is a real risk for the Authority over the period of this strategy and will require innovative approaches to mitigate this risk.

Whilst the Authority has no statutory water rescue responsibilities, it does have a responsibility to maintain provision deemed necessary at a local

level. Work is ongoing nationally to determine the implications of recent flooding incidents (the Pitt review), and the results of these reviews will be considered in future strategies. The implications of climate change has the potential to place additional resource requirements on local Fire and Rescue Services

This risk within the budget are recognised. The Authority will discuss the financial implications of additional workloads arising from responding to an increase in incidents. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications.

### **Resilience Arrangements**

Under the National Framework Document, the Authority has a responsibility to ensure that it is capable of responding at all times, including during any periods of industrial action. Previous arrangements with the armed forces are no longer available to the Authority and alternatives are being evaluated.

This risk within the budget is recognised. Alternative solutions are being considered by the Authority, which are likely to result in a financial implication. The financial implications of any such initiatives will need to be built into the budget in the medium to longer term. In the short term, the Authority General Reserve provides assurance that additional costs can be met.

### **Funding – Central Government Grant**

The three year grant settlement announced with the Comprehensive Spending Review 2007 provides some certainty of funding. Changes to the data used for the purposes of calculating the settlement may have an impact on the actual grant settlement received in 2010/11, however at this stage it is not possible to determine whether this will advantage or disadvantage the Authority.

The Government has also announced that it will undertake a review of the funding formula for the Fire Service. This review may impact on the resources available to the Authority from 2011/12.

The impact of the current economic situation is expected to have a significant impact on public sector funding in the next spending review period, however at this stage the impact of any reductions cannot be quantified.

This grant funding risk within the budget is recognised. For the period 2009/10 to 2011/12, the medium term financial plan at table 7 outlines the impact of the grant settlement over this period, and it is considered that the risk of any in year changes to the grant settlement can be managed through a combination of existing resources and future efficiency savings.

The impact of future grant reviews is uncertain. The General reserve provides assurance that negative grant fluctuations can be accommodated in the short term, however any medium to long term impacts relating to a reduced grant settlement will need to be managed through implementing efficiency savings.

### **III Health Pensions**

The Authority bears a capitalisation cost of any fire-fighter ill health retirements. There is a risk that a significant number of ill health retirements will require additional funding.

This risk within the budget is recognised. The Authority is monitoring the ill health retirement position on an ongoing basis and is taking measures to assist firefighters to return to work, and a pensions reserve exists to provide for any significant ill health retirements in any one year.

### **Council Tax**

The threat of capping has, in recent years, become more and more of a risk for all Authorities. Existing guidance identifies expectations of council tax increases of significantly below 5%. Any increases that fall outside of this guidance are extremely likely to result in capping.

This risk is recognised. The Authority is fully aware of the implications of setting high Council Tax increases. The risk is managed through raising awareness of the council tax capping criteria with Members as part of the budget setting process, and also through highlighting the role of efficiency gains and achieving value for money in maintaining acceptable levels of council tax increases.

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## **12 Reserves**

### **General Reserve**

This section outlines the estimated reserves position the Authority has established up to and including 2009/10 financial year. These reserves are in part to assist in managing the risks identified at section 11.

The estimated budgeted reserve position up to and including 2008/2009 financial year is as follows:

**Table 8 –Anticipated General Reserve Levels**

<b>General Reserve</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>
Opening Reserve	2,675	2,675
Anticipated use of reserves	-	-
<b>Closing Reserve</b>	<b>2,675</b>	<b>2,675</b>

**Earmarked Reserves**

The Authority has established earmarked reserves for specific purposes, as outlined in table 9. These reserves provide resilience to undertake one-off schemes without having an impact on council tax levels in a specific financial year.

**Table 9 –Earmarked Reserve Levels at 01/04/08**

<b>Earmarked Reserve</b>	<b>£000</b>
Pensions Reserve	309
Revenue Modernisation	760
Capital Modernisation	1,722
Community Safety	414
RCC	9
<b>Total Earmarked</b>	<b>3,214</b>

**Table 10 – Overall Reserves at 01/04/08**

	<b>£000</b>
General Reserve	2,675
Earmarked Reserve	3,214
<b>Total Reserves</b>	<b>5,889</b>

The Authority has a reserves policy that sets out the recommended minimum and maximum level of general reserves and is reviewed annually. The current policy was approved by Members at the budget setting meeting in February 2009 and is to:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so
- Aim to maintain, broadly, general reserves of between 7.5% and 10% of the budget requirement, currently between £2.3M and £3.0M respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

## 12 Modelling Alternative Council Tax Scenarios

### Introduction to the Financial Models

The predicted future budgets up to 31<sup>st</sup> March 2011 are shown in table 7. To determine the effect of the predicted future budgets on reserve levels, the following two assumptions have been modelled.

Model 1 assumes council tax increases of 3.38% in 2009/10 and 4.5% in subsequent years.

Model 2 assumes a council tax of 3.38% in year 1 and 3% in all future years.

These increases are modelled for comparative purposes only and do not represent an intention to set council tax at these levels in future years.

The models do not include the costs of any identified financial risks as shown in section 11.

### [Model 1] Council Tax Increases of 4.5% in 2010/11 and 2011/12 as Table 7

The following table outlines the financial position of the Authority assuming a scenario as outlined above. For illustrative purposes, it is assumed that the shortfall / surplus is a general reserve movement in the particular year in which it applies. This is for illustrative purposes only, and other options exist for addressing any shortfall including identifying efficiency savings or reallocation of resources from other areas.

**Table 11 –Medium Term Financial Planning Position  
4.5% Council Tax Increase (10/11 to 11/12)**

	2009/10 £'000	2010/11 £'000	2011/12 £'000
<b>Budget and Funding</b>			
Budget Requirement	30,419	31,356	32,192
Funding	30,419	31,324	32,080
Shortfall (-) / Surplus	<b>30,419</b>	<b>-32</b>	<b>-112</b>
<b>Reserves Position</b>			
Opening Gen. Reserve	2,675	2,675	2,643
Reserve Movement	0	-32	-112
Closing Gen. Reserve	2,675	2,643	2,531

This illustration shows a requirement to utilise reserves to fund the budget over the period.

### **[Model 2] Council Tax Increases of 3.0% in future years**

The following table outlines the financial position of the Authority assuming a 3.38% increase in 2009/10 and a 3.0% council tax in all future years.

**Table 12 – Medium Term Financial Planning Position  
3.0% Council Tax in Medium Term**

	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
<b>Budget and Funding</b>			
Budget Requirement	30,419	31,356	32,192
Funding	30,419	31,085	31,580
Shortfall	0	-271	-612
<b>Reserves Position</b>			
Opening Gen. Reserve	2,675	2,675	2,403
Reserve Movement	0	-271	-612
Closing Gen. Reserve	2,675	2,404	1,791

The implications for the Authority in this illustration result in a use of reserves of £271,000 in 2010/11 and a further £612,000 in 2011/12.

## **13 Allocation of Resources**

The significant change in emphasis to ensure the Service is pro-active (in areas such as community safety, road safety, community cohesion etc) coupled with the requirement to identify ongoing cashable efficiency savings requires redistribution of existing spending patterns. Any new duties arising from the national framework will also be considered in future strategies (e.g. co-responding). This redistribution can only be achieved by specifically targeting existing financial resources into key service areas. Future budget rounds will emphasise this requirement.

The risks outlined in section 11 may also result in a requirement for resource reallocation, depending on the financial position of the Authority at the time.

## **14 The Medium Term Financial Strategy**

### **Value for Money**

The Service is reviewing the cost of services (as measured against BV150 and other performance indicators) to ensure that value for money is achieved in the use of resources. The Authority has implemented a value for money strategy during 2008/09, setting out the future requirements to ensure that VfM is delivered across all service areas.

### **Financial Risk Management**

The management of financial risk is fundamental to the successful provision of quality services. Financial risks will be monitored and managed and any implications arising from risks identified will be managed in accordance within the financial management strategies that have been identified. strategies

### **Efficiency Gains**

In considering value for money, the Authority will consider the scope for efficiency gains arising from local, regional and national initiatives. The Authority has an efficiency strategy which reflects the latest efficiency guidance and the options available to the Authority in relation to identifying efficiency gains.

### **Council Tax**

Future budget setting rounds will consider the balance between increasing expenditure, efficiencies and low council tax increases, and the implications of guidance in relation to capping.

### **Modernisation and Service Improvement**

This strategy sets out the areas of modernisation that have been budgeted for and assumed over the medium term. Any significant changes arising from modernisation or Government policy will be assessed and the strategy amended as required.

### **Reserves**

The Authority has a reserves policy, and this will be further built upon by identifying means of maintaining reserves at acceptable levels whilst providing value for money to the taxpayer, and considering future budget risks.

### **Funding Streams**

The Authority receives the majority of its funding from central government and local taxpayers. All relevant funding streams will be examined to ensure alternative funding opportunities are recognised and realised wherever possible.

### **Partnerships**

The Authority will review its partnership arrangements via the partnership strategy to ensure that partnerships provide value for money. The Authority has in place a robust approach to identify the cost of partnership working through the Local Area Agreements with Durham and Darlington, and all work progressed through these partnerships will consider financial and non-financial resource implications as part of the priority assessment for resource allocation.

### **Evaluation and Review**

This financial strategy will be updated annually and should be read in conjunction with the following publications:

Budget Book 2009/10  
Authority Corporate Plan  
Driving Improvement Summary Report  
Integrated Risk Management Plan  
Estates Strategy  
Capital Strategy  
Partnership Strategy