

**CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY**

**MEDIUM TERM FINANCIAL STRATEGY**

**2010 – 2015**

### **1. Introduction**

#### **1.1 The Need for a Financial Strategy**

- 1.1.1 The financial environment in which the Authority operates is set to become increasingly complex in future years. Unavoidable spending pressures resulting from the changing role of the Fire and Rescue Service will cause unavoidable pressures in the future. There is great uncertainty around future funding arrangements, particularly with a formal spending review currently being undertaken by HM Treasury, the current economic climate and the ongoing threat of Council Tax capping.
- 1.1.2 In these circumstances the Authority needs to take steps to control its own destiny to mitigate against the threat of having to react to external events, rather than pro-actively managing them.

#### **1.2 Background**

- 1.2.1 In developing a financial strategy the Authority must consider the factors that may influence the future needs and plans of the Service.
- 1.2.2 The Service Improvement and Business Development Programmes, Asset Management Plan and Integrated Risk Management Plan all set out the aims and objectives for the future. The Financial Strategy must support the delivery of these aims and actions.
- 1.2.3 Revenue expenditure has been within budget each year for the last three years. This confirms the Authority's ability to control expenditure. Considerable time and effort has been spent ensuring that budget holders challenge current expenditure levels and project budgets are fully understood before any commitment is made.
- 1.2.4 The Authority holds reserves that are now adequate to respond to the risks it currently faces. Part of the medium term strategy should be linked to considering the level of reserves the Authority holds in the medium term.
- 1.2.5 The National Framework strongly promotes partnership working, collaborative procurement and the efficiency agenda.

#### **1.3 The Economy**

- 1.3.1 This strategy assumes that the economy will grow steadily in the medium term, with inflation in line with the Bank of England target. Interest rates will remain low in the short term, with increases expected in the medium term.

#### **1.4 Comprehensive Area Assessment / External Factors**

- 1.4.1 The new framework for Comprehensive Area Assessment, (CAA), was published in 2008. It places much greater emphasis on shared priorities and outcomes, value for money and use of resources.

- 1.4.2 The county population continues to grow and the Financial Strategy must recognise and allow for pressures and potential opportunities.

## **2. Financial Forecast**

- 2.1 The five-year financial forecast is included at Appendix 2, along with assumptions. The forecast shows the potential trend of net expenditure, based upon estimated level and timing of events.
- 2.2 It is assumed that, as a result of the spending review 2009, there will be no increase in grant funding to the Authority over the medium term. In real terms this will mean a reduction in grant income of around 2% per annum, or in line with inflation. The annual net increase has been calculated based upon inflation, meaning any pressures will need to be funded by other means.
- 2.3 The tax base assumes an increase in 2011/12 of 1.5%, then 1% year on year thereafter.
- 2.4 Although the Council Tax capping limit currently sits at 5%, there are strong indications from central government that capping levels will be variable depending on individual authorities' particular circumstances. With this in mind, a Council Tax increase of not more than 3% has been projected. This would be met by reducing our current levels of general reserves over the period.
- 2.5 Known efficiency savings are shown within the forecast although it should be noted that additional savings will be sought each year to enable the Authority to achieve the statutory requirements.

## **3. The Medium Term Financial Strategy**

### **3.1 Revenue Provision**

- 3.1.1 The Authority's service priorities are laid out in the Service Improvement and Business Development Programmes, Asset Management Plan and Integrated Risk Management Plan. Whilst the Authority will accommodate additional service requirements, it will continue to seek to maintain service levels within existing cost parameters, as modified each year by inflationary pressures.
- 3.1.2 The Authority's revenue expenditure plans will be published each year in the Authority's budget book, which will be prepared in association with the Service Improvement and Business Development Programmes and will seek to ensure resources are allocated appropriately. Where there is competition for resources, those areas of the service directly contributing to the vision of the Fire Authority will take priority, unless there are any over-riding factors, such as a legal imperative.

### **3.2 Capital Programme**

- 3.2.1 The Capital Strategy, along with the Asset Management Plan will be reviewed annually by the Policy and Finance Committee. The draft capital programme will be published in December, alongside projected schemes for a further three years.
- 3.2.2 The Authority will seek to identify capital requirements in sufficient time to ensure that its assets are always adequate to support service needs, can be adequately resourced and fully funded.
- 3.2.3 Prior to approving capital schemes, whole life cost details must be considered and how the scheme fits with the Capital Strategy and Asset Management Plan.

### **3.3 Funding**

- 3.3.1 The Authority's projected net expenditure is funded from Government Grant and Council Tax.
- 3.3.2 The Government Grant is determined by the allocation of a fixed sum across all local authorities.
- 3.3.3 The Authority will monitor the Government's approach to the spending review 2009 and its impact on the Local Government Finance Settlement.
- 3.3.4 The level of Council Tax will be determined each year after considering the short-term financial position and an assessment of the long-term outlook. The Authority will try to ensure that the level of Council Tax is sufficient to provide an appropriate level of service without causing the local taxpayer any undue hardship.
- 3.3.5 The strategy to keep Council Tax at, or below 3%, incorporates the utilisation of general reserves whilst factoring in current capping thresholds. If funding significantly changes as a result of the spending review, or unforeseen events cause general reserve to dip below a perceived prudent level, then the impact on local council taxpayers will not be more than 0.1% per annum.

### **3.4 Financial Contingency Planning**

- 3.4.1 The Authority holds a general reserve to provide contingency against unforeseen events, such as a higher than usual level of operational activity or period of industrial action.
- 3.4.2 Earmarked reserves are created to provide a contingency against foreseeable events that have a reasonable degree of likelihood, but where timing is uncertain. The major reserve held by the Authority relates to ill health pension payments.

- 3.4.3 The Authority will insure against relevant risks, taking into account the size of premiums and previous claims experience.
- 3.4.4 The level of working balances will be maintained at a level that provides the Authority's Treasurer with an adequate safeguard against the risk of cash-flow interruptions.
- 3.4.5 The Policy on Reserves is attached at Appendix 1.

### **3.5 Innovation Fund**

- 3.5.1 The Authority actively supports innovation and will encourage proposals to apply for one-off funding to credible initiatives that will achieve an ongoing revenue saving or provide a net benefit against the costs of capital projects.

## **POLICY ON RESERVES**

The key aims of the Medium-term Financial Strategy are to provide a sound financial base for the delivery of the Authority's medium-term priorities, and to secure the necessary revenue and capital resources to deliver these priorities. As part of this strategy, and in assessing its annual budget requirement, the Authority will maintain reserves at a level appropriate to help ensure financial stability and to meet identified potential future commitments.

Reserves will be distinguished in the balance sheet in accordance with the CIPFA Statement of Recommended Practice whereby:

- A reserve is a contingency to meet a specific anticipated future requirement such as a potential liability or a smoothing of net expenditure, (earmarked reserves), or to help cushion the impact of uneven cash flows, unexpected events or emergencies, (general reserve).

Reserves will be managed in accordance with the Authority's Financial Regulations.

Reserves will not, except under extreme circumstances, be used to support ongoing expenditure. However, in certain circumstances, they may be used to cushion significant fluctuations in expenditure.

The level of reserves will be reviewed annually by the Treasurer to the Fire Authority, in consultation with the Policy and Finance Committee:

- as part of the annual budget process; and,
- when preparing the final accounts

to ensure that the purpose, amounts and timing for each item is still relevant and appropriate.

As part of the regular review, a risk assessment of each reserve, considering likelihood of the liability and its potential impact will be carried out to inform assessment of need.

The total amount held will be determined by assessment of financial need rather than by application of artificial parameters.

Reserves will be held on the balance sheet and controlled by the Treasurer. Transfers will be made at the year end, directly from the revenue accounts.

The Treasurer will report on the adequacy of reserves each year as part of the budget process, both for the coming year and in respect of the medium term financial strategy. This report will specifically identify any application of reserves to support ongoing expenditure.

## Budget Projections 2010 - 2015

<b>Budget Requirement</b>	<b>30,250</b>	<b>3.7%</b>	<b>30,785</b>	<b>31,470</b>	<b>32,093</b>	<b>32,806</b>
<b>Less:</b>			<b>1.8%</b>	<b>2.2%</b>	<b>2.0%</b>	<b>2.2%</b>
Government Grant	-14,444		-14,444	-14,444	-14,444	-14,444
Developer Revenue Grant Contributions	0		0	-200	-350	0
Contribution from General Reserve	0		0	0	0	-550
<b>Fire Authority Precept</b>	<b>15,806</b>		<b>16,341</b>	<b>16,826</b>	<b>17,299</b>	<b>17,812</b>
<b>Tax Base</b>	<b>273,128</b>		<b>277,189</b>	<b>279,960</b>	<b>282,767</b>	<b>285,595</b>
<b>Band D Tax</b>	<b>£57.87</b>		<b>£58.95</b>	<b>£60.10</b>	<b>£61.18</b>	<b>£62.37</b>
<b>Year on Year Increase</b>	<b>2.7%</b>		<b>1.9%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.9%</b>

## Assumptions:

No real increase in government grant over the period.  
Inflation will track at 1.5%