

**CAMBRIDGESHIRE AND PETERBOROUGH FIRE
AUTHORITY BUDGET BOOK 2007/08**

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Budget Overview

A medium term Financial Plan has been prepared for 2007/08 to 2011/12. The Plan has been prepared after considering:

- The Fire Authority Plan;
- The medium term financial strategy;
- The Asset Management Plan; and
- The Integrated Risk Management Plan.

Resources have been allocated based on corporate priorities to improve service delivery.

The government changed the method for distributing the Revenue Support Grant (RSG), from the Formula Spending Share (FSS), to the Relative Needs Block (RNB) in 2006/07.

The new Formula is merely a method for allocating funding and should not be used as an indicator for what an authority should be spending. The RSG for Cambridgeshire and Peterborough Fire Authority was set at £12.444m for 2007/08, which represents an increase of 4% over the adjusted 2006/07 grant of £11.971m.

The increase in grant is after a floor damping has been applied to smooth increases and ensure that each authority gets a minimum increase. The floor has been applied to Fire Authorities to account for the change in funding arrangements for the fire-fighters pension scheme.

The Authority took the decision, at its December meeting, to consult on Council Tax increases in 2007/08 of 4%, 4.5% and 5%. These proposals link into the medium term financial strategy of the Fire Authority to keep increases at, or below 5%.

For every 0.75% increase in council tax, an additional £97k can be added to the base budget.

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The Budgetary Context for 2007/08

Key RSG Settlement Information

The methodology for distributing RSG changed with the introduction of new formula grant distribution system made up of four elements:

- 1) **Relative Needs Block** – Based on a formula (Relative Needs Formula – RNF) similar to old FSS, they are designed to reflect the relative needs of authorities in providing services. They do not represent a monetary amount, but are expressed as a proportion of the total RNF. They are turned into a monetary value with reference to the overall control total and population estimates.
- 2) **Relative Resource Amount** – This is a negative figure, reflecting the potential to raise income locally, with reference to the tax base.
- 3) **Central Allocation** – An amount allocated on a per head basis.
- 4) **Floor Damping Block** – The element used to smooth increases and ensure that each authority gets a minimum increase.

Capping

The Fire and Rescue Services National Framework 2006/08, emphasizes that the Government expects all Fire and Rescue Authorities to ensure that they do not set excessive Council Tax increases 2006/07 and 2007/08.

The Government also highlights that they would not hesitate to use their capping powers to protect the council taxpayers from excessive rises.

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The Budget Build-up: Revenue Expenditure

Inflation

The anticipated cost of inflation between 2006/07 and 2007/08 is £720k, an average of 2.9%.

Pay awards for all employees is forecast at 3%. Employers' pensions contributions have been increased from 14.8% to 15.9% for support staff and control room staff.

The overall level of inflation is above the level of that anticipated nationally, the Consumer Price Index.

Spending Pressures

As at the 1st April 2006, the firefighters' pension scheme costs became funded by central government, with the exception of ill health retirements. This significantly reduced the pressure on the Authority's budget. The budget has been set on the basis that these costs will be funded by an earmarked reserve as they arise in the future.

Staff costs have increased by £150k, primarily associated with the full introduction of a new organisational structure in advance of the scheduled 3 year phased rollout.

The other major pressure of £469k is linked to the potential cost of borrowing and funding the upgrade of the Authority's capital programme. This money will be used to bring the Authority's accommodation up to a modern standard and to improve rescue equipment on front line appliances.

Savings

The IRMP for 2007/08 will concentrate on modelling specific scenarios identified within the emergency response strategy. It is not anticipated at this stage that any efficiency savings will be achieved during the 2007/08 financial year.

Outside of the IRMP, efficiency savings of £53k will be generated through insurance premiums and the implementation of a standard fleet across the service. Additional saving through improved procurement will continue to be sought in year along with efficiencies generated through partnership working.

Summary of Revenue Expenditure

2006/07 Budget £000		2007/08 Budget £000
	Expenditure	
19,356	Employees	19,961
868	Premises	993
3,797	Supplies and Services	4,026
597	Transport	587
109	Agency Costs	112
586	Capital Financing	1,055
25,313	Total Expenditure	26,741
387	Income	485
24,925	Net Expenditure	26,256

Attached at Appendix 1 is a medium term revenue forecast detailing the anticipated budget requirements and the indicative Council Tax rates for 2007/08 to 2011/12.

Financing the Budget

	£'000	£'000	%
Adjusted Budget 2006/07		24,925	
Inflation	720		2.9
Spending Pressures	611		0.9
Budget Requirement 2007/08		26,256	
Less:			
Formula Grant		12,444	
Collection fund surplus		50	
Recommended Precept 2007/08		13,861	

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The Budget Build-up: Capital Expenditure

The Prudential Code, introduced as part of the Local Government Act 2003, has removed the previously rigid Capital Financing rules. The code now requires authorities to ensure Capital expenditure is both prudent and affordable.

The Capital Budget for 2007/08 amounts to £1.517m, and is summarized below:

Schemes	£'000
Vehicles Including Fire Appliances	1,093
Property Schemes	448
Operational Equipment	355
IT and Communications	320
Total Expenditure	2,216

A schedule setting out the medium term capital programme for 2007/08 to 2010/11 is attached at Appendix 2.

The Capital Programme has been prepared after considering the Authority's Asset Management Plan.

The revenue budget accounts for the financing costs of the schemes in 2007/08 and future years.

A summary of how the Capital Programme will be financed is shown below:

	£'000
Public Works Loan Board (PWLB) Loan	1,360
Capital Receipts	87
Revenue Contribution	637
Capital Grant	132
Total Financing	2,216

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Treasury Management Strategy Statement

The Local Government Act 2003 requires the Authority to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

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

The suggested strategy for 2007/08 in respect of the following aspects of the treasury management function is based upon the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor. The strategy covers:

- The current treasury position;
- Prospects for interest rates;
- Treasury limits in force which will limit the treasury risk and activities of the Authority;
- The borrowing strategy; and
- The investment strategy.

It is a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit".

The Authority must have regard to the Prudential Code when setting their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax/rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy.

	2007/08 £m	2008/09 £m	2009/10 £m
Affordable Borrowing Limit			
Total Budget excl. capital	25.201	26.421	27.036
Total Budget incl. capital	26.256	27.102	27.951
Difference	1.055	0.681	0.915
Band D Impact	£4.00	£2.58	£3.47
Band D Council Tax	£52.38	£54.37	£56.34
Band D Council Tax Increase	£1.98	£1.99	£1.97
Capital Financing Requirement	6.497	7.829	9.555
Operational Boundary	7.317	8.649	10.375
Authorized Limit	9.281	11.184	13.650
Upper limit for fixed rate interest exposure	100%	100%	100%
Upper limit for variable rate interest exposure	100%	100%	100%

	Upper Limit	Lower Limit
Maturity Structure of new Fixed Rate borrowing in 2007/08:		
Under 12 months	100%	0%
12 to 24 months	100%	0%
24 months to within 5 years	100%	0%
5 to 10 years	100%	0%
10 years and above	100%	0%

The Authority's current portfolio position at 16/11/06 comprised:

	Source	Principal £m	Rate
Fixed Rate Funding	PWLB	£0.700	4.25%
Fixed Rate Funding	PWLB	£1.000	4.45%
Finance Leases	Various	£1.473	
Total		£3.173	

The anticipated borrowing requirements of the Authority are detailed below:

	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
New Borrowing	1.360	1.332	1.726	2.068
Alternative Financing	0	0	0	0
Replacement Borrowing	0	0	0	0
Total	1.360	2.692	4.418	6.486

Prospects for Interest Rates

The Authority has appointed Sector Treasury Services, as treasury adviser to the Authority and part of their service is to assist the Authority to formulate a view on interest rates.

The base rate is expected to peak at 5.5% by Q1 2007, and is consequently expected to fall to 5% in Q1 2008, then to 4.75% in Q2 2008.

In the longer term PWLB rates are expected to remain flat at 4.25% until Q2 2010.

Borrowing Strategy

The anticipation is that the 25 to 30yr rate will remain flat at 4.5% until Q2 2007 when it will fall. The 10 yr rates will remain at 5% until Q3 2007 when it will fall to 4.75%. It will then fall again to 4.5% in Q1 2008 and then remain unchanged for the foreseeable future. This forecast indicates, therefore, that the borrowing strategy for 2007/08 should be set to take long dated borrowings before Q1 2008 when 50 year PWLB rates are expected to start to rise. Variable rate borrowing and borrowing in the five-year area are expected to be more expensive than long term borrowing.

Investments Strategy

In view of the prospect for a potential base rate cut next year, it is anticipated that the Authority will maintain only temporary short-term investments; and investments will be made with reference to the cash flow requirements.

The Authority will have regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Authority's investment priorities are:

- The security of capital; and,
- The liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

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Statutory Declarations

Chief Financial Officer's Statement

Section 25 of the local requires that an authority's chief financial officer reports to the authority when it is considering it budget and council tax. The report must deal with the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that Members will have authoritative advice available to them when they make their decisions.

Section 25 also requires members to have regard to the report in making their decisions.

Robustness of Estimates

The budget process has involved members, the Senior Management Team and all budget holders within the service. The finance team has assisted all budget holders in a thorough scrutiny and challenge of the budget recommended to the Authority.

The Budget Book details and explains all service pressures, as well as identifying areas for savings. These pressures and savings have been incorporated into the medium term financial plan.

In coming to a decision to include funding for unavoidable service pressures and savings in the budget, specific financial risks were identified. It is anticipated that these risks can be managed using contingencies and if necessary, reserves. The medium term financial strategy, agreed by the Fire Authority in December, considers these risks.

The budget has been subject to extensive consultation and challenge. Local parish and town councils, representatives of the National Non-domestic Rate payers and the local Council Taxpayer have had the opportunity to comment of the proposals.

In my view, the robustness of the estimates has been ensured by the budget setting process, which has enabled all practical steps to be taken to identify and make provision for the Fire Authority's commitments in 2007/08.

Adequacy of Reserves

CIPFA has published a Guidance Note on Local Authority Reserves and Balances (February 2003) and it is the responsibility of the Treasurer to advise the Authority concerning the level of reserves and the protocols for their establishment and use.

Reserves are required to provide the Authority with financial flexibility when dealing with unexpected circumstances. Specific reserves should also be set aside to provide for known or predicted liabilities.

The Authority maintains a General Reserve to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. It acts as a contingency to be used in the event of unexpected emergencies or unforeseen spending.

At 31st March 2006, the Authority's usable general reserve balance was £1,726k. The General Reserve will be maintained at the current level in the short-term to militate against the current threat of a trade dispute and the potential expenditure associated with the planned upgrade of the Authority's property portfolio and the full cost of the rank to role assimilation process which is unknown at this stage.

The Authority also maintains two earmarked reserves to fund known or predicted liabilities. These are a Pensions Reserve to offset the pressure of the ill health element of the firefighter's pension scheme and a Capital Reserve to help finance the future capital programme.

The financial burden for financing ill health retirements remains with individual authorities under the new funding arrangements for the firefighters' pension scheme. Therefore this reserve will be maintained to ensure the Authority can respond to any shortfall in pension funding resulting from the change in funding arrangements.

If a senior ranking officer, with a significant length of service were to go under the ill health criteria, the cost to the authority is likely to be in the region of £100k. At present, the usable balance against the Pension Reserve is £886k.

The Capital Reserve is currently £230k. This will be maintained and used to fund some of the costs associated with the current upgrade of the property portfolio.

The level of reserves is important, not only for the budget 2007/08, but also in formulating the medium term financial strategy. The strategy recommended to the Authority in December will, from 2008/09, look to utilize the general

reserve to control council tax increases and reduce the level of reserve currently being held.

In my view, if the Fire Authority accepts the proposed budget and council tax increase, then the level of reserves currently held will be adequate.

Council Tax Consultation

A press release was issued immediately after Christmas seeking feedback on the proposed increases. Budget information was sent to local businesses and town and parish councils were also invited to comment.

We received 5 responses from local councils. With the exception of one Council, who would support a 4.5% increase, all other responses were in support of the 4% increase.

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Recommendations

1. That approval is given to a Fire Authority budget requirement of £26,256,000.
2. That approval is given to a recommended Fire Authority precept for Council Tax from District Councils and Peterborough City Council of £13,861,960.
3. That approval be given to a Council Tax for each band of property, based on the number band D equivalent properties notified to the Fire Authority by the District Councils and Peterborough City Council (263,693):

Band	Council Tax	Band	Council Tax
A	£34.92	E	£64.02
B	£40.74	F	£75.66
C	£46.56	G	£87.30
D	£52.38	H	£104.76

4. That approval is given to the prudential indicators as set out on page 8.
5. That approval is given to the Treasury Management Strategy Statement on pages 7 to 9.
6. That approval is given to the capital programme detailed at page 6.

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Appendix 1

	Estimate 2007/08		Forecast 2008/09	Forecast 2009/10	Forecast 2010/11	Forecast 2011/12
	£'000	Incr.%	£'000	£'000	£'000	£'000
Budget (previous year)	24,925		26,256	27,102	27,951	28,942
W holetim e Firefighters Pay	266					
Retained Firefighters Pay	59					
Fire Control Pay	32					
Local Government Employees Pay (LGEs)	157					
Insurance	-7					
Other Price inflation	212					
Inflation	719	2.9%	788	813	839	868
LGE Staff	154		38	-61	38	38
Control Room Staff	18		9	9	9	9
Firefighters	-22					
Operational Activity	-5					
Debt Charges	61		101	110	134	100
Other	11					
Budget Variations	217	0.9%	148	58	181	147
Executive Recruitment	30					
Response improvements/Property Upgrades	408					
Equality & Fairness	10					
Efficiency Savings						
Insurance	-43		-70	-2	-9	-15
Fleet Vehicles	-10		-20	-20	-20	-30
Service Pressures/Efficiency Savings	395	1.6%	-90	-22	-29	-45
Budget Requirement	26,256	5.3%	27,102	27,951	28,942	29,912
Less:			3.2%	3.1%	3.5%	3.4%
Government Grant	-12,444		-12,693	-12,947	-13,206	-13,470
Fire Authority Precept	13,812		14,409	15,004	15,736	16,442
Tax Base	263,693		265,011	266,337	267,668	269,007
Band D Tax	£52.38		£54.37	£56.34	£58.79	£61.12
Year on Year Increase	3.9%		3.8%	3.6%	4.4%	4.0%

Appendix 2

MEDIUM TERM CAPITAL PROGRAMME 2007/08 TO 2010/11

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
CAPITAL EXPENDITURE				
Vehicle Replacement Programme	1,093	861	1,265	1,699
Equipment	355	70	71	71
Property Maintenance & Land	448	185	590	700
IT & Communications	320	355	250	250
TOTAL EXPENDITURE	2,216	1,471	2,176	2,720
	0	0	0	0
FINANCED BY:				
Loan	1,360	1,332	1,726	2,068
Capital Receipts	87	43	220	205
Revenue Contribution to Capital Outlay (RCCO)	637	96	230	447
Capital Grant/IEF Grant	132	0	0	0
TOTAL RESOURCES	2,216	1,471	2,176	2,720