

**CAMBRIDGESHIRE AND PETERBOROUGH FIRE  
AUTHORITY BUDGET BOOK 2008/09**

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## **Budget Overview**

A medium term Financial Plan has been prepared for 2008/09 to 2012/13. The Plan has been prepared after considering:

- The Fire Authority Plan;
- The Medium Term Financial Strategy;
- The Asset Management Plan; and
- The Service Improvement Plan.

The main driver of the above is the allocation of resources in line with the corporate priorities to improve service delivery and to ensure a sustainable, professional and effect service.

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

The 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 £13.335m for 2008/09, which represents an increase of 7.2% over the adjusted 2007/08 grant of £12.444m.

The increase in grant is after a floor damping has been applied to smooth increases and ensure that each authority gets a minimum increase. This floor has been set at 1% for Fire Authorities in 2008/09, a reduction of 1.7% on the 2007/08 floor.

Taking this into consideration, it is proposed to consult on Council Tax increases in 2008/09 of 3.5%, 4% and 4.5%. These proposals link into the medium term financial strategy of the Fire Authority to keep increases at, or below 5%.

For every 1% increase in council tax, an additional £139k will be added to the base budget.

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## The Budgetary Context for 2008/09

### 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

It is anticipated that the Government will continue to use their capping powers to protect council taxpayers from excessive rises.

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## **The Budget Build-up: Revenue Expenditure**

### **Inflation**

The anticipated cost of inflation between 2007/08 and 2008/09 is £659k, an average of 2.5%.

Pay awards for all employees is forecast at 2.5%. Employers' pensions contributions have been increased from 15.9% to 17.2% for support staff and control room staff.

The overall level of inflation is in line with the level anticipated nationally, the Consumer Price Index.

### **Spending Pressures**

Staff costs have increased by £189k. Additional posts have been added to assist the service in managing its major change projects over the medium term, particularly with regard to the Fire Control project. In addition, pension contributions continue to increase for all control and support staff.

The other major pressure of £141k is linked to the potential cost of borrowing relating the Authority's capital programme.

Additional funds have been earmarked within the 2008/09 budget, to allow the service to respond to the increasing training requirements, resulting from new legislation and new equipment.

The service will renew its data network contract in the next financial year. It is expected that the anticipated upgrade will deliver capacity to meet growing needs and also improve performance. However this will result in an increased cost for the service.

### **Savings**

The Service Improvement Plan for 2008/09 will concentrate on modelling specific scenarios against three key areas:

- Improve operational capability;
- Make more effective use of retained duty system and volunteer fire stations;
- Further improve efficiency and effectiveness of our people.

It is not anticipated at this stage that any efficiencies will be achieved during the 2008/09 financial year.

Outside of the Service Improvement Plan, efficiency savings of £70k will be generated through insurance premiums when the service joins the Fire Service mutual insurance company. The continued standardisation of the service fleet and utilisation of service vehicles for travel will provide an efficiency saving of £20k. The services' partnership with Essex on its finance system will generate savings of £23k per annum.

### Summary of Revenue Expenditure

2007/08 Budget £000		2008/09 Budget £000
	<b>Expenditure</b>	
19,783	Employees	20,816
994	Premises	1,014
4,136	Supplies and Services	4,538
595	Transport	590
112	Agency Costs	114
1,055	Capital Financing	1,224
<b>26,675</b>	<b>Total Expenditure</b>	<b>28,295</b>
<b>324</b>	<b>Income</b>	<b>335</b>
<b>26,351</b>	<b>Net Expenditure</b>	<b>27,960</b>

Attached at Appendix 1 is a medium term revenue forecast detailing the anticipated budget requirements and the indicative council tax rates for 2008/09 to 2012/13.

### Financing the Budget

	£'000	£'000	%
<b>Adjusted Budget 2007/08</b>		<b>26,351</b>	
Inflation		659	2.5
Spending Pressures		1,063	4.0
Efficiency Savings		-113	0.4
<b>Budget Requirement 2008/09</b>		<b>27,960</b>	
Less:			
Formula Grant		13,335	
Contribution from General Reserve		50	
<b>Recommended Precept 2008/09</b>		<b>14,575</b>	

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### The Budget Build-up: Capital Expenditure

The Prudential Code, introduced as part of the Local Government Act 2003, requires authorities to ensure Capital expenditure is both prudent and affordable.

The Capital Budget for 2008/09 amounts to £3.654m, and is summarised below:

<b>Schemes</b>	<b>£'000</b>
Vehicles Including Fire Appliances	1,720
Property Schemes	1,545
Operational Equipment	34
IT and Communications	355
<b>Total Expenditure</b>	<b>3,654</b>

A schedule setting out the medium term capital programme for 2008/09 to 2011/12 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 2008/09 and future years.

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

	<b>£'000</b>
PWLB Loan	2,615
Capital Receipts	43
Revenue Contribution	996
Capital Grant	0
<b>Total Financing</b>	<b>3,654</b>

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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 2008/09 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 requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

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 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.

	2008/09 £m	2009/10 £m	2010/11 £m
Affordable Borrowing Limit			
Total Budget excl. capital	26.736	27.448	28.048
Total Budget incl. capital	27.960	28.863	29.708
Difference	1.224	1.435	1.660
Band D Impact	£4.57	£5.36	£6.20
Band D Council Tax	£54.45	£55.33	£56.09
Band D Council Tax Increase	£2.07	£0.88	£0.76
Capital Financing Requirement	7.883	10.954	13.087
Operational Boundary	8.423	11.311	14.520
Authorised Limit	12.000	15.469	18.696
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 2008/09:		
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 07/12/07 comprised:

	Source	Principal £m	Rate
Fixed Rate Funding	PWLB	1.700	4.25
Fixed Rate Funding	PWLB	1.500	4.55
Finance Leases	Various	1.289	
<b>Total</b>		<b>4.489</b>	

The anticipated borrowing requirements of the Authority are detailed below:

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
New Borrowing	2,615	3,071	2,133	1,443
Alternative Financing	0	0	0	0
Replacement Borrowing	0	0	0	0
<b>Total</b>	<b>2,615</b>	<b>5,686</b>	<b>7,819</b>	<b>9,262</b>

## 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 5.75% by Q4 2007, and is consequently expected to fall to 5.25% by Q2 2008, then to 5.00% in Q2 2009.

In the longer term PWLB rates are expected to fall marginally from 4.50% to 4.45% in Q1 2009 before rising back again in Q4 2009.

## Borrowing Strategy

The 50 year PWLB rate is expected to fall marginally from 4.50% in Q2 2008 to 4.45% in Q1 2009 before rising back again to 4.50% in Q4 2009 and to 4.55% in Q2 2010. The anticipation is that the 25 to 30yr rate will fall from 4.8% to 4.55% in Q1 2009 and then to be on the rise to reach 4.7% in Q4 2010. The 10 yr rates will fall from 4.8% to 4.55% in Q3 2008 and then to gradually rise to reach 4.8% in Q3 2010.

This forecast indicates, therefore, that the borrowing strategy for 2008/09 should be set to take very long dated borrowing towards the end of the financial year but in as much as little variation is expected in average quarterly rates, this is likely to mean that attractive rates could be available at any time in the year when there is a dip down in rates. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking 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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## **Chief Financial Officer's Statement**

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 31<sup>st</sup> March 2007, the Authority's usable general reserve balance was £1,751, representing 6.7% of net revenue budget. The General Reserve will be reduced over the next 5 years in accordance with the medium term financial strategy.

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. This reserve will be maintained at current levels to ensure any financial threat associated with ill health retirements can be met. This reserve will be reviewed annually to ensure the level is appropriate.

The Capital Reserve is currently £260k. This will be maintained and used to fund some of the costs associated with the current upgrade of the property portfolio.

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## Recommendations

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1. That approval is given to a Fire Authority budget requirement of £27,960,000.
2. That approval is given to a recommended Fire Authority precept for Council Tax from District Councils and Peterborough City Council of £14,575,262.
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 Council and Peterborough City Council (267,692):

Band	Council Tax	Band	Council Tax
A	36.30	E	66.55
B	42.35	F	78.65
C	48.40	G	90.75
D	54.45	H	108.90

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.

## Appendix 1

	Estimate £'000	2008/09 Incr. %	Forecast 2009/10 £'000	Forecast 2010/11 £'000	Forecast 2011/12 £'000	Forecast 2012/13 £'000
<b>Budget (previous year)</b>	<b>26,351</b>		<b>27,960</b>	<b>28,863</b>	<b>29,708</b>	<b>30,600</b>
Wholetime Firefighters Pay	233					
Retained Firefighters Pay	123					
Fire Control Pay	31					
Local Government Employees Pay (LGEs)	137					
Insurance	1					
Other Price inflation	134					
<b>Inflation</b>	<b>659</b>	<b>2.5%</b>	<b>699</b>	<b>722</b>	<b>743</b>	<b>765</b>
LGE Staff	72		17	-73	26	26
Control Room Staff	63		6	6	6	6
Firefighters	54					
Operational Activity	44					
Debt Charges	141		211	225	157	100
Other	102					
<b>Budget Variations</b>	<b>476</b>	<b>1.8%</b>	<b>234</b>	<b>158</b>	<b>189</b>	<b>132</b>
<b>Efficiency Savings</b>						
Insurance	-70		-10	-15	-20	0
Fleet Vehicles	-20		-20	-20	-20	-30
Finance	-23					
Training	261					
IT Infrastructure	200					
Youth Worker	25					
Retained Liaison	31					
Incident Command	70					
<b>Service Pressures/Efficiency Savings</b>	<b>474</b>	<b>1.8%</b>	<b>-30</b>	<b>-35</b>	<b>-40</b>	<b>-30</b>
<b>Budget Requirement</b>	<b>27,960</b>	<b>6.1%</b>	<b>28,863</b>	<b>29,708</b>	<b>30,600</b>	<b>31,467</b>
<b>Less:</b>			<b>3.2%</b>	<b>2.9%</b>	<b>3.0%</b>	<b>2.8%</b>
Settlement Amendments	0					
Business Rates	0		0	0	0	0
Government Grant	-13,335		-13,903	-14,444	-14,733	-15,028
Contribution from General Reserve	-50		-75	-100	-125	0
<b>Fire Authority Precept</b>	<b>14,575</b>		<b>14,885</b>	<b>15,164</b>	<b>15,742</b>	<b>16,439</b>
<b>Tax Base</b>	<b>267,692</b>		<b>269,030</b>	<b>270,376</b>	<b>271,727</b>	<b>273,086</b>
<b>Band D Tax</b>	<b>£54.45</b>		<b>£55.33</b>	<b>£56.09</b>	<b>£57.93</b>	<b>£60.20</b>
<b>Year on Year Increase</b>	<b>3.9%</b>		<b>1.6%</b>	<b>1.4%</b>	<b>3.3%</b>	<b>3.9%</b>

## DRAFT MEDIUM TERM CAPITAL PROGRAMME 2008/09 TO 2011/12

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
<b>CAPITAL EXPENDITURE</b>				
Vehicle Replacement Programme	1,720	1,626	1,700	1,097
Equipment	34	35	35	23
Property Maintenance & Land	1,545	1,610	800	600
IT & Communications	355	250	250	250
<b>TOTAL EXPENDITURE</b>	<b>3,654</b>	<b>3,521</b>	<b>2,785</b>	<b>1,970</b>
	0	0	0	
<b>FINANCED BY:</b>				
Loan	2,615	3,071	2,133	1,443
Capital Receipts	43	220	205	79
Revenue Contribution to Capital Outlay (RCCO)	996	230	447	447
Capital Grant/IEF Grant	0	0	0	0
<b>TOTAL RESOURCES</b>	<b>3,654</b>	<b>3,521</b>	<b>2,785</b>	<b>1,969</b>

2007/08 £'000		2008/09 £'000
	<b>Expenditure</b>	
15,065	Firefighters and Control Room Staff	15,784
4,282	Support Staff	4,553
340	Training	379
95	Other Staff Costs	99
<b>19,783</b>	<b>Total Employee Costs</b>	<b>20,816</b>
237	Repairs and Maintenance	247
271	Heating and Lighting	277
105	Cleaning Contract	107
382	Rents and Rates	382
<b>994</b>	<b>Total Premises Costs</b>	<b>1,014</b>
74	Office Equipment and Furniture and Fitting	75
383	IT Equipment	422
405	Clothing and Uniform	421
464	Communications	475
468	Insurances	399
56	Subscriptions	57
86	Corporate Support	87
223	Community Safety	227
97	Health and Safety	99
80	Members Fees	81
105	Fire Service College	115
69	External Audit	71
134	Consultant Fees	137
26	Regional Management Board	27
150	Printing and Stationery	153

2007/08 £'000		2008/09 £'000
19	Postage	19
17	External Training	17
63	Travel and Subsistence	65
61	Advertising	63
162	Hydrants/BA Maintenance	165
993	Other Supplies and Services	1,363
<b>4,136</b>	<b>Total Supplies and Services Costs</b>	<b>4,538</b>
274	Car Allowances	260
208	Petrol, Oil and Tyres	210
114	Repair and Maintenance of Vehicles	120
<b>595</b>	<b>Total Transport Costs</b>	<b>590</b>
66	Section 2 and 12 Charges	67
46	Service Level Agreements	47
<b>112</b>	<b>Total Agency Charges</b>	<b>114</b>
1,055	Capital Financing	1,224
<b>1,055</b>	<b>Total Capital Charges</b>	<b>1,224</b>
-10	AFA Charges	-11
-10	Special Service Income	-10
-38	Rental Income	-24
-265	Other Income	-290
<b>-324</b>	<b>Total Income</b>	<b>-335</b>
<b>26,351</b>	<b>Net Revenue Expenditure</b>	<b>27,960</b>