

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY



REVENUE AND CAPITAL BUDGETS 2010/2011 including MEDIUM TERM FINANCIAL PLAN 2010/2011 to 2012/2013

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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. There are 4 independent members of the Standards Committee.

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

CHAIRMAN	G. Tennant (Durham County Council)
VICE CHAIRMAN	C. Magee (Durham County Council)
COUNCILLORS (DURHAM)	B. Avery A. Bainbridge J. Brown M. Campbell C. Carr J. Chaplow R. Crooks B. Graham P. Gittins B. Harrison M. Hodgson O. Johnson R. Liddle C. Magee R. Ord J. Robinson J. Shuttleworth M. Simmons G. Tennant L. Thomson A. Wright
COUNCILLORS (DARLINGTON)	B. Jones D. Jones J. Maddison N. Wallis
INDEPENDENT MEMBERS OF THE STANDARDS COMMITTEE	J. G. Armstrong W. Ault C. A. Blythe J. M. Hitchman
SENIOR FIRE & RESCUE OFFICERS	
Chief Executive	S. Johnson OBE
Director of Community Safety	P. Reay
Director of Corporate Services	J. Hewitt
Director of Operations	J. Adamson
Director of Organisational and People Development	M. Whelan
SENIOR OFFICERS OF THE AUTHORITY	
Clerk	C. Longbottom
Treasurer	S. D. Crowe CPFA

INTRODUCTION

Welcome to County Durham and Darlington Fire and Rescue Authority's Budget Book for the financial year 2010/2011. 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 2010/11 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 2010/11 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 £31.284m.
- The Council Tax charge at Band D has been increased by 2.85% to £87.84. This is an increase of £2.43 from the 2009/10 figure.
- The Government Formula Grant, which includes Revenue Support Grant and Non-Domestic Rates, totals £14.529m, an increase of £0.336m (2.4%) from 2009/10.

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 or 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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The Treasurer
Durham County Council
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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 बाङ्गलाय एह त्थाङ्गलिर एकटि सारसङ्केप चान त्बरे अनुग्रह करे 0191 383 3544 नहरे फोन करन।

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

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County Durham and Darlington Fire and Rescue Authority

18 February 2010

**Budget 2010/11 incorporating the
Medium Term Financial Plan 2010/11
to 2012/13**



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

Purpose and Structure of the Report

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

- approve a revised revenue budget for 2009/10;
- set a revenue budget for 2010/11;
- approve the Medium Term Financial Plan;
- approve the capital budgets for 2010/11 to 2012/13;
- determine 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 20)

Section H - Fire Authority Precept (page 22)

Section I - Prudential Code (page 25)

Section J - Treasury Management (page 30)

SECTION A

BACKGROUND

- 1 A meeting of the Audit and Finance Committee was held on 4 February 2010 to consider the revenue and capital budgets, together with the Medium Term Financial Plan. This report incorporates the recommendations of the Committee regarding the overall budget amount and the level of council tax for 2010/11. The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.

SUMMARY OF RECOMMENDATIONS

- 2 Set out below is a summary of the recommendations on which Members' 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 2009/10 Revenue Budget Recommendations (page 13)

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2009/10 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 2009/10.

2010/11 Revenue Budget Recommendations (page 13)

That the Authority approves the revenue estimates for the year ending 31 March 2011 as detailed in Appendix A.

SECTION F – Medium Term Financial Plan (page 15)

That the Authority:

- (a) Agrees the Medium Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget.

- (c) Reaffirms the current policy for Reserves.

SECTION G – Capital Programme and Budget (page 20)

That the Authority approves the capital budgets for 2009/10 to 2012/13.

SECTION H – Fire Authority Precept (page 22)

That Members determine the level of Council Tax for 2010/11 based on the Budget Requirement of £31,284,492. Based on the recommendation of the Audit and Finance Committee, it is recommended for the year ending 31 March 2011:

- (i) That the 'council tax base' for the whole of the Authority's area be 189,511.70.
- (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 £87.84, an increase of 2.85% over the 2009/10 figure.
- (iv) That the Budget Requirement be £31,284,492 and that, (after taking into account 'Revenue Support Grant' of £1,842,266, Redistributed Non-Domestic Rates of £12,686,970 and a net surplus on the collection fund of £108,548), precepts totalling £16,646,708 be issued to Durham County Council and Darlington Borough Council.

SECTION I – Prudential Code (page 25)

- (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 2010/11:
 - (i) Authorised Limit of £12,000,000
 - (ii) Operational Boundary of £10,000,000

SECTION J – Treasury Management (page 30)

- (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 2010/11, 2011/12 and 2012/13 of 100% of its net outstanding principal sum.
- (d) That the Authority sets an upper limit on its variable interest rate exposures for 2010/11, 2011/12 and 2012/13 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 '**Safest People, Safest 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.

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

SECTION C

BUDGET CONSULTATION

Residents

- 1 The Authority has undertaken consultation with:
 - Area Action Partnership representatives throughout County Durham;
 - A Citizen's Panel meeting in Durham, utilising AAP representatives from across the area;
 - A public meeting with Darlington residents as part of the "Talking Together" Darlington consultation event.

- 2 The budget proposals outlined in this report were discussed with stakeholders at all of the events held. The consultation feedback was extremely positive in relation to the Authority's Integrated Risk Management Plan (IRMP) proposals and the 2010/11 budget proposals. Feedback received from the consultation supports the budget proposals to balance the 2010/11 budget as set out in this report, with an associated council tax increase of 2.85%.

Business Community

- 3 Two consultation meetings were arranged with representatives of Non-Domestic ratepayers. No representatives from the business community attended the consultation meetings. Consultation on the budget and efficiency savings has also taken place with representative bodies.

- 4 **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 2010/11

- 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 The key elements of the Authority's final settlement for 2010/11 are:
 - **Formula Grant 2010/11 £14.529m** - This is a cash increase of £0.336m (or 2.37%) over 2009/10.
 - 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.
- 3 **It is recommended that Members note the grant settlement.**

SECTION E

REVENUE BUDGET

Introduction

- 1 This section deals with the revised revenue budget for 2009/10 and the revenue budget requirement for 2010/11.

Revised Revenue Budget 2009/10

- 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 £583,204 against original budget. In the main this is due to savings in staffing budgets, consultancy fees, information technology and contingencies.
- 4 This offers the opportunity to consider various options in 2009/10 including transfers to reserves in part to address some of the risks facing the Authority. Members will be aware that the Authority is facing significant financial challenges over the medium term and may wish to consider the use of any under spend to assist in meeting these challenges through establishing specific earmarked reserves. The options will be further considered as part of the 2009/10 closing of accounts process when the actual outturn position is known. The revised 2009/10 estimates are set out in Appendix A.
- 5 **The following resolutions are recommended to the Authority:**
 - (a) That the revised revenue budget for 2009/10, 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 2009/10.

Revenue Budget Requirement 2010/11

- 6 The standstill budget for 2010/11, as reported to the Audit and Finance Committee on 4 February 2010, amounts to £31,780,902. The standstill has been prepared by updating the 2009/10 budget for known variations and adding estimated pay awards and price increases.
- 7 Due to the current financial climate attention has been focussed on the achievement of efficiencies and no service development is proposed during 2010/11. Efficiency gains totalling £496,410 have been identified; these are not considered to have an adverse effect on the Authority meeting its strategic priorities. Full details of efficiency gains are set out under *Savings* within the Medium Term Financial Plan.

- 8 When the efficiency gains are applied to the standstill budget, the 2010/11 budget requirement is £31,284,492, summarised as follows and detailed in Appendix A.

Budget Requirement 2010/11

	£
Standstill Budget	31,780,902
Less: Efficiency Gains	<u>-496,410</u>
Budget Requirement	<u>31,284,492</u>

- 9 **The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.**
10. **It is recommended that the Authority approves the revenue estimates for the year ended 31 March 2011 as summarised above and detailed in Appendix A.**

SECTION F – MEDIUM TERM FINANCIAL PLAN

This section provides a summary of the Medium Term Financial Plan for 2010/11 to 2012/13.

Basis of the Preparation of the Medium Term Financial Plan 2010/11 to 2012/13

Resources

- 1 The details of the local government settlement are outlined in Section D. 2010/11 is the third year of the three year settlement, and no announcement has been made of the settlement for 2011/12 onwards. For the purposes of this report, it has been assumed that there will be a 3% reduction in government grant per annum for 2011/12 and 2012/13.
- 2 A Collection Fund deficit of £35,000 has been notified by Darlington Borough Council and a surplus of £143,548 has been notified by Durham County Council. Therefore, the Authority's share of Collection Fund net surplus (the excess council tax collected by Durham County Council and Darlington Borough Council over that which they had budgeted to collect) receivable in 2010/11 amounts to £108,548. No surplus or deficit has been incorporated into the plan for future years.
- 3 With regard to council tax levels in the Medium Term Plan, two financial models have been calculated:
 - Model 1 is based on a 2.85% increase levied in 2010/11 and 0% for subsequent years.
 - Model 2 is based on a 2.85% increase levied in 2010/11 and 2.5% increase for 2011/12 and 2012/13.
- 4 Both models assume there will be:
 - No Collection Fund surplus or deficit in 2011/12 and 2012/13
 - No changes to the Council Tax base
 - Cash grant reductions of 3% per annum for 2011/12 and 2012/13.
- 5 Members will need to review these assumptions noting that each 1% change in council tax results in a variation of £162,000.

Savings

- 6 Members have previously been made aware of the areas of efficiency identified within the service as part of the efficiency review.

7 The savings proposals are summarised below:

Efficiency Gain	2010/11 £	2011/12 £	2012/13 £
Corporate Services	-293,006	-	-
Learning & Development	- 44,279	-	-
Personnel	-29,590	-	-
Community Safety	-84,480	-	-
Risk & Resilience	-45,055	-	-
TOTAL	-496,410	-	-

The main savings arise from:

- A review of the capital financing requirements for the capital schemes
- Renegotiation of insurance contracts for 2010/11
- Management reviews of departmental budgets

Medium Term Financial Plan Summary

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

Model 1

	2010/11 £000	2011/12 £000	2012/13 £000
Standstill Budget	31,780	32,078	32,687
Efficiencies	-496	0	0
Budget Requirement	31,284	32,078	32,687
Formula Grant	14,529	14,093	13,670
Council Tax	16,646	16,646	16,646
Surplus on Collection Funds	109	0	0
Available Resources	31,284	30,739	30,316
Resource Deficit	0	1,339	2,371
Council Tax Base	189,511.70	189,511.70	189,511.70
Band D Charge	£87.84	£87.84	£87.84
Projected Council Tax Increase	£2.43	£0.00	£0.00
Projected Percentage Council Tax Increase	2.85%	0.0%	0.0%

9 With a projected council tax increase of 0% in years 2011/12 and 2012/13 there would be a deficit of £1.339m and £2.371m respectively

Model 2

	2010/11 £000	2011/12 £000	2012/13 £000
Standstill Budget	31,780	32,078	32,687
Efficiencies	-496	0	0
Budget Requirement	31,284	32,078	32,687
Formula Grant	14,529	14,093	13,670
Council Tax	16,646	17,064	17,490
Surplus on Collection Funds	109	0	0
Available Resources	31,284	31,157	31,160
Resource Deficit	0	921	1,527
Council Tax Base	189,511.70	189,511.70	189,511.70
Band D Charge	£87.84	£90.03	£92.28
Projected Council Tax Increase	£2.43	£2.19	£2.25
Projected Percentage Council Tax Increase	2.85%	2.5%	2.5%

10 With a projected council tax increase of 2.5% in years 2011/12 and 2012/13 there would be a deficit of £0.921m and £1.527m respectively.

11 The resource deficit identified in the two models provides an indication of the potential level of savings that will need to be made from 2011/12 in order to balance the budget.

Financial Reserves

12 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.

13 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.

14 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 £3.1m respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

Risks

- 15 The Authority has embedded risk management as part of its overall control framework and reviews financial risks on a regular basis. Risks have also been fully reviewed as part of the overall budget setting process for 2010/11 and over the medium term.
- 16 The Medium Term Financial Strategy details the key risks and mitigating actions that the Authority has identified to reduce the financial impact or likelihood of the risk occurring. A full assessment has been undertaken to review the impact of the risks and at this stage it is anticipated that the mitigating actions and the availability of general and earmarked reserves and contingencies will enable the risks to be effectively managed. A summary of the key risks from the Medium Term Financial Strategy is shown below:
- (a) **Modernisation – National Projects**
A number of national projects are progressing within the Fire and Rescue Service that could have a financial impact locally. FiReControl is a national project that will provide a regional control room facility for the four North East fire and rescue services. FiReLink is a national radio system providing enhanced communications provision. Work is also underway to establish “in service” management arrangements for the national functions provided to local services including national procurement and maintenance of resilience assets. It is not yet clear as to the extent that the cost of these schemes will need to be met locally and this has been identified as a risk within the Medium Term Financial Strategy.
- (b) **Increasing Demands – Environmental**
The increasing demands being placed on the Service in relation to flooding and adverse weather are expected increase over the medium term which may result in additional cost pressures locally.
- (c) **Capital Investment**
A significant capital investment is being made in the Authority’s estate in line with Integrated Risk Management Plan priorities. A number of differing procurement routes are being progressed in relation to the estate renewal that require effective financial management and monitoring procedures to be in place. This risk is being mitigated through ensuring appropriately qualified and professional staff are in place and by ensuring the affordability of each investment is regularly updated and reported.
- (d) **Pension Costs**

The employers cost of pension schemes is reviewed on a regular basis by the actuary. The risk of the employer's costs increasing further over the medium term is recognised and the Authority holds a pension reserve to mitigate the short term impact of any increase. The Authority has significantly improved its management of ill health retirements which should reduce the impact of any increases in future years

(e) Funding

The risk of reduced funding from government grant and council tax has been recognised and work is progressing within the Service to identify budget options for consideration by the Fire Authority over the medium term.

(f) Resilience

The cost of resilience arrangements is being considered by the Service and proposals for funding resilience will be considered by the Authority during 2009/10.

Value for Money

- 17 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

18 **It is recommended that the Authority:**

- (a) Agrees the Medium Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget.
- (c) Reaffirms the current policy for Reserves.

SECTION G

CAPITAL BUDGET 2009/10 TO 2012/13

- 1 The proposed capital budget for the years 2010/11 to 2012/13 and the revised capital budget for 2009/10 are set out in Appendix B and are summarised in the table below:

Year	Capital Budget £
2009/10 Revised	2,451,800
2010/11	3,153,000
2011/12	8,419,600
2012/13	2,119,500
	16,143,900

- 2 A significant amount of work has been undertaken to ensure that the capital budgets proposed for the medium term are reflective of the Authority's priorities and are affordable in terms of associated revenue expenditure. The capital programme has been increased in recent years to reflect the Authority's IRMP commitments in relation to estate improvement and renewal.
- 3 Members are aware that the Authority is committed to examining the most beneficial means of procuring capital schemes and is progressing two Private Finance Initiative (PFI) schemes. NEFRA 1 PFI encompasses new community fire stations in Bishop Auckland and Spennymoor and NEFRA 2 includes new retained community fire stations at Barnard Castle, Crook, Sedgfield and Stanhope.
- 4 The remaining significant estate improvement capital scheme budgets encompassing the training centre, Durham station and headquarters have been re-profiled as part of the 2010/11 budget setting process. This re-profiling will afford a level of flexibility over the medium term in relation to these schemes and will allow the effects of expected grant reductions to be further considered in relation to the capital programme.
- 5 The budget for 2010/11 takes account of the Authority's requirement to invest in a number of Information Technology projects that will improve information management across the organisation. The capital programme also includes the Authority's ongoing requirements in relation to replacement vehicles and operational equipment in accordance with agreed replacement programmes.
- 6 The capital projects have been scored against the Authority's capital investment criteria and a full assessment of each capital scheme has been completed as part of this process.
- 7 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 2010/11 has been notified as £661,000. Expenditure in excess of this support will be funded through unsecured borrowing, capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.

- 8 Full provision has been made in the 2010/11 revenue budget to meet the revenue consequences of the capital programme.
- 9 **It is recommended that the Authority approves the capital budgets for 2009/10 to 2012/13.**

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 which falls below 3%, as the Government expects.
- 2 The Audit and Finance Committee have considered the following Council Tax options:

	Council Tax Increase						
	5%	4%	3%	2.85%	2%	1%	0%
Budget Requirement	£000 31,284	£000 31,284	£000 31,284	£000 31,284	£000 31,284	£000 31,284	£000 31,284
Funding							
Formula Grant	14,529	14,529	14,529	14,529	14,529	14,529	14,529
Council Tax	16,995	16,832	16,671	16,646	16,508	16,347	16,186
Surplus on Collection Funds	109	109	109	109	109	109	109
Total Funding	31,633	31,470	31,309	31,284	31,146	30,985	30,824
Surplus (increase reserves)	349	186	25	0	0	0	0
Shortfall (reduce reserves)	0	0	0	0	138	299	460

- 3 If the Authority were to precept at a level to raise sufficient funds to meet the 2010/11 Budget Requirement, a Basic Council tax of £87.84 would be required. This would represent an increase of 2.85% over the 2009/10 figure of £85.41.
- 4 **Members are requested to consider the above the information and determine the level of Council Tax for 2010/11.**

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 £31,284,492 the calculation is shown in the following table:

	£	£
Fire Authority's Budget Requirement		31,284,492
Less:		
Revenue Support Grant	1,842,266	
Re-distributed Non Domestic Rates	12,686,970	14,529,236
		16,755,256
Less:		
Estimated overall net surplus on Collection Funds at 31st March 2009		108,548
Amount Required from Precept		16,646,708

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 2010/11 as notified to the Fire Authority are set out in the table below:

Authority	Council Tax Base	Precept
		£
Durham County Council	154,976.20	13,613,110
Darlington Borough Council	34,535.50	3,033,598
Total	189,511.70	16,646,708

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:

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

$$\frac{\underline{\pounds 16,646,708}}{189,511.70} = 87.84$$

- 9 A Basic Council Tax of £87.84 represents an increase of 2.85%, £2.43 more than the 2009/10 Basic Council Tax of £85.41.

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:

4th May 2010	8 th October 2010
4 th June 2010	10 th November 2010
7 th July 2010	15 th December 2010
6 th August 2010	14 th January 2011
8 th September 2010	14 th February 2011

- 11 **Based on the Budget Requirement of £31,284,492 and a Council Tax of £87.84 it is recommended that the Authority adopts the following resolutions:**

That for the year ended 31 March 2011:

- (i) the 'council tax base' for the whole of the Authority's area be 189,511.70;
- (ii) there be no Authority expenses relating to a part only of the Authority's area;
- (iii) the 'basic amount of council tax' be £87.84 (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)	58.56
B	(7/9)	68.32
C	(8/9)	78.08
D	('basic amount')	87.84
E	(11/9)	107.36
F	(13/9)	126.88
G	(15/9)	146.40
H	(18/9)	175.68

- (iv) the Budget Requirement be £31,284,492 and that, (after taking into account 'Revenue Support Grant' of £1,842,266, Redistributed Non-Domestic Rates of £12,686,970 and a net surplus on the collection fund of £108,548), precepts totalling £16,646,708 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				
2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
1,694	2,452	3,153	8,420	2,120

- 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				
2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
2,520	2,419	2,322	8,167	9,296

- 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 2010/11 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 2008/09 are:

Ratio of Financing Costs to Net Revenue Stream				
2008/09 Actual %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
0.7	0.6	0.6	1.4	2.0

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 be 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			
	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 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			
	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 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 2009 was £1.8m, comprising £1.8m 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 2.85% Council Tax increase in 2010/11 and assuming a 0% increase during years 2011/12 and 2012/13.

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 2010/11:
 - (i) Authorised Limit of £12m
 - (ii) Operational Boundary of £10m

SECTION J

TREASURY MANAGEMENT 2010/11

- 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 2010/11 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 2010/11, 2011/12 and 2012/13 of 100% of its net outstanding principal sum.
- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2010/11, 2011/12 and 2012/13 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 2010/11, 2011/12 and 2012/13 of 100% of its net outstanding principal sum.
- d) Sets an upper limit on the Authority's variable interest rate exposures for 2010/11, 2011/12 and 2012/13 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 2010/11

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 2010/11 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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APPENDIX A

APPENDIX B

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

18 February 2010

**Budget 2010/11
Report under Section 25 of Local Government
Act 2003**



Report of Stuart Crowe, Treasurer

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 proposals for efficiency savings identified for 2010/11 have been reviewed and reported to the Audit and Finance Committee. Based on the Committee's recommendation to the Authority, a decision has been taken to incorporate these areas into the budget for 2010/11.
- 8 In coming to the decision to include the efficiency 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. Community representatives 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 2010/11.
- 11 It should be noted that plans for 2011/12 and 2012/13 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 2010/11, 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, 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 2010/11.

Contact: Stuart Crowe Tel: 0191 3833550

APPENDIX 2

County Durham and Darlington Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY

2010/11 to 2012/13

Incorporating the 2010/11 Budget



SAFEST PEOPLE, SAFEST PLACES

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1 Background – Purpose of the Medium Term Financial Strategy

The financial climate in which the Fire Authority operates is expected to worsen significantly over the medium term. World wide events following the banking crisis in 2008/09 are expected to have significant implications for public sector spending.

In a challenging financial future, it is essential that the Authority's plans are fully costed and affordable, not just in the year the budget is set, but over the medium to longer term. Medium to longer term financial and business planning will require a focus on maximising efficiencies and funding opportunities, as well as a focus on identifying alternative models of service delivery in all areas of the Fire Authority's responsibilities.

This medium term financial strategy outlines the Authority's approach to ensuring financial resources are balanced over the medium term and ensures that financial risks are identified, and mitigating actions considered, to minimise the overall risk of a lack of financial resource impacting on delivery of agreed priorities.

2 Introduction

The strategy demonstrates in financial terms how the Authority will work towards its vision of "Safest People, Safest Places". Despite financial challenges facing the Authority, Members and officers are committed to the vision of safest people, safest places in County Durham and Darlington.

The strategy outlines revenue and capital resource requirements for County Durham and Darlington Fire and Rescue Service (the Service) for the three year period commencing 1st April 2010.

The modernisation of the Service provides difficult challenges in relation to forecasting revenue resource requirements. Specifically, the local costs of new national projects relating to the regional control centre and the Firelink radio system remain uncertain and a risk that the Authority has identified. 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 (IRMP) and Community Protection Plan (CPP) 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. Despite higher than average grant increases, the Authority has contributed over £2M towards the grant floor over the spending review period, which equates to a council tax levy of

approximately 10% (or £8.54 per band D) over the life of the spending review period.

The Authority has embarked on a significant estate renewal strategy, aimed at improving outcomes for local people. This strategy is progressing in the knowledge of the significant financial challenges that face the Authority and will continue to be assessed as part of the Authority's approach to ensuring schemes are affordable and deliverable within available resources.

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 and mitigating 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 issued three year grant settlements for the period 2008/09 to 2010/11

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 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 CSR07 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 for CSR07 was 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. This formula is again under review for the next spending review period, however details of the implications for the Fire Authority are not yet known.

Council Tax

The government has issues capping criteria in relation to council tax precepts in each year of the spending review period. In the final year (2010/11) of the CSR, there is an expectation that council tax increases will be below 3%, although exact capping criteria have not been announced. The Authority has a high band D council tax in comparison to other combined fire authorities, however consideration must be given to the current contribution to the grant floor which, if funding had been available to the Authority to the full value of the grant floor contribution, could have resulted in a council tax approximately 10% lower than the current level.

Pensions Funding Arrangements

As well as changing the terms and conditions of the fire fighters pension scheme from 1st April 2006, significant changes to the funding of fire fighters pensions have also been implemented over the period of the CSR. These funding changes provide some certainty over the cost of pensions to Authority's, however future costs are less certain given the financial pressures facing the public sector.

Local Area Agreements (LAA's)

Key indicators and targets have been agreed that form the basis of LAA funding priorities over the medium term. The Authority has assessed it's contribution to the LAA's and works in partnership with Durham County Council and Darlington Borough Council and other partners to ensure partnership funding is allocated to achieve outcomes across the partnerships.

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 2010/11 financial year, the Authority has identified cashable efficiencies totalling £594,000 in its forward and backward look efficiency statements. Further savings of approximately £500,000 have been identified as part of budget setting for 2010/11. The Service will continue to identify areas for efficiency savings in line with guidance.

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. Work has been undertaken to identify areas from the report where the Service can consider implementation locally. This work will continue in 2010/11 as part of the Authority’s approach to identifying future efficiency savings.

6 Inspection and Improvement Initiatives

The Service has been assessed under the new Comprehensive Area Assessment (CAA) in 2008/09 as part of the new assessment framework for the public sector. The CAA consists of an Areas Assessment covering all public sector bodies and an Organisational Assessment specifically in relation to the management and governance arrangements of individual public bodies within an area.

Organisational Assessment

The Authority received a score of “Performing Well” in its Organisational Assessment, with an overall Use of Resources score of 2 (Performing Adequately) and a Managing Performance score of 3 (Performing Well). Overall the Authority scored as Performing Well because of its local focus on community safety activity and performance outcomes in 2008/09.

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
- Fire Control and Firelink
- PFI

7 Asset Management

The Service has an established Estates Strategy and this is reviewed regularly to ensure asset resources and risks are fully considered on an ongoing basis. The Authority also operates a capital strategy and ensures that investment in assets is fully considered through an assessment process.

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. An Estate Strategy was introduced in 2008/09 that focuses on Estate Renewal and Improvement and Strategic Asset Management.

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.

Information Communications Technology (ICT)

The Authority has identified ICT investment requirements and has included these requirements within capital investment plans over the medium term. The revenue implications of these plans have been fully considered as part of the planning process.

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 SCER of £661,000 in 2010/11. Levels of support beyond 2010/11 are unknown and have been assumed as nil for the purposes of this strategy. The Authority will receive direct capital grant of £753,565 in 2010/11 financial year.

Table 3 – Supported Capital Expenditure (11/12 and 12/13 estimated)

2010/11	2011/12 £	2012/13 £
661,000	0(e)	0(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 1st 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 2010/11 to 2012/13

The capital programme for the Service for 2010/11 to 2012/2013 is outlined below:

Table 4 – Capital Programme 2010/11 – 2012/13

	2010/11 £	2011/12 £	2012/13 £
Vehicles	306,000	570,000	463,500
Equipment	139,000	144,600	181,000
Premises	2,061,000	7,567,000	1,300,000
ICT	647,000	138,000	175,000
Total	3,153,000	8,419,600	2,119,500

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.

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.

For two large scale building projects, the service has sought Private Finance Initiative (PFI) funding as part of a partnership arrangement with two other Authorities in the region (NEFRA 1). Future building procurement will identify the most appropriate funding and procurement options that are available to the Authority.

The Authority has been successful in securing further PFI funding (NEFRA 2) 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.

ICT

Development of ICT within the Service is essential to ensure the Authority has the appropriate information and communications support to deliver operational and support services.

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 2010/11 to 2012/13 is shown below

Table 5 – Required Additional Support

	2010/11 £	2011/12 £	2012/13 £
Capital Programme	3,153,000	8,419,600	2,119,500
SCE(R)	643,000	0	0
Capital Grant	753,565	0	0
Required Additional Support	1,756,435	8,419,600	2,119,500

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 and as outlined in the Community Protection Plan (incorporating the Integrated Risk Management Plan). These aims are reviewed in consultation with the public and staff to ensure that resources are directed at areas considered appropriate by the public, Authority 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

Identifying Efficiencies and Priorities for Service Development

The Authority has undertaken a significant amount of work to identify its priorities for 2010/11 and the medium term. The IRMP is based on three year priorities and annual IRMP projects are established to deliver outcomes against these priorities. This medium term financial strategy takes account of known financial resource requirements arising from the IRMP.

The Service has undertaken an efficiency review for 2010/11 budget that has identified approximately £500,000 in savings that have been used to maintain a low council tax increase in 2010/11. The scope for future efficiencies is more challenging and is being considered in a wider business modelling context.

Business Process Improvement

The Service has embarked on an ambitious business process improvement project as an invest to save initiative that will examine key areas of the business that will release capacity and resource to assist with the efficiency challenge over the medium term.

10 Medium Term Financial Planning Scenarios

The following table (5) outlines the medium term financial position of the Authority. A number of assumptions have been made in preparing the table as follows:

- Council tax increases of 2.85% in 2010/11, 0% in 2011/12 & 2012/13
- No collection fund surplus or deficit in 2011/12 and 2012/13
- No changes to the council tax base
- Cash grant reductions of 3% per annum for 2011/12 and 2012/13.

Table 5 – Model 1 – Medium Term Financial Plan

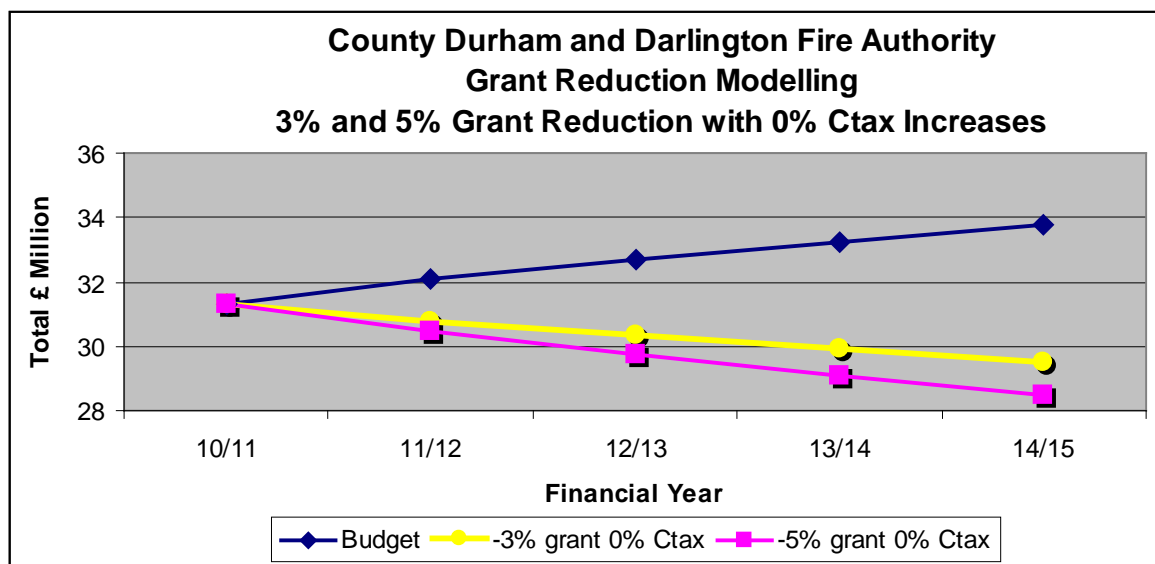
	2010/11 £000	2011/12 £000	2012/13 £000
Standstill Budget	31,780	32,078	32,687
Efficiencies	-496	Tbc	Tbc
Budget Requirement	31,284	32,078	32,687
Formula Grant	14,529	14,093	13,670
Council Tax	16,646	16,646	16,646
Surplus on Collection Funds	109	0	0
Available Resources	31,284	30,739	30,316
Resource Deficit	0	1,339	2,371
Council Tax Base	189,511.70	189,511.70	189,511.70
Band D Charge	£87.84	£87.84	£87.84
Projected Council Tax Increase	£2.43	£0.00	£0.00
Projected % Council Tax Increase	2.85%	0%	0%

A further exemplification of the model is shown in table 6 which uses the same assumptions as for table 5 but with an assumed council tax increase of 2.5% in 2011/12 and 2012/13

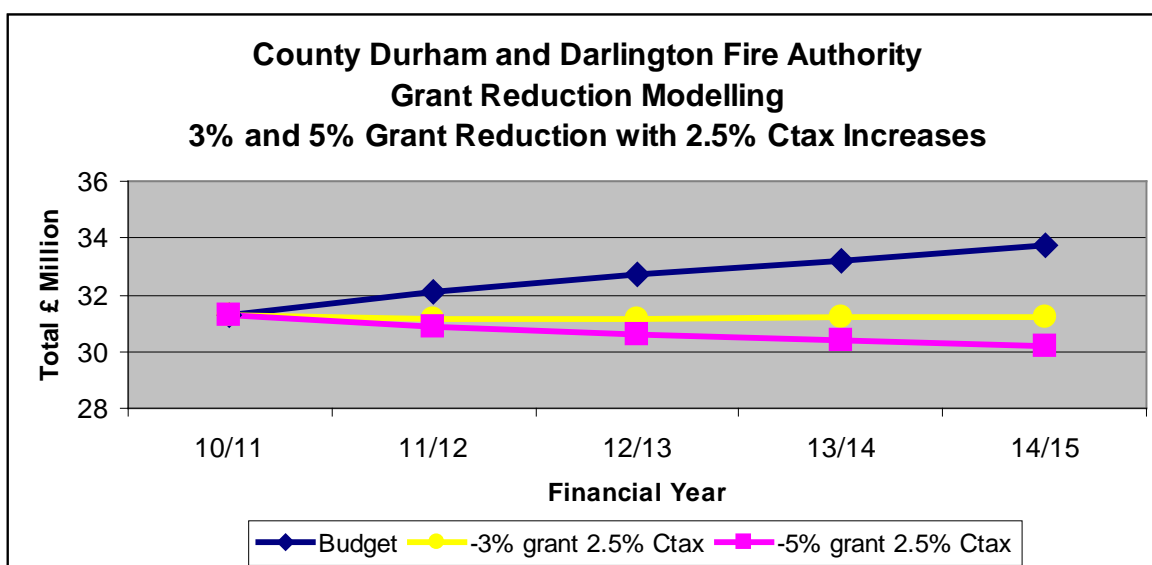
Table 6 – Model 2 – Medium Term Financial Plan

	2010/11 £000	2011/12 £000	2012/13 £000
Standstill Budget	31,780	32,078	32,687
Efficiencies	-496	Tbc	Tbc
Budget Requirement	31,284	32,078	32,687
Formula Grant	14,529	14,093	13,670
Council Tax	16,646	17,064	17,490
Surplus on Collection Funds	109	0	0
Available Resources	31,284	31,157	31,160
Resource Deficit	0	921	1,527
Council Tax Base	189,511.70	189,511.70	189,511.70
Band D Charge	£87.84	£90.03	£92.28
Projected Council Tax Increase	£2.43	£2.19	£2.25
Projected % Council Tax Increase	2.85%	2.5%	2.5%

The following graph outlines in further detail the implications of reducing grant scenario's based on the current medium term budget projections. The graph shows the implications of a 3% grant reduction and a 5% grant reduction with a 0% council tax increase and the widening gap between budget and available funding.



The impact of a 3% and 5% grant reduction with a 2.5% council tax increase from 2011/12 is shown in the graph below.



The scenarios modelled within this strategy emphasise the requirement for a fundamental review of all areas of expenditure and income. The Service has commenced a business modelling approach to assessing options for future budgets and associated options for budget savings.

11 Financial Risk Management

There are a number of risks that have the potential to impact on the Authority’s financial position over and above those highlighted within the preceding sections of the strategy. 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 by CLG. 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 enable the delivery of 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 2010/11 financial year.

This risk within the budget is recognised and is significant as the PFI scheme commits the Authority to a 25 year agreement. This risk has been effectively managed through ensuring accurate financial forecasting of costs and regular updates of affordability to Members. The future costs of the PFI will be managed through ensuring effective budgeting of agreed contract increases in line with RPI formula. The Authority will consider any requirement for a PFI reserve as part of the 2009/10 final accounts closedown.

New PFI Schemes

The Authority has an approved Expression of Interest for PFI funding for new retained stations. This scheme is at the stage of Outline Business Case submission.

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.

Pension Costs

The employer costs of the fire fighters pension scheme and the local government pension scheme are subject to actuarial review on a regular basis. A provision for increased employers costs based on an assessment of anticipated increases has been included in the 2011/12 medium term financial plan. Future increases in the employers contribution rates are a significant risk within the budget.

This risk within the budget is recognised. The Service will continue to ensure that it plays an active role in identifying any increases beyond 2011/12 at an early stage to enable financial implications to be considered. In the short term, the Authority's General reserve provides assurance that any additional costs can be met without operational implications.

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 has implications for access to the pension scheme for retained duty staff.

This risk within the budget is recognised. Details of the implications for Fire Authority's are unknown at this stage however there is likely to be a financial implication for any retained duty staff that gain retrospective membership to the pension scheme. 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 Authorities poses a risk should sufficient funding to manage the assets not be provided. At present, the cost of any servicing and maintenance work is fully funded. The Authority may 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 need to be met from efficiency savings within existing budgets over the medium to long term. The Authority's capital planning processes will ensure that replacement vehicles are planned in line with requirements.

Fire Buy – the national procurement company for the Fire Service

A national procurement company, Firebuy, has been established to ensure common procurement standards within the service at a reduced cost over the medium to long term. Plans are being progressed to include Firebuy as part of a Non Departmental Public Body (NDPB) arrangement that also includes “in service” management of specific Fire and Rescue national projects.

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 arrangements 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 - Environmental

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. The implications of climate change has the potential to place additional resource requirements on local Fire and Rescue Services

This risk within the budget is 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. The establishment of a resilience reserve is being considered to provide short to medium term financial resilience.

Funding – Central Government Grant

Changes to the data used for the purposes of calculating the settlement may have an impact on the actual grant settlement received in the next spending review, however at this stage it is not possible to determine whether this will advantage or disadvantage the Authority.

The impact of the current economic situation is expected to have a significant impact on public sector funding in the next spending review period as outlined in section 10 of this strategy.

This grant funding risk within the budget is recognised. For the period 2010/11 to 2012/13, the medium term financial plan at table 5 and 6 outlines the impact of the grant settlement over this period. The Authority is being pro-active in relation to identifying options to address the funding gap and the business process improvement and business modelling projects will identify various options to reduce expenditure. In the medium term, the Authority's earmarked and general reserve provide an option to smooth any shortfalls that cannot be met from the project outcomes, however it is recognised that this option does not mitigate the requirement to fully fund the budget deficit from deliverable savings.

Ill 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 3%. 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.

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 is as follows:

Table 7 – Anticipated General Reserve Levels

General Reserve	2009/10 £000	2010/11 £000
Opening Reserve	2,675	2,675
Anticipated use of reserves	-	-
Closing Reserve	2,675	2,675

Earmarked Reserves

The Authority has established earmarked reserves for specific purposes, as outlined in table 8. These reserves provide resilience to undertake one-off schemes without having an impact on council tax levels in a specific financial year.

Table 8 – Earmarked Reserve Levels at 01/04/09

Earmarked Reserve	£000
Pensions Reserve	309
Revenue Modernisation	760
Capital Modernisation	2,556
Community Safety	414
Total Earmarked	4,039

Table 9 – Overall Reserves at 01/04/09

	£000
General Reserve	2,675
Earmarked Reserve	4,039
Total Reserves	6,714

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 £3.1M respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

13 The Medium Term Financial Strategy

Value for Money

To meet the challenge of expected grant reductions, the Service is undertaking a review of all areas of expenditure and service provision through a business modelling approach. This approach will identify alternative means of delivering services within a reduced cost envelope. The Service will also use Business Process Improvement as a means of improving Value for Money through process redesign and removing processes that do not add value.

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 within this Medium Term Financial Strategy.

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 expenditure, efficiencies and 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's reserve policy will be reviewed to ensure that the implications of spending and saving decisions take full account of the impact on the authority's existing and future reserves position.

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 continue to review its partnership arrangements 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 2010/11
Community Protection Plan
Integrated Risk Management Plan
Estates Strategy
Capital Strategy