



CLEVELAND FIRE AUTHORITY

MINUTES OF ORDINARY MEETING HELD ON FRIDAY, 6 FEBRUARY 2009

- PRESENT:**
- CHAIRMAN:**
Councillor Porley – Middlesbrough Council
- HARTLEPOOL BOROUGH COUNCIL:**
Councillor Fleming
- MIDDLESBROUGH COUNCIL:-**
Councillors Clark, Ismail, Jones, Rogers, Williams
- REDCAR AND CLEVELAND BOROUGH COUNCIL:-**
Councillors Briggs, Cooney, Forster, Ovens
- STOCKTON ON TEES BOROUGH COUNCIL:-**
Councillors Beall, Dixon, O'Donnell, Salt, Stoker, Woodhead
- PROPER OFFICERS:-**
Clerk, Treasurer, Deputy Clerk
- FIRE BRIGADE OFFICERS:-**
Chief Fire Officer, Director of Corporate Services
- APOLOGIES FOR ABSENCE**
- Councillors Dunning, Fitzpatrick (Redcar & Cleveland)
Councillors Cook, Payne, Wright (Hartlepool)
Councillor Cherrett (Stockton)

147 DECLARATIONS OF MEMBERS INTEREST

It was noted no declarations of interest were submitted to the meeting.

148 REPORT OF THE TREASURER AND CHIEF FIRE OFFICER

148.1 Medium Term Financial Strategy 2008/2009 to 2011/2012 and 2009/2010 Council Tax Level

The Treasurer outlined the Medium Term Financial Strategy (MTFS) and sought Members consideration on the detailed 2009/10 Council Tax proposals.

The Treasurer advised Members that as part of the 2007 Comprehensive Spending Review (CSR07), the Government provided a three year financial settlement for local authorities which was proving extremely challenging for the CFA as grant increases for the three years commencing 2008/2009 had been set at floor level. The table under point 3.8 illustrated how Cleveland's grant allocation compared to other authorities.

The Treasurer reminded Members a detailed review of the current years' revenue budget had been completed and was reported to the CFA in December. These forecasts had been reviewed and the latest indications were that there will be an underspend at the year end of £0.75m compared to an initial forecast of £0.6m. owing to the following factors:

Operational budget – underspend £0.57m:

This variance was due in the main to higher levels of vacancies, and if this trend continued to the year end this variance may increase.

Investment Income – underspend of £0.18m:

The Authority had benefitted from the credit crunch as interest rates on investments had been greater than anticipated when the budget was set, and had also benefitted from higher

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balances and better cashflow than anticipated. It was not expected that the current level of investment income was sustainable as interest rates had already reduced significantly and further reductions would be made in the coming months. In addition investments would reduce as reserves are used to support the revenue budget.

The Treasurer suggested that the 2008/2009 underspend be earmarked to support the budget in 2011/2012 and beyond as it was expected that the financial position would become more challenging, (this was covered later in the report.)

Regarding the Capital Programme, PFI Bid, Prudential Code and Treasury Management Strategy, the Government had previously announced Supported Capital Expenditure (Revenue) for the three year period commencing 2008/2009. The CFAs current allocation for this period are 2008/2009 £535,000; 2009/2010 £598,000; and 2010/2011 £615,000. This had enabled the Authority to develop a three year Capital Programme and the proposals for the next three years were detailed in Appendix B for Members consideration and approval. The Treasurer reported the existing MTFS planned to invest £2m in the Authority's asset base to ensure assets are fit for purpose and sustainable. This investment was partly funded from revenue balances (£1m) and partly from unsupported Prudential Borrowing (£1m). To date only £0.4m of these resources had been committed owing to the lead time for identifying investment needs. It was proposed that no further commitments be approved until the outcome of the PFI Bid was known to avoid expenditure on assets which may be replaced. Also the resources allocated for capital investment, particularly the resources allocated from balances, may need to be reallocated to fund the one-off costs associated with PFI schemes. The Treasurer advised this was the main change to the former plans. The latest design proposals indicated that locally funded Prudential Borrowing would be needed to supplement the available PFI funding.

The Treasurer advised the Government had recently finalised arrangements for distributing £78m of the New Fire Capital grant funding for Fire Authorities. With the exception that the grant can only be used for capital expenditure, the grant would not be ring fenced and would be distributed directly to Fire Authorities without the need for them to apply or bid for it. The CFA would receive £0.625m in 2009/2010 and £0.735m in 2010/2011. The Treasurer therefore suggested that, in view of the uncertainty surrounding the PFI bid, that detailed proposals for using this grant be developed in conjunction with the PFI bid.

In relation to the Treasury Management Strategy 2008/2009, the Treasurer informed Members that in accordance with statutory requirements, the Authority was required to approve the annual Treasury Management Strategy and associated Prudential Indicators as detailed in Appendix C.

Re Revenue Budget 2009/2010 to 2011/2012 and Indicative Forecasts for 2012/2013 and 2013/2014, the Treasurer reported the Authority would also have stable grant levels in 2009/2010 and 2010/2011, although the annual grant increase in these years would only be 0.5% per year in cash terms. Referring to the credit crunch and resulting recession, the Treasurer advised that this would have an adverse impact on public finances as the Government would need to balance expenditure and resources. Against this background the next Comprehensive Spending Review was likely to be more challenging than previously anticipated. The Government had indicated they would review the existing grant formula for the Fire Service. The Treasurer stated therefore for planning purposes it would be appropriate to work on an increase of 0.5%, the current floor level for fire authorities for 2011/2012 and beyond, although even this could be optimistic.

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With reference to provision for Pay Awards, the Treasurer stated that pressure on public sector pay would continue as the Government would wish to restrain pay awards to reduce public sector expenditure, therefore it would not be prudent to reduce the planning assumption for pay awards below 2.5% until the outlook for the economy and pay awards becomes more certain. Regarding Inflation Non Pay Expenditure, it was not proposed that the existing planning assumption 2.5% be changed. Regarding annual efficiency targets, the Authority had previously set these for 2009/2010 and 2010/2011 and it was not proposed to change them.

The current MTFs was based on the phased use of Reserves over the period 2008/2009 to 2011/2012. The Treasurer reported that this strategy partly mitigated the impact of grant increases being capped at 0.5% and provided a period of financial stability pending the implementation of efficiencies. The Treasurer referred to his earlier indication that reserves would increase during the current year by £0.75m and suggested this amount be allocated to support the 2011/2012 to 2013/2014 budget to allow the financial flexibility to meet future pressures arising from the current economic situation.

Referring to Annual Council Tax increases, the Treasurer advised contradictory statements from the Government made it difficult to advise Members on the likely capping limits to be imposed. The Treasurer therefore felt it appropriate to take account of the level of grant increases and also the Authority's Council Tax in relation to other authorities, and recommended a Council Tax increase of 4.9% for 2009/2010 and the following two years. This would result in Band D council tax levels of 2009/2010 - £61.57, 2010/2011 - £64.59, and 2011/2012 - £67.75. The Treasurer drew Members attention to the table under point 6.9 which reaffirms that the Authority faced a challenging financial position. The existing proposals to use balances to support the budget through to 2011/2012 made the position manageable.

The Treasurer advised the Authority's fundamental budget position had not changed. It was therefore essential that the necessary actions were taken to ensure the existing efficiency target of £1.75m is implemented by 1 April 2010. The Chief Fire Officer had indicated within the IRMP that budgets must be looked at critically and areas scrutinised to determine the effective use of funding. The outcome of the IRMP Consultation Process with the community would inform the Authority where there is support for efficiency savings, and Appendix A outlined the timescales associated with the review.

Regarding the robustness of budget forecasts and reserves, the Treasurer reported the Local Government Act 2003 introduced a formal requirement on Local Authorities to consider the proposed level of reserves and the Treasurer give advice on the level of resources. The Treasurer advised Members that in his opinion the budget forecasts and the proposed level of balances suggested in the report for their approval for 2009/2010 were robust, his opinion being based on consideration of the following factors:

- The detailed work undertaken by the Chief Fire Officer and Brigade Officers regarding the preparation of detailed budget forecasts, including the costs and savings of implementing IRMP, income forecasts and Future Pension Forecasts;
- Assurance from the Chief Fire Officer that no material issues have been omitted from the budget forecasts;
- The level of Government Grant to be provided in 2009/2010 to 2010/2011;
- A prudent view of the net costs of the Authority's overall cash flow, including a prudent provision for the repayment of Prudential Borrowing;

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- The establishment of at least a minimum level of reserves consistent with the identified specific risks faced by the CFA and a strategy for using available reserves in the year ahead.

The Treasurer advised the level of reserves was above the target range of 3% to 5% and above the 3% minimum risk assessed requirement (as detailed in Appendix E) of £1m. However a long term view of reserves was needed as there were additional risks to the budget which did not exist in previous years including up front costs of the PFI bid. In the longer term there was also the greater risk that future grant increases could be lower than anticipated, and until these issues were more certain it was prudent to maintain a higher level of reserves. The Treasurer advised the Authority's actual cash reserves temporarily exceed the minimum requirement owing to the phased use of reserves to support the budget over the next four years. This provided a temporary benefit as the available reserves would have a positive benefit on Authority's cashflow and therefore increase the potential investment income. The Authority would also hold an earmarked reserve of £1m to be used to contribute towards any one off costs arising from the proposed PFI scheme.

Referring to the consultation in respect of IRMP, the specific consultation period ended on 19 October 2008 and the first set of five proposals and associated business cases were approved by the Fire Authority on the 28 November 2008.

In conclusion the Treasurer stated there had been significant international and domestic changes since the current years budget was set. In the medium term, the CFA and public sector bodies would be affected by the recession, although this impact was likely to be delayed until the next Comprehensive Spending Review. It was becoming increasingly clear that the next Comprehensive Spending Review would produce lower increases in public expenditure. At the same time the Authority would have less local flexibility as it would have used up its surplus balances to support the revenue budget. The Treasurer stated it was therefore essential that the Authority achieved planned efficiency savings of £1.75m by 1 April 2010, and that a strategy be developed for achieving further efficiencies in 2011/2012 and beyond.

Councillor Williams referred to a previous Authority meeting when the IRMP was discussed, prudent use of the reserves was suggested to cover the possibility of a potential to pay out of voluntary redundancy payments, and queried if that was still the same. The Treasurer advised there were no planned redundancies, as through the IRMP proposals the savings would be achieved through natural wastage. Regarding voluntary redundancy payments, nothing had been built into the budgets as these would have to be cost effective and if this was necessary such short term invest and save costs could be met from the increased reserves.

Councillor Williams referred to the possibility of an increase in National Insurance contributions in 2011 and queried if this was covered. The Treasurer stated that at this moment in time this would not impact on the budget in 2011. Councillors Williams and Ovens also referred to the possibility of the Authority being capped. The Treasurer advised that this was built into the level of reserves should it happen.

Councillor Forster suggested that the council tax increase be quoted as 5½p per week on Band D. The Treasurer advised the council tax increase is stated as the amount of pence per week for each band in the leaflet accompanying bills.

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Councillor Ovens referred to PFI, and that she had heard some concerns regarding PFI Schemes due to the state of the Banks, and queried if there was any likelihood of it not going ahead. The Treasurer advised in terms of the NEFRA 1 PFI there had been a hiccup which was now resolved, and it was hoped that by the time the Authority are at the point of final close we would be coming out of the other side of the recession. The Treasurer reassured Members a close eye would be kept on the situation.

RESOLVED:

- (i) that Members approve the proposed 2009/2010 Capital Programme as detailed in Appendix B**
- (ii) that Members approve the Treasury Management Strategy 2009/ included within Appendix C. This includes Prudential Indicators and limits for 2009/2010 to 2011/2012, the MRP Policy and the Investment Strategy including detailed criteria and counterparty limits.**
- (iii) that Members approve the proposal to fund the existing “backlog property maintenance and IRMP” capital investment commitments of £0.4m from the approved £1m Unsupported Borrowing allocation and suspend further investment pending the outcome of the PFI Scheme.**
- (iv) that Members approve the proposal to reallocate the £1m “backlog property maintenance and IRMP” revenue reserve to meet one-off costs of the PFI scheme and other revenue pressures that may arise over the next three years**
- (v) that Members approve the proposal to determine a detailed programme for using the New Fire Capital Grant in conjunction with the PFI Scheme**
- (vi) that Members approve a Band D Council Tax level for 2009/2010 of £61.57 (a 4.9% increase on 2008/2009) and supporting statutory calculations as detailed at Appendix F and the detailed revenue budget set out at Appendix D**
- (vii) that Members approve indicative Band D Council Tax levels for the following two years as follows:**
 - 2010/2011 = £64.59 (4.9% increase on 2009/2010)**
 - 2011/2012 = £67.75 (4.9% increase on 2010/2011)**

**COUNCILLOR PETER PORLEY
CHAIRMAN**