



CLEVELAND FIRE AUTHORITY

MINUTES OF ORDINARY MEETING HELD ON FRIDAY, 5 FEBRUARY 2010

PRESENT:	CHAIRMAN: Councillor Porley – Middlesbrough Council
	HARTLEPOOL BOROUGH COUNCIL: Councillors Brash, Flintoff, Lilley
	MIDDLESBROUGH COUNCIL:- Councillors Brunton, Rogers, Thompson
	REDCAR AND CLEVELAND BOROUGH COUNCIL:- Councillors Abbott, Briggs, Cooney, Forster, Ovens
	STOCKTON ON TEES BOROUGH COUNCIL:- Councillors Beall, Cherrett, Patterson, Salt, Stoker, Woodhead
	PROPER OFFICERS:- Legal Adviser, Treasurer
	FIRE BRIGADE OFFICERS:- Chief Fire Officer, Director of Corporate Services, Head of Planning and Democratic Services
APOLOGIES FOR ABSENCE:	Councillor Payne (Hartlepool Borough Council) Councillor O'Donnell (Stockton on Tees Borough Council) Councillor Clark (Middlesbrough Council) Councillor Dunning (Redcar & Cleveland Borough Council)

142. DECLARATIONS OF MEMBERS INTEREST

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

143. REPORT OF THE TREASURER AND CHIEF FIRE OFFICER

143.1 Medium Term Financial Strategy 2009/2010 to 2013/2014 and 2010/2011 Council Tax Level

143.1.1 The Treasurer outlined the Medium Term Financial Strategy (MTFS) and sought Members consideration on the detailed 2010/2011 Council Tax proposals. Members were advised 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 annual grant increases for the three years had been set at the floor level of 0.5%. The Treasurer advised the existing MTFS to cover the three years up to 2011/2012 reflected the following assumptions:

- the achievement of annual efficiencies of £0.67m in 2010/2011 and £0.15m in 2011/2012 which are in addition to efficiencies of £0.56m in 2008/2009, £0.52m in 2009/2010.
- the use of reserves over the period 2008/2009 to 2011/2012 to assist the achievement of efficiencies over a longer period
- indicative Council Tax increases of 4.9% in 2010/2011 and 2011/2012

The Treasurer reported that at the Policy Committee meeting on 8 January 2010 Members reviewed the MTFS to reflect the issues detailed in sections 4 to 6 of the report, and which included reviewing the proposed Council Tax increases for 2010/2011 to 2012/2013.

143.1.2 National Financial Position

Regarding the national financial position, the Treasurer reported the global recession had had a profound and long lasting effect on the national financial position, and the Government would need to balance the budget through a combination of tax increases and expenditure reductions which would have significant implications for public services for the next 5 to 10 years. The Treasurer advised that whilst it was expected the UK economy will shortly be technically out of recession, recovery was anticipated to be protracted as those factors which drove the economy in recent years would not be available. In the current financial year the Chancellor has forecast a budget deficit of £177m, and a cumulative shortfall of £700 billion by 2013/2014 which means that Public Sector Debt is forecast to double as shown in the table under 4.6 of the report.

143.1.3 Pre Budget Report and 2010/11 Local Government Finance Settlement

The Chancellor had presented his pre-budget report at the beginning of December 2009, and the key issues for public spending were:

- 2010/2011 previously announced spending plans were confirmed
- 2011/2012 to 2014/2015 average increase in public sector spending would be below 1% with priority for Education, Health and Police
- From 2012 public sector employers pension contributions will be capped
- From April 2011 employers National Insurance Contributions will increase by 1%
- From April 2011 public sector pay awards, with the exception of the armed services, will be capped at 1%.
- Details of the Local Government Finance Settlement had also been issued and there are no changes to the provisional 2010/2011 grant allocation
- The Government had also announced that they expect the average level of Council Tax increase to be below 3%, and they had written to all authorities requesting restraint on Council Tax increases. The Government had also advised authorities that capping principles had always been determined on a year by year basis and this would again be the case for 2010/2011. It would therefore be a mistake for any authority to assume that previous years' capping principles would apply to 2010/2011.

143.1.4 Forecast Outturn 2009/2010

Regarding the current year, the Treasurer reported it was anticipated there would be a £750,000 underspend at the end of the year due to the pay award being less than anticipated when the budget was set, and a significant number of retirements during the financial year. The Treasurer recommended to Members that the 2009/2010 underspend be earmarked to support the budget in future years when it was expected the financial position would be more challenging. The position regarding the 2009/2010 Capital Programme had also been reviewed and the Treasurer reported it was not expected there would be any issues which would need to be addressed.

143.1.5 Capital Programme, PFI Bid, Prudential Code & Treasury Management Strategy

The Treasurer reported that, as Members were aware, there was not a significant Capital Programme. The government had previously announced Supported Capital Expenditure (Revenue) Allocations for the three years commencing 2008/2009, and the Authority's current allocations for this period were:

2008/2009	£535,000
2009/2010	£598,000
2010/2011	£615,000

The Treasurer advised the announcement of allocations for a three year period had enabled the Authority to develop a three year Capital Programme, and drew Members attention to Appendix B to the report which detailed the proposals for the next two years. The Treasurer commented that, for revenue planning purposes, it was presumed that Members would approve these proposals, and the revenue budget forecasts included provision for the resulting Prudential Borrowing repayment costs.

The Treasurer stated the PFI project was progressing to the Outline Business Case (OBC), and advised the successful completion of the PFI process would secure significant PFI credits which would enable investment in new fire stations, a new workshop and Brigade HQ. The annual revenue costs of the PFI project would be partly funded from additional Government grant and partly by local efficiencies. The OBC indicated that without PFI funding the Authority would either not have improved assets or would have to identify even greater efficiencies to fund these developments using prudential borrowing. The Treasurer advised £1m had previously been earmarked to fund one-off PFI costs, however initial work indicated that some of these costs related to capital expenditure, therefore it may be more appropriate to fund these costs using Prudential Borrowing and hold the PFI reserves to manage the associated financial risks. The Treasurer reported in the event these resources were not needed they could either be released to repay the prudential Borrowing or they could be reallocated to support future years budgets. The Treasurer advised the Government previously allocated £78m of capital grant funding for Fire Authorities, of which Cleveland would receive £0.625m in 2009/2010 and £0.735m in 2010/2011

143.1.6 Treasury Management Strategy 2009/2010

The Treasurer advised Treasury Management was a later agenda item.

143.1.7 Revenue Budget 2010/2011 and Indicative Forecasts for 2011/2012 to 2013/2014

Provision for pay awards and other pay costs: The Treasurer reported that pay and directly related employment overheads accounted for 85% of the Authority's budget and had a major impact on its financial position. The current MTFS reduced the provision for pay inflation to 2.5%, Government suggest this provision for 2010/2011 be reduced to 2%. The Government have indicated they will cap increases to 1% for two years from April 2011, therefore the provision for these years can be reduced to this level. On the downside additional provision will need to be made for the 1% National Insurance increase due in April 2011.

Inflation non pay expenditure: The Treasurer stated that non pay related expenditure accounted for 15% of the Authority's budget, meaning each 1% change in inflation equated to £50,000. The Treasurer advised the existing MTFS was based on a planning assumption for non pay inflation of 2.5%, and recommended the general planning assumption for non pay inflation for 2010/2011 be reduced to 2%, 1% for the following two years and 2% for 2013/2014.

Formula Grant increases: The Treasurer advised the existing MTFs assumed that annual grant increases for 2010/2011 and the following 3 years would be pegged at the current floor level for fire authorities of 0.5%, and for planning purposes suggested that it was assumed that from 2011/2012 the grant would be frozen at the 2010/2011 level. However there was a risk the new Government may reduce grant support for local authorities, including fire authorities, the Treasurer advised the impact of this would be covered later in his report.

Annual Council Tax Increases: The Treasurer informed Members the previous forecasts were based on annual Council Tax increases of 4.9%, and as part of the provisional settlement the Government had indicated that they expect council tax levels to be below 3%. The Treasurer stated that when considering the level of Council Tax increases, he considered it appropriate to take account of the level of grant increases, the Authority's Council Tax in relation to other authorities, and the longer term stability and sustainability of the Authority's Council Tax income.

The Treasurer advised on the basis of these facts Policy Committee members considered reducing the planned 2010/2011 Council Tax increase. The Policy Committee had recommended that in line with the Government's own decision not to change the provisional 2010/2011 grant allocations, the Authority should confirm the indicative 2010/2011 Council Tax increase approved in February 2009 of 4.9%, The Treasurer stated the Policy Committee had also recommended an indicative Council Tax increase for 2011/2012 and 2012/2013 of 3%.

The Conservative party had previously indicated that they would freeze Council Tax for two years if they were elected by paying an additional grant to authorities which would limit the Council tax increase to 2.5%. The Treasurer advised if this proved to be the case this could lead to significant cuts in front line services. On the basis of these proposals, the Treasurer drew attention to the table under 6.3 of his report which indicated the efficiencies the Authority would have to identify to set a balanced budget for the next three years (2010 – 2013).

2010/2011 Tax Base and Collection Fund: The Treasurer reported the forecasts considered by the Policy Committee at their meeting in January assumed no change in the Council Tax base and it was not anticipated that there would be an overall surplus on the collection funds. Details of the final Council Tax bases had been received which showed an increase of 66 Band D properties. The Collection Fund balances had also been received which showed a net surplus of £64,290 in overall terms. The recommendation agreed by the Policy Committee was for a 4.9% increase. The Treasurer reported the forecasts presented to the Policy Committee did not reflect the increased Council Tax base or the Collection Fund surplus, as this information was not available at the time, and these changes provided the Authority with the opportunity to review the proposed 2010/2011 Council Tax.

The Treasurer detailed the following three options for members to consider when determining the 2010/2011 Council Tax:

Option 1: An increase of 4.9%.

This would use almost £400,000 less from reserves and still have additional income coming in.

Option 2: An increase of 4.4%.

This would reduce Council Tax income but would be offset by the additional monies coming in from the increase in the council tax base.

Option 3: An increase of 3.9%.

The loss in council tax income would offset the additional income resulting in marginally extra coming from reserves, but this was something that could be managed and would not impact in the medium term.

The Treasurer stated that in considering the level of Council Tax increase for 2010/2011, Members needed to consider that should the Government cap the 2010/2011 Council Tax increase at 3%, additional efficiencies of £0.2m would need to be found. The Authority would also need to fund the one off costs of re-issuing council tax bills which it was anticipated would exceed £0.25m.

The Treasurer referred Members to the table under 6.3 of his report which confirmed the Authority faced a challenging financial position which would not improve beyond 2011/2012. The proposal to use balances to support the budget through to 2012/2013 made the position more manageable. The Treasurer advised the current forecasts assume grant allocations are frozen at the 2010/2011 level and there was a risk that future grant levels may actually be reduced in real terms, therefore it was not unreasonable to anticipate potential annual grant reductions for the Fire Service of 3% from 2011/2012 which would equate to annual grant reduction of £0.67m which would require additional permanent reductions in expenditure of £2m to be made.

143.1.8 Robustness of Budget Forecasts and Reserves

The Treasurer advised the Local Government Act 2003 introduced a formal requirement on Local Authorities to consider the proposed level of reserves and gave advice to Members on the level of reserves. The Treasurer advised Members that in his opinion the budget forecasts and the proposal level of balances suggested in the report for their approval for 2010/2011 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 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
- 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 marginally above the 3% minimum risk assessed requirement (as detailed in Appendix E) of £1m. The Authority's actual cash reserves would temporarily exceed the minimum requirement owing to the phased use of reserves to support the budget over the next five years, and would provide a temporary benefit as the available reserves would have a positive

benefit on the Authority's cashflow and increase potential investment income. The phased use of reserves would also enable the Authority to manage its services within the constraints of restricted Government grant increases from 2010/2011 onwards.

In conclusion the Treasurer stated there had been significant international and domestic changes since the current years budget was set, and assuming that grants are frozen at the 2010/2011 level in the three years from 2011/2012 the Authority faced a challenging financial position. This position would not become clearer until after the General Election. Referring to the Chancellors's pre-budget report which confirmed that growth in the public sector for the three years commencing 2011/2012 would be 0.8% with priority being given to health, education and police, the Treasurer stated this would in all probability result in a prolonged period of annual real term grant reductions which could mean that significant additional expenditure reductions would need to be made from 2011/2012. The Treasurer therefore recommended that uncommitted reserves be earmarked to help manage this risk and provide a slightly longer time to achieve ongoing reductions in expenditure.

Councillor Ovens stated she had raised the question of capping at the Policy Committee in January, since this time more guidance and advice had been received. In terms of risk to the Authority, Councillor Ovens felt serious consideration should be given to Option 2 (4.4% increase) which may prevent Government intervention. The Treasurer advised the Government had capped three Authorities in advance this year, however Cleveland were not in the same league as these Authorities who had in the regional of a 20% plus percentage increase in Council Tax and budget increases. The Treasurer advised a 4.4% increase in Council Tax would reduce the amount of income originally planned but with additional income from the Collection Fund and the increase in Council Tax Base this was offset, and would have no marked impact at all on balances for the next year. Referring to the question of a 4.4% increase incurring capping, the Treasurer advised the projected budget increase of 1.7% would be well below that for previous capping purposes, and there would be a good case to refute that.

The Chief Fire Officer stated the Treasurer looked after financial savings for the Authority, whereas his role was how such savings impacted on services which also had to be taken into account, and referred to the table under 6.3 of the report and the bottom line which gave the net deficit to be funded from efficiency savings. The Chief Fire Officer reminded Members that the Authority had achieved £3m in savings over the last 3 years, but the point at which the Authority could make incremental cuts had gone. The Chief Officer commented that savings during the coming years will only be arrived at by a transformational change in the services the Brigade deliver and how they are delivered. Regardless of what level was set Members would receive a plan setting out how the level of efficiencies would be met. The Chief Fire Officer stated whatever level was set, whilst it was appreciated it would be challenging, the Brigade had a history of meeting such challenges.

Councillor Beall referred to page 14 of the report, Option 3, and sought clarification regarding the Collection Fund surplus. The Treasurer advised that the loss of council tax income could be met from the surplus plus the increase in the tax base,

but the Authority would lose council tax income forever. Once you start reducing council tax your base is reduced which would impact on the future but not the budget for next year.

Councillor Brash referred to point 6.8 of the report, and commented on the difference between the planning figures and the actual figures. Under Option 3 (3.9% increase) there was an increase in the Use of Resources of £12,000 which was not a very significant change and which Councillor Brash felt should be factored into today's decision.

Councillor Thompson commented everyone was experiencing hard times, however he was willing to support Option 3 (3.9% increase) and he felt it was essential to get the message across that the Fire Authority is important, although he felt there was still the danger of being capped at this figure.

The Treasurer commented each of the options were manageable, however the margins for next year would be very small.

Councillor Forster commended the Treasurer and staff for their hard work in looking after the Authority's budget.

Councillor Rogers commented it was important to remember that the Authority's finances have been reduced by £2m and moved for Option 1 (4.9%) increase, seconded by Councillor Cooney - 4 votes in favour

Councillor Ovens moved for Option 2 (4.4%) increase, seconded by Councillor Cherrett - 4 votes in favour

Councillor Brash moved for Option 3 (3.9%) increase, seconded by Councillor Beall - 10 votes in favour

RESOLVED: –

- (i) that the proposal to earmark the 2009/2010 underspend to support the budget in 2011/2012 and beyond be approved**
- (ii) that the proposed 2010/2011 Capital Programme as detailed in Appendix A be approved**
- (iii) that the proposal to use Prudential Borrowing to fund one-off PFI costs which can be capitalised up to the value of £1m and to hold the PFI reserves to manage the financial risks associated with managing this large and complex project. In the event that these resources are not needed they can either be released to repay the Prudential Borrowing, which will reduce ongoing commitments on the revenue budget, or they can be reallocated to support future years budgets be approved**
- (iv) that the detailed revenue budget as detailed at Appendix B be approved**
- (v) that a 2010/2011 Council Tax increase of 3.9% which equates to a Band D Council Tax of £63.97 and supporting statutory calculations detailed at Appendix E be approved**
- (vi) that indicative Council Tax increases for 2011/2012 and 2012/2013 of 3% be approved**

144 REPORT OF THE TREASURER

144.1 Treasury Management Strategy 2010/2011

The Treasurer updated Members on matters relating to Treasury Management and compliance with the guidance. There had been significant issues in connection with treasury management, however the Treasurer advised a prudent view of where the Authority's money was invested had been taken, looking at security of investments.

The Treasurer advised the report outlined the Authority's Treasury Management Strategy for 2010/2011 which included Prudential Indicators for 2010/2011 to 2012/2013, and set out the expected Treasury operations for this period. The report fulfilled four key legislative requirements:

- the reporting of Prudential Indicators based on expected capital activities
- the Authority's Minimum Revenue Provision (MRP) Policy
- the planned borrowing and investment strategies and the limitations on treasury activity by the use of Treasury Prudential Indicators

The Treasurer advised revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were issued in November 2009, and the CLG were currently consulting on changes to the Investment Guidance. The revised guidance and CLG proposals had been incorporated in the report and the Investment Strategy would be revised if any elements of the final CLG Investment Guidance resulted in significant changes. The main changes arising from the new guidance are process related and make it compulsory to adopt practices that the Authority already had in place. One notable change is the requirement to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, and the Treasurer recommended that this responsibility be delegated to the Audit and Governance Committee. The Strategy would be referred to the Audit and Governance Committee on the 12 March 2010, and if any changes are recommended these would be referred to the CFA on 26 March 2010.

The Treasurer reported the revised Code increased the responsibility of Members' in this area who would require training to enable better scrutiny of the Treasury policies. Arrangements would be made for this training to be provided.

The Treasurer reported the Local Government Act 2003 required the Authority to adopt the CIPFA Prudential Code and produce Prudential Indicators. Each indicator either summarised the expected capital activity or introduced limits upon that activity. The Treasurer went through the details of the proposed prudential limits which were set out under sections 5.3 to 5.11 of this report.

Reporting on the Outlook for Interest Rates, the Treasurer advised the short term rates were expected to remain low for a considerable time. Credit extension to the corporate and personal sectors had improved modestly, but banks remained nervous about the viability of counterparties. With inflation set to remain subdued for the next few years the pressure on the Monetary Policy Committee (MPC) to increase rates would remain moderate. The Treasurer reported the outlook for long term fixed interest rates was less favourable, as the longer fixed interest rates would suffer from the lack of support from the major savings institutions. As the uncertainty over future interest rates posed risks for Treasury activity, the Treasurer advised the Authority would take a cautious approach to its Treasury Strategy, a fuller explanation would be given to the Audit and Governance Committee.

Councillor Briggs commented he fully supported this course of action and it would be an agenda item for the next Audit & Governance Committee for further discussion.

Councillor Ovens referred to the Investment Strategy the Authority had entered into with Hartlepool Borough Council and queried if this had been beneficial. The Treasurer advised the monetary benefits had not been significant due to interest rates being so low. The benefit of this arrangement allowed the Authority to invest with institutions which would not necessarily take the amounts of money the Authority had to offer, however a pooled investment portfolio spread the risks and gave the Authority the opportunity to invest in a wider market. These were significant benefits.

Councillor Thompson congratulated the Treasurer on this report and commented it was right to take this cautious approach

RESOLVED:

- (i) that Members agreed the responsibility for the effective scrutiny of Treasury activities be allocated to the Audit and Governance Committee**
- (ii) that Members agreed the Prudential Indicators and Limits relating to Capital Expenditure for 2010/2011 to 2012/2013 as detailed in section 5 of the report**
- (iii) that Members agreed the Minimum Revenue Provision (MRP) Statement as detailed in paragraph 7.5**
- (iv) that Members agreed the Investment Strategy for 2010/2011 to 2012/2013 and related Treasury Prudential Indicators as detailed in Section 8**
- (v) that Members agreed the Borrowing Strategy for 2010/2011 to 2012/2013 and related Treasury Prudential Indicators as set out in Section 9**
- (vi) that members agreed the Investment Strategy Counterparty Criteria contained in Section 9**

145. ANY OTHER BUSINESS

Councillor Forster stated that today was the last day in post for John Doyle, Chief Fire Officer, and suggested that on behalf of the Authority, the Chairman write a letter thanking him for the marvelous work he has undertaken on behalf of the Authority.

RESOLVED – that Members agreed that on behalf of the Authority, the Chairman write a letter to John Doyle thanking him for the service and marvelous work he has undertaken on behalf of the Authority

**COUNCILLOR PETER PORLEY
CHAIRMAN**