

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

13TH FEBRUARY 2006

1. BUDGET AND PRECEPT 2006/2007

Joint Report of the Treasurer and Chief Fire Officer.

RECOMMENDED

1.1 THAT the following be approved:-

1.1.1 The Authority's Revenue Budget for 2006/2007 of £108.877m as set out in Appendix C.

1.1.2 The Authority's capital programme for 2006/2007, 2007/2008 and 2008/2009 as set out in Appendix E.

1.1.3 The Authority's Prudential Indicators as set out in Appendix F.

1.2 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2006/2007 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33(5) of the Local Government Finance Act 1992 as follows:

| | Tax Base |
|---------------|------------------|
| | £ |
| Birmingham | 285,655.00 |
| Coventry | 86,957.20 |
| Dudley | 96,750.14 |
| Sandwell | 83,780.40 |
| Solihull | 77,270.00 |
| Walsall | 76,095.00 |
| Wolverhampton | <u>70,161.00</u> |
| | 776,668.74 |
| | ===== |

1.3 THAT the following amounts be now calculated by the Authority for the year 2006/2007 in accordance with Sections 43 to 48 of the Local Government Finance Act 1992:

1.3.1 £111,443,000 being the aggregate of the amounts which the Authority estimates for the items set out in

Section 43(2)(a) to (d) of the Act.

- 1.3.2 £2,566,000 being the aggregate of the amounts which the Authority estimates for the items set out in Section 43(3)(a) to (b) of the Act.
- 1.3.3 £108,877,000 being the amount by which the aggregate at 1.3.1 above exceeds the aggregate at 1.3.2 above calculated by the Authority in accordance with Section 43(4) of the Act as its budget requirement for the year.
- 1.3.4 £75,339,699 being the aggregate of the sums which the Authority estimates will be payable for the year into its general fund in respect of formula grant by the aggregate of the sums which the Authority estimates will be received in the year from the constituent District Councils in respect of amounts they have estimated as the surplus on their collection funds for 2005/2006.
- 1.3.5 £43.180959 being the amount at 1.3.3 above less the amount at 1.3.4 above all divided by the total amount at 1.2 above, calculated by the Authority in accordance with Section 44(1) of the Act as the basic amount of its Council Tax for the year.

| 1.3.6 | <u>Valuation Bands</u> | £ (to 6 decimals) | £ (rounded to 2 decimals) |
|-------|------------------------|----------------------|---------------------------------|
| | A | 28.787306 | 28.79 |
| | B | 33.585190 | 33.59 |
| | C | 38.383075 | 38.38 |
| | D | 43.180959 | 43.18 |
| | E | 52.776728 | 52.78 |
| | F | 62.372496 | 62.37 |
| | G | 71.968265 | 71.97 |
| | H | 86.361918 | 86.36 |

being the amounts given by multiplying the amount at 1.3.5 above by the number which in the proportion set out in Section 5(1) of the Act is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated

by the Authority in accordance with Section 47(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

1.3.7 Resultant precepts:

| | £ |
|---------------------------------------|----------------------------|
| Birmingham City Council | 12,334,857 |
| Coventry City Council | 3,754,895 |
| Dudley Metropolitan Borough Council | 4,177,764 |
| Sandwell Metropolitan Borough Council | 3,617,718 |
| Solihull Metropolitan Borough Council | 3,336,593 |
| Walsall Metropolitan Borough Council | 3,285,855 |
| Wolverhampton City Council | 3,029,619 |
| Total | <u>33,537,301</u> ===== |

being the amounts given by multiplying the amount at 1.3.5 above by the appropriate tax base at 1.2 above in accordance with section 48(2) of the Act, as the amount of precept payable by each constituent District Council.

- 1.4 THAT the precept for each District Council as calculated at 1.3.7 above be issued in accordance with Section 40 of the Local Government Finance Act 1992.

2. **PURPOSE OF REPORT**

The Authority is requested to consider the Capital Programme for 2006/2007, 2007/2008 and 2008/2009, the prudential indicators relating to the Authority's capital financing requirements, the Revenue Budget for 2006/2007 and to approve the consequent precept level and resultant amount for each constituent District Council.

3. **BACKGROUND**

- 3.1 When the budget and precept for 2005/2006 was approved by the Authority on 14th February 2005, it was recognised that there were likely to be significant budgetary pressures for 2006/2007 and 2007/2008.
- 3.2 On 5th December 2005, the Minister of State for Local Government announced the proposed local government finance settlement for 2006/2007. The provisional settlement incorporated changes to the Grant Distribution system following the formulae review during the summer. It also provided grant information for 2007/2008. The Government intends to provide grant details on a 3 year basis for 2008/2009 onwards.
- 3.3 The most significant formula change for the Fire Service related to new financial arrangements for the Firefighters' Pension Scheme from 1st April 2006. Under the new arrangements, the Fire Authority will be responsible for meeting the costs of a new Employer pension contribution relating to existing employees, together with ill health charges. All remaining pension costs will be met by a Government 'top-up grant'. This compares to the existing arrangements whereby the Fire Authority pays for all pension related matters for existing and retired firefighters. In both cases, there is some reflection of the costs within the respective Grant Formula allocations but the change in treatment has resulted in significant impacts on the Authority's expenditure and grant forecasts.
- 3.4 The Fire Service budget position was presented to the West Midlands District Leaders on 16th December 2005. Leaders paid tribute to the provision of the service provided by the Authority. They also asked if consideration could be given to setting a lower precept increase than the 4.9% proposed.
- 3.5 At its meeting on 30th January 2006, the Policy Planning Forum considered the draft revenue budget for 2006/2007, which indicated a projected expenditure requirement of £108.877m after the District Councils had confirmed their tax bases and collection fund surpluses. The budget had been determined following a number of adjustments from last year's budget projection (Appendix A). The figures included a commitment to fund the Fire Service post involved in the Arson Task Force initiative, previously paid for by external funding (Appendix B). The projected expenditure includes a number of efficiency measures and provides the capacity to undertake actions arising out of the Authority's Corporate Risk Register. The net effect of these changes

resulted in a budget shortfall of £1.74m to be accommodated by additional precept income in 2006/2007 (a Band D Council Tax increase of 4.8%).

- 3.6 The Authority, through the Executive Committee, consulted with commercial and industrial rate payers on the provisional budget and precept level. A meeting took place on 30th January 2006 to which organisations were specifically invited and a statutory notice was published in the local press. A presentation was made on the Authority's financial situation for 2006/2007 and the two subsequent financial years.
- 3.7 Final settlement figures were announced on 31st January 2006. The Authority's final grant figure for 2006/2007 was £75.312m, a reduction of £12k compared to the provisional settlement.
- 3.8 The strategy, set out in 3.5 above would resolve the budget difficulties in 2006/2007 and give the capacity to deliver the Governments modernisation agenda. Details of the changes to the draft base budget are set out in Appendix C, together with revisions to the current year's budget (the 2006/2007 budget is replicated for information in the Best Value Accounting Code of Practice format in Appendix D).

4. **PRECEPT 2006/2007**

- 4.1 Under the Council Tax arrangements, the allocation of the total sum required by the Authority between constituent District Councils is based on the relevant tax base for each District.
- 4.2 All District Councils have now formally set their Council Tax base and have notified the Treasurer accordingly. The total relevant Council Tax base for the Authority is 776,668.74.
- 4.3 The appropriate precept has now been calculated for each District and is set out in paragraph 1.3.7 for the Authority's approval.
- 4.4 The Council Tax at Band D for 2006/2007 is £43.18, an increase of £1.97 (4.8%) over 2005/2006.

5. **FUNDING OF EXPENDITURE 2006/2007**

The final figures from external funding sources have now been notified and are included in the table below:-

| | £ |
|----------------------------------|-------------------|
| Formula Grant | 75,311,783 |
| Share of Collection Fund Surplus | 27,916 |
| Council Tax (met by Districts) | <u>33,537,301</u> |
| | 108,877,000 |
| | ===== |

6. **GENERAL BALANCES POSITION**

- 6.1 Based on the current forecast of net expenditure in 2005/2006, the Authority's estimated available general balances at 1st April 2006 are £2.5 million. At this level, the amount of General balances would equate to approximately 2.3% of the Authority's budget.
- 6.2 The actual level of general balances at 1st April 2006 will not be determined until the completion of the Authority's 2005/2006 closedown of accounts process.

7. **CAPITAL PROGRAMME**

- 7.1 At the Authority meeting on 14th February 2005, consideration and approval was given to the current three year Capital Programme. That programme was revised at the Authority Committee on 27th June 2005 to accommodate 'slippage' on a number of 2004/2005 Capital Schemes. The Programme has been monitored during the year by a combination of Authority and Executive Committee meetings.
- 7.2 It is estimated that the commitments in respect of those projects which make up the current year's capital programme, is as follows:

| | £m |
|-----------|-------|
| 2006/2007 | 3.866 |
| 2007/2008 | 2.961 |
| 2008/2009 | 2.347 |

The full list of projects is shown on Appendix E.

- 7.3 This Authority was notified by the ODPM on 13th December 2005 that its Supported Capital Expenditure Allocation for 2006/2007 is

£3.732m.

- 7.4 A forecast of resources covering the period 2006/2007 to 2008/2009 is shown below:

| | <u>2006/2007</u> | <u>2007/2008</u> | <u>2008/2009</u> |
|----------------------|-------------------------|-------------------------|-------------------------|
| | £m | £m | £m |
| Supported Cap Expend | 3.732 | 3.732 | 3.732 |
| Prudential Borrowing | 6.000 | 1.000 | |
| Revenue Funding | 3.778 | | |
| Capital Receipts | 0.250 | | 8.080 |
| Grants | 0.310 | 0.620 | |
| | <hr/> | <hr/> | <hr/> |
| | 14.070 | 5.352 | 11.812 |
| | <hr/> | <hr/> | <hr/> |

- 7.5 At the Executive Committee meeting on 30th January 2006 the relocation of the current Headquarters was approved, together with the relocation of the Control Room. It was recognised that in order to proceed with the Headquarters relocation there would be a need to undertake prudential borrowing. It was also highlighted that the timing of expenditure on the new site and the sales receipts obtained from a number of existing sites (which formed part of the funding package for the project) would create the need to undertake temporary borrowing.

7.6 The table below compares the expenditure on those projects within the capital programme which are committed and the projected resources outlined in paragraph 7.4:

| | <u>2006/2007</u> | <u>2007/2008</u> | <u>2008/2009</u> |
|---------------------------|-------------------------|-------------------------|-------------------------|
| | £m | £m | £m |
| Projected Resources | 14.070 | 5.352 | 11.812 |
| <u>Less: Commitments</u> | 13.966 | 10.447 | 2.847 |
| | _____ | _____ | _____ |
| Funding Surplus/(Deficit) | 0.104 | (5.095) | 8.965 |
| | _____ | _____ | _____ |

7.7 Because of the need to maintain some funding flexibility within the three year Capital Programme, given the anticipated significant impact of the Headquarters relocation, only two new schemes had been considered appropriate to incorporate into the proposed Capital Programme; Appliance Relocation and Hydraulic Rescue Tools.

7.8 It is considered that those schemes identified on Appendices E1 and E2 should be incorporated into the 2006/2007 to 2008/2009 Capital Programme. The expenditure phasing of those schemes identified as commitments and those schemes approved to start in 2006/2007 may be adjusted providing there is no overall budget increase.

8. **THE PRUDENTIAL CODE**

8.1 Under the Local Government Act 2003, credit approvals were abolished and a new prudential capital finance system was introduced from 1st April 2004. CIPFA has prepared a Prudential Code which underpins the system of capital finance. Local authorities are required by Regulation to have regard to the Prudential Code under Part 1 of the Local Government act 2003.

8.2 The key objectives of the Prudential Code are to ensure that 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.

- 8.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The indicators are designed to support and record local decision making.
- 8.4 The Prudential Indicators that have been calculated for this Authority are detailed on Appendix F.

9. **PLANNING FOR THE 2007/2008 AND 2008/2009 BUDGET**

- 9.1 In preparing the draft revenue budget for 2006/2007, an expenditure forecast for 2007/2008 and 2008/2009 has also been undertaken by 'rolling forward' the 2006/2007 draft budget; updating for anticipated inflation and pay awards, and adding in commitments and firefighters' pensions. The forecast does not allow for any essential developments and any other new requirements the Authority may need to respond to, in particular, any costs that may arise out of Regional Control Centres and the Government's Firelink project which are due to 'go live' during the period covered by the medium term financial plan. Nor do the figures include any efficiencies which may be achieved through the Modernisation Agenda. A forecast of the likely level of resources using known external funding to date indicates the following position in 2007/2008 and 2008/2009:

| | 2007/2008 | 2008/2009 |
|---|------------------|------------------|
| | £m | £m |
| Budget requirement | 113,464 | 118,009 |
| Resources | | |
| - Grant | 77,397 | 79,564 |
| - Precept – 2006/07 Level | <u>33,537</u> | <u>33,537</u> |
| Supportable expenditure (excluding precept increase) | <u>110,934</u> | <u>113,101</u> |
| Potential impact on precept levels (cumulative) | 8% | 15% |

9.2 The estimated external resources in the table above reflect the provisional 2007/2008 Grant identified in this year's finance settlement with a similar percentage increase assumed in arriving at the 2008/2009 figure.

Further details of the medium term budgets are shown on Appendix G.

10. **EQUALITY AND DIVERSITY IMPLICATIONS**

There are no equality and diversity implications arising directly from this report.

11. **CORPORATE AIM SUPPORTED**

The principal corporate aim supported by the information in this report is as follows:-

2. Creating a financial plan, operating within the budget, ensuring the most efficient use of resources.

12. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

BACKGROUND PAPERS

ODPM Communications

Policy Planning Forum 30th January 2006

Consultation with non domestic rate payers 30th January 2006

F. J. E. SHEEHAN
CHIEF FIRE OFFICER

L. BATEMAN
TREASURER

REVISED EXPENDITURE PROJECTION 2006/2007

| | £m |
|--|---------|
| Authority Meeting (14 th February 2005) | 118.814 |
| <u>Budget Increases</u> | |
| Fuel/Gas | 0.385 |
| Prudential Borrowing | 0.175 |
| Reduced Interest Income | 0.160 |
| Arson Task Force | 0.045 |
| <u>Budget Reductions</u> | |
| Pensions | - 9.400 |
| Insurance Fund | - 0.500 |
| Cash Limiting Budgets | - 0.250 |
| Pay | - 0.200 |
| Shift Pattern Changes | - 0.080 |
| Stores Support | - 0.080 |
| Efficiency Targets | - 0.141 |
| Other | - 0.051 |
| | <hr/> |
| TOTAL | 108.877 |
| | <hr/> |

ARSON TASK FORCE INITIATIVE

Project Title: Arson Task Force Support

Project Description:

The Arson Task Force is a joint project between West Midlands Police Service and West Midlands Fire Service. It was established with external funding which is due to cease on 31st March 2006. The work undertaken by the Arson Task Force plays a key role in driving down arson related incidents within the Brigade area and has resulted in significantly improved results against a number of arson related performance indicators. West Midlands Police are prepared to meet the salary cost of a police officer to support the work of the Arson Task Force and it is proposed that the Fire Service make a similar commitment.

| <u>Costings £000s</u> | <u>2006/2007</u> | <u>2007/2008</u> | <u>2008/2009</u> |
|-----------------------|------------------|------------------|------------------|
| | 45 | 45 | 45 |

Staffing Implications:

One full time uniformed post.

Corporate Aims Supported:

The principal corporate aims supported by the information in this report are as follows:

3. Reducing risk in the community.
9. Developing and supporting sustainable outcomes.
11. Modernising and improving the quality of service.

APPENDIX C**SUMMARY OF 2005/2006 REVISED BUDGET AND 2006/2007 BUDGET**

| | Original Budget 2005/06 | Revised Budget 2005/06 | Original Budget 2006/07 |
|---|--|---------------------------------------|--|
| Subjective Heading | £000s | £000s | £000s |
| Employees | 75,260 | 73,349 | 77,582 |
| Premises | 4,196 | 4,539 | 4,484 |
| Transport | 1,645 | 1,864 | 1,885 |
| Supplies & Services | 7,789 | 8,193 | 7,731 |
| Capital Financing | 4,617 | 4,557 | 4,981 |
| GROSS EXPENDITURE | 93,507 | 92,502 | 96,663 |
| Income | (2,253) | (2,328) | (2,171) |
| NET EXPENDITURE | 91,254 | 90,174 | 94,492 |
| Net Pensions Expenditure | 21,943 | 25,051 | 14,780 |
| TOTAL F&R EXPENDITURE BEFORE APPROPRIATIONS | 113,197 | 115,225 | 109,272 |
| Appropriations to/(from) Reserves | 125 | 85 | (395) |
| TOTAL F&R EXPENDITURE AFTER APPROPRIATIONS | 113,322 | 115,310 | 108,877 |
| Essential Developments | 260 | - | - |
| TOTAL F&R EXPENDITURE INCLUDING DEVELOPMENTS | 113,582 | 115,310 | 108,877 |
| Use of Earmarked Reserves | - | (1,728) | - |
| TOTAL BUDGET REQUIREMENT | 113,582 | 113,582 | 108,877 |

APPENDIX D**SUMMARY OF 2006/07 BUDGET IN BEST VALUE FORMAT**

| | Original Budget 2006/07 |
|--|------------------------------------|
| | £000s |
| Firefighting & Rescue Operations | 104,597 |
| Community Fire Safety | 11,962 |
| Corporate Management | 708 |
| Democratic Representation & Management | 479 |
| Emergency Planning & Civil Defence | 153 |
| Non Distributed Costs | 299 |
| NET COST OF SERVICES | 118,198 |
| Asset Management Revenue Account | 39 |
| Pensions Interest Cost | 41,950 |
| Interest & Investment Income | (780) |
| NET OPERATING EXPENDITURE | 159,407 |
| Contribution from Reserves | (50,530) |
| TOTAL BUDGET REQUIREMENT | 108,877 |

APPENDIX E**CAPITAL PROGRAMME 2006/07 TO 2008/09**

| | Project Year In 2006/2007 | 2006/2007 | 2007/2008 | 2008/2009 |
|-------------------------------|------------------------------|---------------|----------------|---------------|
| Original Commitments | Year | £000s | £000s | £000s |
| BA Servicing Rooms-Upgrade | 3 of 3 | 14 | | |
| Security Measures | 3 of 2 | 40 | | |
| Equality & Diversity Works | 3 of 3 | 120 | | |
| Deep Lift Well Alterations | 2 of 5 | 124 | 72 | 72 |
| Drill Tower Upgrades | 3 of 3 | 15 | | |
| Integrated Computer System | 3 of 4 | 600 | 358 | |
| Home Fire Safety Checks | 3 of 4 | 310 | 620 | |
| Stourbridge Refurbishment | 2 of 3 | 1,118 | 30 | |
| Northfield Refurbishment | 6 of 3 | 25 | | |
| HCFS Fire Experience Facility | 5 of 1 | 17 | | |
| Vehicle Replacement Programme | On-going | 1,483 | 1,881 | 2,275 |
| TOTAL | | 3,866 | 2,961 | 2,347 |
| Headquarters Relocation | 1 of 3 | 9,600 | 7,486 | 500 |
| Control Room | 1 of 1 | 500 | | |
| TOTAL COMMITMENTS | | 13,966 | 10,447 | 2,847 |
| New Starts | | | | |
| Appliance Relocations (IRMP) | 1 of 1 | 50 | | |
| Hydraulic Rescue Tools | 1 of 4 | 50 | 50 | 50 |
| Bickenhill Refurbishment | 0 of 3 | | 139 | 821 |
| TOTAL NEW STARTS | | 100 | 189 | 871 |
| GRAND TOTAL | | 14,066 | 10,636 | 3,718 |
| SUPPORTED CAPITAL EXPENDITURE | | 3,732 | 3,732 | 3,732 |
| PRUDENTIAL BORROWING | | 6,000 | 1,000 | |
| REVENUE FUNDINIG | | 3,778 | | 8,080 |
| CAPITAL RECEIPTS | | 250 | | |
| GRANTS | | 310 | 620 | |
| | | 14,070 | 5,352 | 11,812 |
| SURPLUS (+)/DEFICIT(-) | | 4 | (5,284) | 8,094 |

CAPITAL PROGRAMME 2006/2007

Project Title: Replacement Programme for Hydraulic Rescue Tools

Project Description: A considerable amount of Hydraulic Cutting and Rescue Equipment is approaching 15 years old.

Although currently in a serviceable condition, this equipment is outdated due to equality and diversity issues, cutting capabilities and capacity brought about by advances in material technology and efficiency.

Increases in the strength of motor vehicle construction and the inclusion of tough 'safety shells' in many modern lorries and cars requires the latest technologically advanced equipment to be able to break in and extricate trapped casualties speedily and effectively.

It is proposed to introduce new updated hydraulic cutting equipment on a rolling programme over a 4 year period.

| <u>Costings £000s</u> | <u>2006/2007</u> | <u>2007/2008</u> | <u>2008/2009</u> | <u>2009/2010</u> |
|-----------------------|------------------|------------------|------------------|------------------|
| | 50 | 50 | 50 | 50 |

Corporate Aims Supported:

The principal corporate aims supported by the information in this report are as follows:

3. Reducing risk in the community
5. Planning for and responding appropriately to all emergencies.
6. Caring for the health, safety and welfare of all our people

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2004/05 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

| Capital Expenditure | | | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | |
| £000 | £000 | £000 | £000 | £000 | £000 |
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| 4,366 | 5,109 | 4,570 | 4,352 | 3,732 | |

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2004/05 are:

| Ratio of financing costs to net revenue stream | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | |
| % | % | % | % | % | % |
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| 3.06 | 3.18 | 3.87 | 4.47 | 4.49 | |

The estimates of financing costs include current commitments and the proposals in this budget report.

3. All borrowing forecasts contained within this report relate only to supported capital expenditure, which receives Government grant support. Consequently, the incremental impact of any borrowing arising from new capital investment decisions has been reflected within the overall budget projections, although the impact specifically on the level of precept cannot be quantified.
4. Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual financing requirements at 31 March 2005 are:

| Capital financing requirement | | | | | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31/03/05 | 31/03/06 | 31/03/07 | 31/03/08 | 31/03/09 | |
| £000 | £000 | £000 | £000 | £000 | £000 |
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| 40,843 | 43,000 | 52,000 | 54,000 | 56,000 | |

5. The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, West Midlands Fire & Rescue Authority does not associate borrowing with particular items or types of expenditure. The authority relies upon Sandwell Metropolitan Borough Council to undertake its treasury management function, which has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Service. West Midlands Fire Service has, at any point in time, a number of cashflows both positive and negative, and Sandwell Metropolitan Borough Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. 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.

6. CIPFA's Prudential Code for Capital Finance in Local Authorities 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."

The Treasurer reports that the authority had no difficulty meeting this requirement in 2003/04, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

7. In respect of its external debt, it is recommended that the authority approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

| Authorised limit for external debt | | | | |
|---|----------------|----------------|----------------|----------------|
| | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
| | £000 | £000 | £000 | £000 |
| | 60,500 | 65,000 | 67,500 | 70,000 |

8. The Treasurer reports that these 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 Sandwell Metropolitan Borough Council's approved treasury management policy statement and practices. The Treasurer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.
9. The Authority is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Treasurers estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movement, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Treasurer.

| Operational boundary for external debt | | | |
|---|----------------|----------------|----------------|
| 2005/06 | 2006/07 | 2007/08 | 2008/09 |
| £000 | £000 | £000 | £000 |
| 54,000 | 57,500 | 59,500 | 61,500 |

10. The Authority's actual long term liabilities at 31st March 2005 were £40.7 million. It should be noted that actual long term liabilities is not directly comparable to the authorised limit and operational boundary, since the actual long term liabilities reflects the position at one point in time.
11. In taking its decisions on this budget report, the Authority is asked to note that the authorised limit determined for 2006/07 (see paragraph 7 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

APPENDIX G1**BUDGET FORECAST 2007/8 TO 2008/9**

| | 2007/8 | 2008/9 |
|--|----------------|----------------|
| | £000s | £000s |
| TOTAL BUDGET 2006/7 | 108,877 | 108,877 |
| NON RECURRING | | |
| Staff Turnover | -557 | -1,103 |
| TOTAL NON RECURRING | -557 | -1,103 |
| TOTAL BASE BUDGET LESS NON RECURRING | 108,320 | 107,774 |
| COMMITTED GROWTH ITEMS | | |
| (a) Increments | 75 | 150 |
| (b) Firefighters' Pensions Operating A/c | 584 | 1,877 |
| (c) Revenue effect of Capital Programme | 427 | 1,122 |
| (d) Other – Appendix G3 | 805 | 394 |
| TOTAL COMMITTED GROWTH | 1,891 | 3,543 |
| TOTAL BASE BUDGET EXCLUDING INFLATION | 110,211 | 111,317 |
| INFLATION PROVISION | | |
| (a) Pay Awards | 2,833 | 5,852 |
| (b) Price Changes | 390 | 780 |
| (c) Other – specific price changes – Appendix G3 | 30 | 60 |
| TOTAL INFLATION PROVISION | 3,253 | 6,692 |
| TOTAL BASE BUDGET INCLUDING INFLATION | 113,464 | 118,009 |

INFLATION ASSUMPTIONS**Pay Awards:-**

%

- Uniformed Staff

| | |
|---------|-----|
| July 06 | 3.5 |
| July 07 | 4.0 |
| July 08 | 4.0 |
| July 09 | 4.0 |

- Non Uniformed Staff

| | |
|----------|------|
| April 06 | 2.95 |
| April 07 | 3.0 |
| April 08 | 3.0 |
| April 09 | 3.0 |

General Prices:-

| | |
|----------|-----|
| April 06 | 0.0 |
| April 07 | 2.5 |
| April 08 | 2.5 |
| April 09 | 2.5 |

Pensions Increase Order:-

| | |
|----------|-----|
| April 06 | 2.7 |
| April 07 | 3.0 |
| April 08 | 3.0 |
| April 09 | 3.0 |

APPENDIX G3**BUDGET FORECAST 2007/08 TO 2008/09**

| | 07/08 £'000 | 08/09 £'000 |
|---------------------------------------|----------------|----------------|
| <u>Committed Growth – Other</u> | | |
| Public Holiday (2 Easter days) | 200 | -200 |
| Prudential Borrowing | 455 | 444 |
| Interest – Reserves £3m @5% | 150 | 150 |
| | <hr/> | <hr/> |
| Total Committed Growth – Other | <u>805</u> | <u>394</u> |
| <u>Other – Specific Price Changes</u> | | |
| Superannuation | 30 | 60 |
| | <hr/> | <hr/> |
| Total Other – Specific Price Changes | <u>30</u> | <u>60</u> |

SENSITIVITY ANALYSIS

The approximate impact of a 1% variation in some of the key assumptions underpinning the budget projections is shown below:

Expenditure

| | |
|-------------------------|---------------------------|
| Uniformed pay awards | £640k (£480k – part year) |
| Non-uniformed pay award | £110k |
| General inflation | £100k |

Income

| | |
|------------------|-------|
| Government Grant | £750k |
| Council Tax | £335k |