

2012/13 and Later Years Revenue and Capital Budgets

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report brings together the elements of the budget, as set out in the reports that follow, and seeks the Committee's approval for a budget outline to be recommended to the Fire Authority in December 2011.

2 Recommendations

The Committee is asked to approve the revised expenditure figures as a basis for developing the budget at the meeting of the Fire Authority on 14 December 2011.

3 Background

The Committee, through the Strategic Risk and Planning Working Group (STRaP), has based its budget planning in terms of expenditure on the forecasts approved by the Fire Authority in February 2011. However, the Group recommended that pay assumptions were increased to 2.5% from 2013/14.

This was the position as approved by the Fire Authority in February 2011.

	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000
Base Budget	20,472	20,506	20,426	20,720
Committed Changes	115	-94	79	297
Pay and Prices	401	425	433	442
Service Developments	200	200	200	200
Efficiencies	-190	-190	-150	-150
Capital Schemes – new starts	15	7	29	37
Public Value Reductions	-507	-428	-297	0
<i>Expenditure before reductions</i>	<i>20,506</i>	<i>20,426</i>	<i>20,720</i>	<i>21,546</i>
Reduction Required	243	94	-397	-470
Expenditure	20,749	20,520	20,323	21,076

This was to be funded as follows:

Grant	7,229	6,607	6,006	6,343
Council Tax	13,490	13,883	14,287	14,703
Collection Fund – surplus	30	30	30	30
	20,749	20,520	20,323	21,076

This report deals with existing expenditure budgets. Funding estimates can only be completed once final information is available in early January on the Council Tax Band D base and the Collection Fund surplus, but planning will continue based on current assumptions.

The grant settlement for 2012/13 is already known; however there is still some uncertainty surrounding a further, one-off, council tax freeze grant for 2012/13.

This report adds forecasts for the fifth year of the planning period. However the final two years are outside of the current Comprehensive Spending Review and are speculative at this stage.

4 Revised Budget Summary

The changes to revenue expenditure covered in the following papers can be summarised as follows:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Previous Year's Budget	20,472	20,057	20,085	20,381	21,341
Committed change	-258	-1	51	387	0
Pay and Prices	402	490	517	529	542
Efficiencies	-67	-40	0	0	0
2012/13 and later Capital Programme	15	7	25	44	110
Service Developments	0	0	0	0	0
	20,564	20,513	20,678	21,341	21,993
Public Value Savings	-507	-428	-297	0	0
	20,057	20,085	20,381	21,341	21,993

5 Summary to date

At this stage, further work is needed on all forecasts. However, changes already identified show that the originally planned deficits and, therefore, potential reductions in spending and reserves in 2012/13 through to 2015/16 have been lowered by expenditure reductions from £21.546m to £21.341m, i.e. £205,000.

The reasons for these reductions are set out below:

	Committed Growth	Pay and Prices	Efficiencies and Service Developments	Capital Programme	Total
	£000	£000	£000	£000	£000
2012/13	-73	-299	-77	0	-449
2013/14	93	65	-50	0	108
2014/15	-28	84	-50	-4	2
2015/16	90	87	-50	7	134
	82	-63	-227	3	-205

The main reasons for the changes are summarised below:

	£000
Increase in pay assumptions from 2013/14	236
Reduction in base pay prices	-300
No provision yet for growth and efficiencies	-227
Changes in committed costs	86
	-205

6 Funding Assumptions

Grant

The revenue grant allocated to Fire Authorities for 2012/13 is already known and can be used with certainty in its funding assumptions. However, detail around the settlements for 2013/14 and 2014/15 is still unknown and it is unlikely that any indications will be given until late 2012.

Assumptions for grant in later years continue to be based on the expectation that reductions in grant for fire services will be back loaded and will total around 27.5% over the four-year settlement period, with consolidation of the 2011/12 council tax freeze grant into the fourth year settlement with no further reduction.

Precept

As the budget was set in February 2011, the Authority's precept strategy was as follows:

	2012/13	2013/14	2014/15	2015/16	2016/17
Precept Increase	0%	2.5%	2.5%	2.5%	2.5%

In June the STRaP Group reviewed the Authority's precept strategy and agreed to recommend that, rather than continuing to plan for a 0% increase in 2012/13, the Authority should plan for an increase of 2.5%, to balance inflationary pressures and deficit control.

The Government announced in October that it is to offer a further, one-off grant to those local authorities, who freeze council tax for a second year. The implications to this Authority of accepting the grant will require consideration as part of the five-year budget planning process.

There remain a number of significant uncertainties but at least such an exercise enables a re-appraisal of the work done through the Public Value process to identify the further spending reductions required.

The main uncertainties surrounding the Authority's funding are:

- i Precept increase excessiveness criteria in later years, particularly relevant if the Authority chooses to accept the one-off freeze grant in 2012/13, and rebalance funding streams in the following year. This could be perceived as being 3%, given that grant equivalent to such an increase is available (if only in 2012/13); this would exceed the 5% required to bring the planned income from precept back into balance.
- ii The detail of phasing the back-loading of Revenue Support Grant reductions;
- iii Grant formula or data change increases (or decreases) from 2013/14 onward;
- iv Other potential grant changes, e.g. the effect of specific grant consolidation in revenue support, or the redistribution of business rates to local authorities;
- v The meaning of real-term and cash equivalent reductions;
- vii The Band D base; and
- viii The collection fund surplus or deficit.

Income forecast for the five-year period is as follows:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Revenue Support Grant	7,229	6,607	6,006	6,006	6,006
Precept	13,829	14,230	14,644	15,070	15,509
Collection Fund	30	30	30	30	30
Total Income	21,088	20,867	20,680	21,106	21,545

Given the range of forecasts possible in the light of the unknowns set out above, it is difficult to select any particular assumptions. However, the table above makes the following assumptions:

- a Precept increases are 2.5% for 2012/13 and thereafter;
- b Grant reduces by 17.7% in 2013/14 and 2014/15 to reflect the back loading of the Spending Review reductions; grant for 2015/16 and 2016/17 is assumed to remain the same;
- c There is an increase in Band D base in line with experience in recent years; and
- d The collection fund remains in surplus at 2010/11 levels.

The net changes to expenditure and income produce the following deficits:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Forecast Expenditure	20,057	20,085	20,381	21,341	21,993
Forecast Income	21,088	20,867	20,680	21,106	21,545
Deficits / (Surplus)	(1,031)	(782)	(299)	235	448

At this stage it is proposed to go forward to the Authority on the basis of these figures, subject to further work being carried out with officers, and continuing discussions around the most effective way to use the predicted surpluses in the early years of the plan to reduce committed expenditure in later years.

7 Financial Implications

The financial implications are as outlined in the main body of the report.

8 Legal Comment

There are no direct legal implications arising from this report.

9 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

10 Appendices

There are no appendices attached to this report.

11 Background Papers

Reports 7a to 7g on the agenda for this meeting of the Committee.

7a

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
18 November 2011

Base Budget plus Committed Change

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report shows the latest position on the base budget plus committed change, following budget reviews by heads of department.

2 Recommendations

The Committee is asked to note the contents of the report, for inclusion in the budget summary shown in report 7.

3 Background

As the first step in the budget setting process, finance staff and heads of department have reviewed all current budgets. This review has taken into account both changes that have been made to date to the 2011/12 revenue budget, and anticipated changes for 2012/13 and future years.

Work on the base budget review is ongoing, and adjustments will be made throughout the budget setting process, and reported to Members.

4 Revised Position following Review

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
a) 2011/12 Budget	20,472	20,472	20,472	20,472	20,472
b) Committed Changes					
Firefighters' pensions	40	40	40	40	40
Leasing	-8	-71	-80	-80	-80
Debt charges prior to 2012/13:	60	60	60	60	60
No pay award (2010/11)	-300	-300	-300	-300	-300
Health & Safety post	20	32	32	32	32
Audit commission fees	-5	-5	-5	-5	-5
LGPS valuation	0	0	60	60	60
Firefighters' pension revaluation	0	50	50	100	100
Furniture	-15	-15	-15	-15	-15
Uniforms and clothing	-50	-50	-50	-50	-50
Total	20,214	20,213	20,264	20,314	21,546
Total movement in base budget	-258	-259	-208	-158	-158

5 Financial Implications

There are no financial implications other than those mentioned in the report.

6 Legal Comment

There are no direct legal implications arising from this report.

7 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

8 Appendices

There are no appendices attached to this report.

9 Background Papers

There are no background papers associated with this report.

Pay and Prices Assumptions

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coady, Head of Finance, on 01743 260215.

1 Purpose of Report

This report sets out the possible provision to be made for pay and price inflation in 2012/13 and later years.

2 Recommendations

The Committee is asked to recommend that the Fire Authority bases its future budget plans at present on option 2, as exemplified in paragraph 5.

3 Background

During this year's strategic planning process, the Fire Authority has continued its policy of fixing a realistic provision for pay and prices changes. A long-term view has been adopted, which has ensured low steady increases in precept, with savings identified, when the position with pay awards has been confirmed. This strategy has avoided the need to put pressure on future budgets, when pay awards may exceed those seen in recent years.

The methodology previously adopted by the Authority for establishing its pay and prices contingencies has been to:

- i) Analyse its base budget (2011/12) into the spending areas, where pay or price changes can be significant;
- ii) Make pay assumptions for firefighters, based on any consensus that exists among fire authorities for the likely outcome of the nationally negotiated settlement;

- iii) Make pay assumptions for other pay, based on a realistic expectation of the outcome of any outstanding negotiations;
- iv) Take account of known issues, such as increments; rank to role; expected progression through scales; and tax changes; and
- v) Analyse the non-pay and income budgets into key elements, including those to which no inflation applies, such as debt charges, and apply appropriate percentages to each.

4 Current Developments

During 2011/12, confirmation was received that there would be no pay awards for the previous financial year. As a result, funds relating to the provision of this pay award have been removed from the base budget (See Base Budget plus Committed Change report 7a). Some inflationary adjustments have been made during 2011/12, namely increasing the capital schemes for fire appliances, and inflating the budget for business rates.

At its meeting on 8 June 2011, the Strategic Risk and Planning Working Group discussed the issues around pay assumptions and inflationary pressures over the next five years. As pay and prices is the most significant element of the budget setting process, it is important that consistent and realistic assumptions are made. A 1% variation in price assumptions increases or reduces the budget by around £50,000, and a 1% change to pay assumptions makes a difference of around £160,000.

Following its discussions, the Group agreed that inflation assumptions should remain at 2%, whilst pay increases should remain at 2% for 2012/13, and from 2013 should be budgeted at 2.5%.

5 Conclusions

The figures for pay and price assumptions over the next five years will be budgeted as follows:

	Pay		Prices	
	%	£'000	%	£'000
2012/13	2.0	300	2.0	102
2013/14	2.5	386	2.0	104
2014/15	2.5	411	2.0	106
2015/16	2.5	421	2.0	108
2016/17	2.5	432	2.0	110

6 Financial Implications

The financial implications are as outlined in the report.

6 Legal Comment

There are no direct legal implications arising from this report.

7 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

8 Appendix

There are no appendices attached to this report

9 Background Papers

There are no background papers associated with this report.

Efficiencies 2012/13 and Forward Budgets

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coady, Head of Finance, on 01743 260215.

1 Purpose of Report

This report looks at progress in identifying efficiencies for the period 2012/13 to 2016/17.

2 Recommendations

The Committee is asked to recommend to the Fire Authority that it include £67,000 for planning the 2012/13 budget, and that it continues to seek out efficiencies as part of the budget setting process in later years.

3 Background

The Authority has a policy of maximising efficiency gains, i.e. achieving more for the same cost, or the same for less cost. In recent years, it has budgeted for efficiencies and achieved the disaggregated targets set by Government.

4 Current Developments

In February 2011, fire and rescue authorities were advised that the Secretary of State no longer expected Annual Efficiency Statement data returns, instead stating that 'Fire and Rescue Authorities will be expected to provide reassurance with regard to efficiency in respect of spending and performance through greater transparency and accountability.'

To this end, the Code of Recommended Practice for Local Authorities on Data Transparency was published on 29 September 2011, placing requirements on local authorities to make information available to the public. Compliance with the Code should demonstrate how value for money has been achieved in public bodies, and should also highlight inefficiency.

5 Approach to Efficiencies

It is recommended that a review for possible efficiencies continues to form part of the Authority's budget setting process. Although a formal efficiency return is no longer required, it seems prudent to continue to budget for, and identify, efficiencies as part of the budget setting process, in order to demonstrate the Authority's ongoing commitment to achieving value for money.

6 Work to date

To date potential efficiency savings have been identified as follows:

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Consultation costs	7	7	7	7	7
Saving in ill-health retirement costs (reduce assumption lines to 2 retirements a year)	40	80	80	80	80
Occupational Health contract	20	20	20	20	20
	67	107	107	107	107

7 Financial Implications

The financial implications are as outlined in the report.

8 Legal Comment

There are no direct legal implications arising from this report.

9 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

10 Appendices

There are no appendices attached to this report.

11 Background Papers

There are no background papers associated with this report.

Capital Programme 2012/13 to 2016/17

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coady, Head of Finance, on 01743 260215.

1 Purpose of Report

This report sets out the current schemes put forward for inclusion in the next five years' budgets. It then sets out the potential revenue consequences, subject to public value consideration, including project appraisals, and to a review of financing possibilities.

2 Recommendations

The Committee is recommended to propose to the Authority, for inclusion in its five year budget planning:

- a) The schemes set out in the appendix to this report;
- b) The potential funding of these schemes and the maximisation of the capital reserve, if possible; and
- c) The revenue consequences that would flow from these schemes.

3 Background

The Authority has already agreed capital programmes for 2011/12 and earlier years. It has also agreed how these schemes are funded and the revenue consequences for future years. These figures are reviewed and included in earlier reports as commitments.

This report deals with the options available for new schemes starting next year.

4 The Capital Programme from 2012/13

The schemes currently under consideration are set out in the appendix to this report, and can be summarised as follows:

Year of Start	Total Project Cost of Starts £ 000	Revenue Consequences				
		2012/13 £ 000	2013/14 £ 000	2014/15 £ 000	2015/16 £ 000	2016/17 £000
2012/13	105	15	15	15	15	15
2013/14	50		7	7	7	7
2014/15	400			25	39	39
2015/16	1,200				30	140
2016/17	0					
		15	22	47	91	201
Annual Addition		15	7	25	44	110

It should be noted that revenue consequences are limited to financing costs – any other costs need to be flagged up as part of the project appraisals. Also, the Authority is presently only committing itself to schemes that start in 2012/13. The majority of schemes are currently shown as being spent in the year of the start. However, experience shows that payments often slip into later years, thereby slowing the build-up of costs and resulting in revenue underspendings.

The revenue consequences are calculated in the following way. It is assumed that a loan will be raised at a mid point in the year – at 5%. Provision to repay the loan is now required to be set, beginning in the following year, at an appropriate level or Minimum Revenue Provision (MRP). This would be 4%, where the asset is expected to last 25 years, but a higher percentage, where asset life is shorter than 25 years. Similarly, where assets are financed from the capital reserve, repayments back to the reserve to pay for their replacement are made over the life of the asset.

Officers are currently producing project appraisals for each scheme to confirm their service value, the capital cost, phasing of expenditure and revenue consequences. There is, therefore, scope for these figures to change, especially if there are any associated revenue consequences, such as running costs of property or systems.

5 Prudential Guidelines

The main issue for the Authority to consider is sustainability. The Fire Authority received a capital grant of £915,000 in 2011/12, and government supported borrowing within the Revenue Support Grant totalled £497,000 in 2011/12. The Authority will need to take into account the capital funding levels put forward for future years in the Comprehensive Spending Review in judging the prudence and sustainability as well as the merits of the schemes involved. The Authority will, therefore, need to evaluate the final programme presented in January in the light of Prudential and Treasury Management Guidelines.

6 Future Capital Schemes

The forward capital programme is being thoroughly reviewed by officers and any future requests for schemes will be considered as part of the ongoing strategic planning process. Projects for consideration will be tested to ensure that as far as possible they are both realistically costed and resourced; will start when scheduled; and that, where possible, they have long-term revenue saving potential.

7 Financial Implications

The financial implications are as outlined in the report.

8 Legal Comment

There are no direct legal implications arising from this report.

9 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

10 Appendix

Capital Programme 2012/13 to 2016/17

11 Background Papers

There are no background papers associated with this report.

Capital Programme 2012/13 to 2016/17

Scheme		Total	2012/13	2013/14	2014/15	2015/16	2016/17
		£000	£000	£000	£000	£000	£000
2012/13							
Replace Workshop and Stores vans (2)	Fund	55	8	8	8	8	8
Provisional sum to replace light vehicles	Fund	50	7	7	7	7	7
		105	15	15	15	15	15
2013/14							
Provisional sum to replace light vehicles	Fund	50		7	7	7	7
		50		7	7	7	7
2014/15							
Replacement of Prime Movers (2)	Loan	150			4	18	18
Replace Ford Rangers (5) and Land Rovers (2) including pods	Fund	250			21	21	21
		400			25	39	39
2015/16							
Replace Sabre Appliances (6)	Loan	1,200				30	140
		1,200				30	140
2016/17							
			15	22	47	91	201

Public Value Outcomes 2011

Report of the Chief Fire Officer

For further information about this report please contact Paul Raymond, Chief Fire Officer, on 01743 260205 or Steve Worrall, Assistant Chief Fire Officer, on 01743 260204.

1 Purpose of Report

This report sets out the summary financial and service planning outcomes arising from the second year of the 2010 Public Value review, particularly in respect of the scheduling and nature of proposed budget cuts during the period 2012-2015. The outcomes and proposals set out within the report were considered and accepted by the Fire Authority's Strategic Risk and Planning Working Group (STRaP).

2 Recommendations

Members are asked to:

- a) Note the contents of this report; and
- b) Recommend to the Fire Authority that it approve the inclusion of the proposed budget reductions in the budget setting process.

3 Background

To address the impact of the recession upon Shropshire Fire and Rescue Service a Public Value review was introduced at the outset of 2010. The Member led review sought, through a structured process of staff engagement, to solicit the views, opinions and support of staff to unite into a single team to form a collective strategy to address likely budget cuts.

A total of 40 Public Value staff engagement sessions took place in 2010, and a second round of consultations is currently being undertaken to update staff on progress to date, and to confirm the proposed budget cuts for 2012/13. In addition, a number of meetings with the business community and members of the public are planned over the coming months.

4 Public Value Outcomes

Full details regarding the proposals planned for 2012/13 and future years are shown on the appendix to this report. The total value of the proposals to be implemented is £1.6m over the period 2012/13 to 2014/15, with a total reduction in the 4 year period of £2.8m.

5 Financial Implications

There are no financial implications arising from this report.

6 Legal Comment

There are no legal implications arising from this report.

7 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have determined that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

8 Appendix

Summary of Proposed Budget Reductions 2011/12 – 20114/15

9 Background Papers

There are no background papers associated with this report.

Summary of Proposed Budget Reductions 2011/12 – 2014/15

2011/12 Area:	Saving	2012/13 Area:	Saving	2013/14 Area:	Saving	2014/15 Area:	Saving
Legacy Inflation	£100,000	Reduction of 2 Non-Uniform Posts	£50,000	End to permanent crewing of RT (from 01/01/2014)	£80,000	End to permanent crewing of RT (from 01/04/2014)	£217,000
Insurance Premium Reductions	£100,000	Reduction of 5 RDS Posts	£30,000	Reduction of 2 Non-Uniform Posts	£50,000	Reduction of 2 Non-Uniform Posts	£50,000
Reduction of 2 Non-Uniform Posts	£50,000	Reduction in RDS budget	£50,000	Reduction of 5 RDS Posts	£30,000	Reduction of 5 RDS Posts	£30,000
Reduction of 5 RDS Posts	£30,000	Reduction in Capital Programme	£90,000	Reduction in Smoke Alarm Budget	£75,000	Reduction in Capital Programme	£125,000
Reduction of 4 planned DST officers	£148,000	Reduction in Building Maintenance Budget	£50,000	Reduction of 1 Training Instructor post	£43,000		
Reduction of 4 WT watch managers	£172,000	Revised Relief Crew Policy	£30,000	Reduction in Capital Programme	£160,000		
Reduction of 6 Incident Command posts	£372,000	Cessation of permanent crewing of ALP	£297,000	Reduction in Building Maintenance Budget	£50,000		
Removal of station messing	£61,000			Reduction of 1 Brigade Manager post	£100,000		
Reduction in RDS budget	£50,000						
Reduction in Capital Programme	£63,000						
Saving:	£1,146,000		£597,000		£588,000		£422,000
Accumulative Savings:	£1,146,000		£1,743,000		£2,331,000		£2,753,000

Key to abbreviations:

ALP – Aerial Ladder Platform
DST – District Support Officers
RDS – Retained Duty System personnel
RT – Rescue Tender
WT – Wholetime Duty personnel

Provisions, Reserves and Funds

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report sets out the issues, which the Fire Authority will need to consider as part of its annual review of provisions, reserves and funds.

2 Recommendations

The Committee is recommended to propose to the Fire Authority that it:

- a) Continue the Equipment Replacement Provision, and consider the widening of its use;
- b) Review the level of the General Reserve as the current budget position becomes clearer;
- c) Re-price the General, Earmarked Capital, Information and Communications Technology (ICT), and Pension Liabilities and Other Staff Issues Reserves; and
- d) Confirm the other earmarked reserves at their current levels, subject to reviewing the issues raised on pensions, ICT improvements and unforeseen capital schemes.

3 Background

The Authority's provisions, reserves and funds at 1 April 2011 were as follows:

Provisions	£000
Equipment Replacement	64
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	64
Reserves	
General Reserve	539
Efficiency Reserve	60
Extreme Weather	312
Pension Liabilities and Other Staff Issues	1,256
Capital – earmarked	527
– un-earmarked	988
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	3,682
	<hr/>
General Fund	2,212
Total	<u>5,894</u>

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for specific known and potentially significant future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled but could be pooled;
- Review the provisions and reserves during the budget process (the purpose of this report) and on closing the accounts;
- Ensure that all provisions and reserves are inflation-proofed, i.e. earn interest, if appropriate; and
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery, and consequently also hold no monies in the General Fund, unless agreed to enhance future budgets.

4 Provisions

Equipment Replacement

The equipment replacement fund smoothes out expenditure on items of operational equipment, receives annual contributions for their replacement over their expected life, and replaces them, when necessary.

The provision has continued to prove useful in dealing with the ongoing replacement of equipment, and may be of even greater benefit in future years in terms of smoothing revenue expenditure. It is recommended that the provision is maintained, and that consideration is given to widening the areas for which it is used.

5 General Reserve

The General Reserve meets known risks, which are difficult to quantify or schedule. The Authority does not wish to take tax revenue, which may never be needed, and, therefore, tries to attribute a weighting representing the likelihood of an individual risk happening. This has led to a provision of £523,000, details of which are set out in the appendix to this report.

The level of value of the risks should be re-priced to match inflation (although at current rates this is likely to be small) and the probabilities reviewed. The total reserve of £539,000 represents just below 2.6% of gross expenditure.

The major, current uncertainties are the costs of establishing a link with Hereford and Worcester Fire and Rescue Service for joint mobilising, and whether grant will be forthcoming from Communities and Local Government (CLG) to fund necessary works; and the issues with pay and price inflation going forward, although this risk should be minimised with realistic provision in the revenue budget.

6 Earmarked Reserves

a) Efficiency and Growth

It is likely that some, though not all, of the balance on this reserve will be used to fund initiatives relating to the Headquarters move, which are expected to result in future efficiencies. There may be merit in topping up the reserve from any future net savings, to be prudent in servicing future efficiencies.

In addition, as we move into more difficult revenue budget conditions Members may wish to consider building up a growth reserve to replace the £50,000 annual growth item in the revenue budget.

b) Extreme Weather/ Extreme Operational Conditions Reserve

The balance represents the monies saved in previous years against the budget provision for an average year. Recent experience indicates that the revenue provision for call-outs and additional hours may be too high, and some reductions have been made in the retained budgets as part of the Public Value process.

A review of the retained budgets is currently being undertaken, and, if it is recommended that the revenue provision is reduced, it may be prudent to increase this reserve to provide for any unanticipated future activity.

‘Extreme Operational Conditions’ reserve may better describe the conditions under which the reserve may be called upon.

c) Pension Liabilities and Other Staff Issues

The purpose of this reserve is to meet one-off contributions, required by the Government, to the Pensions Account for sickness retirements above the past average of three each year, provided for in the revenue budget. The reserve also meets other costs, which are not met by the Pensions Account, such as injury benefits.

At present, the notional provision by the Government Actuary for sickness pensions nationally would be greater than our present revenue budget, i.e. reflecting our anticipated better-than-average performance at managing ill-health retirements. This requires caution however the number of ill-health retirements has not yet exceeded three in any year since 2006/07 and the level of revenue budget provision is reviewed elsewhere in these budget papers. Subject to that review, which is likely to reduce the annual revenue budget, it is recommended that the reserve is retained.

In 2009/10 it was decided to broaden the scope of the reserve to include any potential liabilities arising from the outstanding issue of retained firefighter pension and other costs between 2000 and 2006 and a further £700,000 was added to the reserve for this purpose when the Accounts for 2009/10 were closed. **The position regarding these potential liabilities is still unclear**, and it is recommended that the reserve be maintained with an addition for inflation.

There may be a need to provide an additional sum to cover future implications of changes to the Firefighters' Pension schemes and this will be kept under review.

A balance of £100,000 has been added to the reserve in 2011/12 to meet any one-off transitional costs of staff changes that may arise from Public Value proposals.

Another small element of this reserve is to provide for staff issues relating to equality and diversity. Provision has been made for expenditure for reasonable adjustments and mediation, in order that these issues are not budgeted for on an annual basis.

d) Capital - Earmarked

The objective of this reserve is to fund small and recurring items of capital, and receive contributions over their life, thereby ensuring their eventual replacement from the reserve. There is no known reason to change this approach, although a review may be required, if savings are needed in future years.

In addition, amounts were added following the close of 2010/11, to cover major building schemes, which have been identified but not yet developed.

The position, before amendments to the capital programme are made, is as follows:

	2011/12	2012/13	2013/14
	£000	£000	£ 000
Balance 1 April	527	450	330
Expenditure	-964	-355	-50
Income			
- Contributions	242	207	200
- One-off receipts	620	0	
- Re-pricing	25	28	30
Balance 31 March	<u>450</u>	<u>330</u>	<u>510</u>

It should be noted that expenditure and contributions will need to be changed to reflect decisions on the currently approved capital budgets for 2012/13 onwards.

e) Capital - Un-Earmarked

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise revenue funding of the St Michael's Street Capital scheme. The objective is to minimise borrowing and, therefore, committed debt charges in future years.

Currently the position is expected to be as follows:

	Reserve
	£000
Balance 1 April 2011	988
2011/12	
Agreed contribution	536
One-off contributions	1,076
Capital payments	-285
Payment to earmarked reserve	-170
Inflation Proofing	35
31 March 2012	2,180
2012/13	
Agreed contribution	578
Capital payments	-
Inflation Proofing	40
31 March 2013	2,798

The table on the previous page assumes the following cost and funding of the St. Michael's Street Scheme:

	Reserve	Grant	Loan	Total Payments
	£000	£000	£000	£000
2009/10	21	103		124
2010/11	1,044	691	343	2078
2011/12	285	515	854	1,654
Total	1,350	1,309	1197	3,856

The surplus on the capital reserve could be used to reduce the borrowing on the St Michael's Street or other capital schemes, or to help phase budget reductions. Officers will make recommendations regarding this later in the year.

f) **ICT Reserve**

The Fire Authority agreed to set up this reserve from funds available on closing the 2010/11 accounts, to ensure that ICT improvements and resilience issues were managed and funded in a clear and consistent manner.

The position on the reserve to date is as follows:

	£'000
Balance at 1 April 2011	500
Link to Shirehall (Agreed by Fire Authority 27 April 2011)	-31
Set up costs – Wide Area Network (Agreed by Fire Authority 15 June 2011)	-149
Lift and shift of mobilising system (Agreed by Fire Authority 15 June 2011)	-50
Local Area Network (Agreed through urgency procedures)	-110
Balance	160

It is proposed that this reserve continues to be used for ICT improvements, and that the level of the reserve is reviewed at the close of the financial year.

7 **General Fund**

The General Fund is simply the net balance of over and underspendings during the year. The Authority's policy is not to accumulate funds year on year (and obviously to deal with any potential overspend). The balance in the General Fund at 1 April 2011 was £2,212,000 and the Fire Authority agreed to add £371,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2011/12.

The balance of £1,841,000 was transferred to reserves as follows:

ICT Reserve	£500,000
Capital Earmarked Reserve	£450,000
Capital Unearmarked Reserve	£791,000
Pensions Reserve	£100,000
Total	£1,841,000

8 Financial Implications

The financial implications are as outlined in the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

11 Appendix

Build-Up of General Reserve 2011/12

12 Background Papers

There are no background papers associated with this report.

Build-up of General Reserve 2011/12

	Risks as categorised by CIPFA	Absolute Level £ 000	Probability %	Current Provision £ 000	Comment
1	Cash Flow	50	10	5	No significant change to risk or amount. The use of cash to delay borrowing raises risks slightly. Main problem has been timing of pension payments and top up grant.
2	Inflation Assumptions	426	-	-	No risk if realistic provision is made in the revenue budget.
5	Other demands including new legislation	50	10	5	Deals with issues such as unexpected costs arising from changes as costs and responsibilities within the public sector are resolved.
6	Firelink / RCC	345	10	35	Risk exists that we would have insufficient grant from CLG to fund link to H&W. FireLink /Airwave issues are covered in the revenue budget
7	Specific Risks	118	50	59	Deals with one-off technical matters threatening service delivery.
8	Ongoing Risks				
	i Vehicle Accident	205	20	41	Would deal with one major appliance at £200,000. Would cover any gap between early termination of a lease and any insurance receipt.
	ii Ill health and injury	108	50	54	Dealt with by pensions earmarked reserve provision
	iii Industrial Action	106	50	53	Based on known experience
	iv Technical Problems	216	50	108	Principally IT or telecoms problems
	v Uninsurable Risks				Would cover such issues as data protection
9	Loss of Grants, receipts or other external Funding	187	35	65	Grants should become part of revenue budget processes each year as they are likely to be absorbed into RSG. This covers any unexpected loss of income mid-year.
11	Changes to National Purchasing	120	50	60	Could mean current contracts unviable
12	Financial Control	250	10	25	Reflects likely risk of overspends through weak systems of control
13	Uninsurable health and Safety Risks	126	10	13	Identified from the risk register.
14	Fines from Corporate Manslaughter Legislation	160	10	16	Based originally on a £150,000 fine imposed on an Authority. Not a high amount, as courts may not want to penalise local taxpayers.
	General Reserve	2,467		539	

Precept Planning 2012-15

Report of the Chief Fire Officer

For further information about this report please contact Paul Raymond,
Chief Fire Officer, on 01743 260205.

1 Purpose of Report

This report further discusses precept proposals for 2012 and onwards,
following recent announcements by the coalition government.

2 Recommendations

The Committee is asked to:

- a) Direct officers to continue planning assumptions on an increase in council tax equivalent to 2.5% or 4p per week for the average family;
- or**
- b) Direct officers to base the planning assumptions on accepting the tax freeze grant equivalent to 2.5% and identify further annual budget reductions equivalent to around £337,000 from 2013/14 onwards;
- and**
- c) Produce a communication strategy for the selected option above.

3 Background

At previous meetings of Strategy and Resources Committee and the Fire Authority, Members were minded to base their financial and corporate planning assumptions on a 2.5% (4p per week) increase in council tax for 2012/13. Members identified the difficult nature of this decision for local tax payers but also agreed that alternative reductions in front line service delivery would be even more challenging for the Authority and local communities.

Members will be aware that the Authority set a zero percent increase in precept in 2011/12, and in return received funding equivalent to a 2.5% increase from government. This funding is likely to cease from 2014/15, meaning that the Authority will need to find further budget cuts of £337,000 to balance the budget.

At the Conservative party conference earlier this year, the Chancellor stated that, due to savings made in central government departments, funding equivalent to a 2.5% increase in precept would be available to those authorities, who froze council tax for a second year. Authorities are not mandated to accept this freeze grant offered for 2012/13.

The current offer of tax freeze grant is for one year only, and will offer no ongoing increase to the Authority's base budget.

For local authorities, facing front-loaded cuts to grant, this offer will be attractive but it does delay grant reductions for 12 months only. Fire authorities, however, have their cuts back-loaded and for some the first 2 years see little, if any, reduction in grant and would perhaps have preferred this offer to be made in 2013/14, when the cuts really bite across the country.

Grant Reductions for similar Combined Fire Authorities

Service	2011	2012
Shropshire	-9.5%	-3.4%
Cheshire	+1.26%	+1.9%
Devon and Somerset	-1.2%	-1.9%
Dorset	-1.05%	+1.88%
Hereford and Worcester	-2.4%	+1.6%

This authority is dealing with significant cuts in the first two years, so Members may see this one year offer of money as an attractive option.

4 Implications

As this Authority is dealing with significant cuts in revenue grant in the first two years of the Spending Review, Members may view an offer of assistance as an attractive option. However, funding of this nature, which assists the Authority for one year in isolation, will have longer-term implications, which are detailed in the following section.

5 Financial implications

Within our five-year precept strategy, the Authority has set an average increase of 2.5% per year, equating to around 4p per week for the average family, in order for the Service budget to be kept in line with inflation. However, with inflation now running at around 5% the 2.5% increase is actually half the level of inflation.

There are perhaps 5 options open to Members, details of which are set out on the following pages.

Option 1

If Members decide **not** to apply a 2.5% or 4p per week increase, the deficit predicted for 2014/15 onwards would increase by £338,000.

This is on top of the current budget programme of £3,000,000 reduction to our £21,000,000 budget.

Option 2

Members could accept the tax freeze grant and add the 2.5% increase to the following year's precept. This would make the precept rise in 2013/14 equivalent to 5% or 8p per week. However, the Authority may be prevented from taking this decision by the threat of capping.

Option 3

The Authority may decide to set a 2.5% precept increase and turn down the single year offer of money from Government. This would reduce the deficit in future years by around £338,000 per year. Experience shows that, if the public are asked about precept rises for the Fire Authority, they are very happy to pay a 4p per week rise to protect the front-line service.

Option 4

Members may wish to turn down the offer of the tax freeze grant but set a zero percent precept- increase. This would have similar implications to the first option but the Authority would not be able to use the £338,000 for one-off projects.

Option 5

Members may wish to accept the 2.5% grant and continue to stick to their long-term precept plan from 2013/14. This would again lead to the deficits described in option 1.

In some ways the one-year offer is similar to being offered a pay rise or a bonus – the bonus may help for one year but most would choose a pay rise.

6 Political Implications

All local councils and fire authorities accepted the tax freeze grant for 2011 and set a council tax averaging £1,439 per family or £27.67 per week. This Authority set its council tax at £83.72 per family or £1.61 per week.

Many Parish Councils did increase their precept, averaging 2.1% or £1 per year.

There is currently no data available on how many authorities will not be accepting the one-year offer from Government to freeze council tax.

Furthermore, there is no indication of what the ramifications for this authority would be, were it to turn down the council tax freeze grant.

Current information suggests that Shropshire Council will accept the one-year grant and set a zero council tax increase.

Members will clearly have to balance the impact to the Fire Authority of setting a 2.5% precept increase now with the impact of further reductions in front-line service in 2013 onwards.

7 Legal Comment

There are no direct legal implications arising from this report.

8 Equality Impact Assessment

As this is a discussion paper an Equality Impact Assessment (EQIA) has not been carried out on it. A full EQIA will be completed for any budget reduction plans agreed by the Authority

9 Appendices

There are no appendices attached to this report.

10 Background Papers

There are no background papers associated with this report.

(Surplus) / Deficit

Options	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Report 7 Precept 2.5% in 2012/13	(1,031)	(782)	(299)	235	448
Report 7g - option 1 Accept the freeze grant, 0% precept in 2012/13	(1,096)	(433)	58	602	826
Report 7g - option 2 Accept the freeze grant, 5.5% precept in 2012/13	(1,096)	(839)	(360)	172	384
Report 7g - option 3 Refuse the freeze grant, 2.5% precept in 2012/13	(1,031)	(782)	(299)	235	448
Report 7g - option 4 Refuse the freeze grant, 0% precept in 2012/13	(691)	(433)	58	602	826

1% precept is around £135,000

Freeze grant is £405,000 (3% equivalent)