Shropshire and Wrekin Fire and Rescue Authority
25 April 2012

Use of Balances and Reserves to Secure Resilience and Efficiency

Report of the Chief Fire Officer

For further information about this report please contact Paul Raymond, Chief Fire Officer, on 01743 260205, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report makes recommendation to Members about the use of reserves and opportunity savings to secure resilience and efficiency for the Authority.

2 Recommendations

The Fire Authority is asked to:

a) Note and discuss the contents of the report;
b) Approve the proposed use of reserves and balances in 2012/13; and
c) Consider the use of reserves and balances in future years, noting the long term effect of these decisions on revenue surplus / deficit.

3 Background

The Authority has always planned financially over a five or six-year period for revenue and up to 10 years ahead for capital projects. This planning has proven particularly useful in the difficult financial times we face today.

During 2009/10 officers and Members carried out the Service's biggest staff consultation exercise to identify ways to make upwards of £3 million cuts to the Service budget without closing stations, minimising the impact on the front line or making compulsory redundancies.

In order to do this, officers used the natural retirement and turnover of staff to achieve the majority of cost reductions required. This, however, has meant that some posts have been removed from the Service earlier than necessary, resulting in a surplus in earlier years, but avoiding unnecessary redundancy costs in later years.

This strategy has created a large amount of opportunity savings, which, along with existing reserves, can now be used to secure savings and to protect the resilience of the Service into the long term.

This paper makes recommendations for the use of the Authority's reserves and balances and demonstrates the effect on its long-term budget planning.

4 Current Position on Opportunity Savings and Reserves

Revenue Budget

The revenue budget for 2012/13 was approved by the Fire Authority in February, and indications for the following four years were also noted.

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Total Budget	**21,748**	**21,385**	**21,083**	**21,231**	**21,718**
Net Expenditure	**20,906**	**20,941**	**20,677**	**21,151**	**21,852**
Surplus / (Deficit)	**842**	**444**	**406**	**80**	**(134)**
Income:					
Grant	7,564	6,853	6,070	5,734	5,734
Collection Fund	159	30	30	30	30
Council Tax	14,025	14,502	14,983	15,467	15,954
Total Income:	**21,748**	**21,385**	**21,083**	**21,231**	**21,718**
Increase in precept per week at Band D	**6p**	**5p**	**5p**	**5p**	**5p**

Reserves and Balances

Work is currently in progress to finalise balances on reserves at the end of the year.

Earmarked Capital Reserve

This reserve is used to fund capital schemes, avoiding the long-term debt charges associated with borrowing. After the allocation of 2011/12 expenditure from the reserve, and contributions back into the reserve for current schemes, the estimated balance at the end of the year is £1.125m

Unearmarked Capital Reserve

This reserve is used to fund major capital projects, such as the Headquarters build project. After the allocation of funds to the project from this reserve, the balance is estimated to stand at £2.135m at the end of the year.

5 Schedule of Projects

The table attached at Appendix A shows all of the scheme expenditure that has been identified by officers, for the next seven years. The cost of each scheme is shown, along with the proposed funding stream.

- Some of the schemes have been approved as part of the capital programme in February 2012, and the revenue consequences of the schemes have been included in the revenue budget.
- Some have been approved as part of the Service Transformation Programme, and have either been added to revenue or added to the capital programme. No debt charges have been added to the revenue budget for these schemes.
- A number of the schemes have been added to the schedule since the budget was set, following further review by officers.

Schemes can be funded in a number of different ways:

Revenue

Some small schemes can be paid for out of a department's revenue budget, with no associated financing cost or contribution.

Revenue Contribution to Capital

These large schemes are capital schemes and are added to the capital programme, but they are paid for by a lump sum from the revenue budget, with no ongoing revenue consequences.

Capital Reserve

Some schemes are paid for with funds taken from the Earmarked Capital Reserve, and contributions in lieu of debt charges are made back into the Reserve over the life of the asset.

Borrowing

A loan can be taken, at a preferential interest rate, from the Public Works Loan Board, with the revenue account funding loan interest and a Minimum Revenue Provision, which provides for replacement over the life of the asset.

Capital Grant

If such a grant is made available from the Government, it can be used to fund capital schemes with no ongoing revenue consequences.

In order to ensure that opportunity savings and reserves are now utilised in the most effective way going forward, this funding schedule and its implications on the revenue budget have been reviewed, and a number of options will now be set out for consideration by Members.

6 Options for Consideration 2012/13

The following options should be considered for the financial year 2012/13:

Year	Scheme	Cost £'000	Funded by	Annual Revenue Implication £'000
2010/11	HQ part 1	343	Loan	29
2011/12	HQ part 2	855	Loan	94
The remaining costs on this scheme could be funded from the Unearmarked Capital Reserve, or Capital Grant payable in 2012/13, saving £123k per year in the revenue budget.				
2010/11	Building Improvements	42	Loan	4
2010/11	Building Improvements	131	Loan	11
2010/11	Building Improvements	31	Loan	3
2011/12	Building Improvements	38	Loan	3
The costs on these schemes could be funded from the Earmarked Capital Reserve, saving £21k per year in the revenue budget. Surplus in the 2012/13 revenue budget would then be used to replenish this reserve.				
2010/11	Appliance	235	Loan	31
The costs on this scheme could be funded from the Earmarked Capital Reserve, saving £31k per year in the revenue budget. Surplus in the 2012/13 revenue budget would then be used to replenish this reserve.				
2011/12	Appliance	220	Loan	28
The costs on this scheme could be funded from the Earmarked Capital Reserve, saving £28k per year in the revenue budget. Surplus in the 2012/13 revenue budget would then be used to replenish this reserve.				
2012/13	Replace tactical radios	120	Surplus	-
The cost of this scheme could be funded from the surplus on the 2012/13 revenue budget. A contribution to the Earmarked Capital Reserve would be made to replace the radios in 2018/19, therefore no annual contribution would be required.				

Year	Scheme	Cost £'000	Funded by	One off Revenue Implication £'000	Annual Revenue Implication £'000
2012/13	Replace tactical radios	120	Surplus	120	-
The cost of this scheme could be funded from the surplus on the 2012/13 revenue budget. A contribution to the Earmarked Capital Reserve would be made to replace the radios in 2018/19, therefore no annual contribution would be required.					
2012/13	Firefighting gloves	40	Surplus	40	-
The cost of this scheme could be funded from the surplus on the 2012/13 revenue budget. A contribution to the Earmarked Capital Reserve could be made to replace the gloves in later years, or replacement could be phased through revenue.					
2012/13	Appliance Bay Doors	50	Surplus	50	-
The costs of the appliance bay doors at Headquarters were not covered in the building scheme, but could now be funded from the surplus on the 2012/13 revenue budget.					

Summary	Revenue Savings £'000	Surplus £'000	Earmarked Capital £'000	Unearmarked Capital £'000
Balance 2011/12	**0**	**0**	**1,125**	**2,135**
Building improvements CM			-42	
Building improvements CM			-131	
Building improvements MY			-31	
Building improvements MY			-38	
Appliance			-235	
Appliance			-220	
Balance end 2011/12	**0**	**0**	**428**	**2,135**
Budgeted surplus 2012/13		842		
Building improvements CM		-42	42	
Building improvements CM		-131	131	
Building improvements MY		-31	31	
Building improvements MY		-38	38	
Appliance		-235	235	
Appliance		-220	220	
Revenue savings -				
Headquarters	123			-1,198
Building improvements	21			
Appliances	59			
Tactical radios		-120		
Firefighting gloves		-40		
Appliance bay doors		-50		
Balance end 2012/13	**203**	**-65**	**1,125**	**937**

7 Options for Consideration in Later Years

The following options should be considered for the financial years 2013/14 and onward:

Year	Scheme	Cost £'000	Funded by	Revenue Implication £'000
2013/14	Prime movers	150	Loan	14/15 - 4 15/16 - 18
The costs on this scheme could be funded from the surplus from the 2013/14 revenue budget. Revenue savings would be £4k realised in 2014/15, and £18K realised in 2015/16 onwards.				
2014/15	3 Sabre Appliances	660	Loan	15/16 – 17 16/17 - 66
The costs on this scheme could be funded from the surplus from the 2013/14 and 2014/15 revenue budgets. Revenue savings would be £16k realised in 2015/16, and £66K realised in 2016/17 onwards.				
2015/16	3 Sabre Appliances	660	Loan	15/16 – 17 16/17 - 66
The costs on this scheme could be funded from the surplus from the 2014/15 and 2015/16 revenue budgets. Revenue savings would be £16k realised in 2015/16, and £66K realised in 2016/17 onwards.				

Summary	Revenue Savings £'000	Surplus £'000	Earmarked Capital £'000	Unearmarked Capital £'000
Balance end 2012/13	**203**	**-65**	**1,125**	**937**
2013/14				
Revenue savings -				
Headquarters	123			
Building improvements	21			
Appliances	59			
Surplus		443		
Prime mover		-150		
Balance end 2013/14	**406**	**228**	**1,125**	**937**

Summary	Revenue Savings £'000	Surplus £'000	Earmarked Capital £'000	Unearmarked Capital £'000
2014/15				
Revenue savings -				
Headquarters	123			
Building improvements	21			
Appliances	59			
Prime mover	4			
Surplus		408		
3 Sabre appliances		-660		
Balance end 2014/15	**613**	**-24**	**1,125**	**937**
2015/16				
Revenue savings -				
Headquarters	123			
Building improvements	21			
Appliances	59			
Prime mover	18			
6 Sabre appliances	34			
3 Sabre appliances		-660		
Surplus		83		
Balance end 2015/16	**868**	**-601**		
2016/17				
Revenue savings -				
Headquarters	123			
Building improvements	21			
Appliances	59			
Prime mover	18			
6 Sabre appliances	132			
Surplus		-134		
	1,221	**-735**		
	486			

Should the options above be approved, the effect on the revenue budget over the next five years would be as follows:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Surplus / (Deficit)	137	496	-45	-324	241

	£'000
2016/17 Original surplus / (deficit)	**-134**
Revenue savings - HQ	123
Revenue savings – Improvements	21
Revenue savings - Appliances	59
Revenue savings – Prime Mover	18
Revenue savings – 6 Sabre Appliances	154
2016/17 Revised surplus / (deficit)	**241**

8 Further Considerations

The calculations shown in the tables are based on the assumption that the Authority's precept strategy over the next four years is unchanged, i.e. precept increases of 5p per week over the four years from 2013/14. It also assumes that revenue savings on debt charges generated in each of the four years are available in those years, to fund capital items.

If the precept strategy from 2013/14 onwards was revised to incorporate the savings made on debt charges as a result of paying for the capital schemes, then the surpluses available would be smaller, and the revenue savings would not be available.

- *Should officers review the Authority's precept strategy from 2013/14, to reflect the potential debt charge savings from capital schemes, and determine the funds that would then be available for future use?*

In addition, the calculations assume that where surpluses or revenue contributions are used to fund capital projects, no contributions or debt charges for these schemes are contained in the revenue budget. (However, as capital programmes are approved as part of the budget setting process in future years, the associated debt charges would always be reflected in the revenue budget.)

- *Should lump sum contributions be made into the Earmarked Capital Reserve to provide additional resilience for the Service when capital items require replacement in the future?*

The Authority will receive capital grant from the Government in 2012/13, distributed using the same method as in previous years. The Government has announced that in order to secure capital grant for 2013/14, fire and rescue services must submit bids for projects that have to deliver efficiency savings, while providing a clear demonstration of value for money.

- *Should officers begin to develop bids for schemes which, if successful, would then be funded from capital grant, rather than existing balances?*

9 Financial Implications

There are no direct financial implications arising from this report.

10 Legal Comment

This paper comments on a series of option papers and as such does not require legal comment.

11 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 specifically from this report. An Initial Equality Impact Assessment has not, therefore, been completed. Such assessments will be carried out on individual projects as necessary.

12 Appendix

Schedule of capital expenditure to 2018/19 to be considered in closed session

13 Background Papers

There are no background papers associated with this report.