Shropshire and Wrekin Fire and Rescue Authority
21 July 2010

Financial Monitoring Report 2010/11

Report of the Treasurer
For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

The report updates members on financial matters affecting the 2010/11 budget and their implications for later years. It also seeks approval to budget variations.

2 Recommendations

The Fire Authority is asked to:

a) Note the implications of the Government's Emergency Budget and other national developments for future financial planning;
b) Note the results of budget monitoring to date;
c) Agree to reserve a decision on the use of the likely balance on the Un-earmarked Capital Reserve until later in the year; and
d) Continue the current borrowing and investment strategy.

3 Background

The Fire Authority receives quarterly financial monitoring reports each year. In addition the current year has seen an Emergency Budget from the Government, and statements of increasing financial cutbacks in government department spending.

4 The Government's Emergency Budget 22 June 2010

The Emergency Budget clarified a number of matters for the Fire Authority. On the taxation front, the changes in planned National Insurance increases from April 2011 appear to mean that the £109,000 budgeted for 2011/12 will not be needed. In the current year, Insurance Premium Tax will increase from 5% to 6% from January 2011, but the impact is relatively small (£2-3,000) and will not apply to premia paid this financial year.

More generally, the Support Grant and Capital Grants for 2010/11 have been confirmed as budgeted. Less clear is the impact of the public pay freeze on negotiated settlements in 2010/11, which is dealt with later in the report. Also awaited are the interim report of the Independent Public Service Pensions Commission - due in September, followed by the Spending Review on 20 October 2010 which will set spending plans for the whole of the parliament i.e. the next four years

It remains to be seen whether detailed grant figures are produced any earlier than in previous years which has been late November. Of special interest will be how the promised Council Tax freeze will be implemented

5 Pay Awards

On closing the accounts for 2009/10, underspendings on pay increases in the year were identified. Much of this was anticipated and reflected in the 2010/11 budget. However a final balance of about £100,000 will be available in the 2010/11 budget.

In addition there is the impact of 2010/11 pay awards, support staff from 1 April, and firefighters from 1 July. The current estimate is based on 2½% increases. No increases would mean underspendings of £305,000 in 2010/11, rising to £380,000 in a full year.

6 Price Increases

A number of budgets, such as fuel and utilities have shown increases above the 2½% budgeted, however it is too soon to report the net overall position. One major change to report is the successful outcome of tendering our Insurance requirements from June 2010. A new contract has been entered which will reduce the budget required by about £95,000. This is partly the result of competition in the market. It is also due to risk management performance. For example a new rebate has been included, based on motor-claims performance. Although retrospective, performance in 2009/10 has been included and some £24,000 will be receivable in respect of that year.

7 Other variations identified to 30 June 2010

It is relatively early in the year to project the full-year cost or savings which have been identified from monitoring to date. The main potential risk areas are covered below:-

i. FireLink / Airwave

Following a final tendering exercise, a contract has been placed to provide an interim Command and Control system. This is within budget as previously agreed by the Fire Authority. The remaining area of uncertainty for all authorities lies with the future of Regional Control Centres, and with the date of rolling out payment for FireLink to Fire Authorities. Current estimates are based on charges starting in January 2012.

ii. Vacancies / Efficiencies

The current budget is based on assuming £150,000 will be saved each year as staff turnover creates temporary vacancies within the approved establishment. In addition £148,000 has been taken from the budget and equivalent posts from the approved establishment, as a result of the reduction in the ridership factors. A further £148,000 reduction has been budgeted for 2011/12. Current monitoring does not indicate any difficulties achieving the reduced establishment by the year end, however it is likely to become increasingly difficult to achieve the vacancy assumptions as establishments reduce both this year and in future years.

iii. Retained Duty Service Costs

There have been underspends in the retained duty budgets in recent years. Monitoring to date indicates that this could happen again this year, although the impact of a hot dry summer may affect this.

A detailed study is underway of the various components of the budget, e.g. retaining fees, and particularly, other activity-led costs such as additional hours, turn-outs, attendance and drills.

The basis of setting activity-led budgets is the cost of annual average activity levels. Now that the results of the Retained Review have become embedded, the purpose of the current study will be to re-examine these averages so that the implications for future budgets can be identified.

8 Capital Budgets

Capital Payments in 2010/11 are dominated by the St Michael's Street project. Latest estimates of payments are as follows:-

	Feb 2010	**Latest forecast**
	£000	**£000**
2009/10	80.0	124.0
2010/11	3,265.5	2,065.9
2011/12	469.5	1,665.1
	3,815.0	3,855.0
Revenue Costs	175.0	135.0
	3,990.0	3,990.0

The £2,065,900 in 2010/11, on current plans, would be funded from grant, £691,000, capital reserve £1,044,000, and borrowing £331,000. Additional resources have been added to the capital reserve during 2009/10 and on closing the accounts, leaving a possible £719,000 presently available over and above that currently budgeted for the St Michael's Street project. This has provisionally been identified as a possible source of funding for future major capital schemes planned for Wellington and Telford. The Authority will however have a number of choices – either to minimise borrowing on the project and save debt charges, or to retain the reserves for future use, either for capital funding, or to meet any one-off costs of dealing with the expected reduction in revenue budgets over the next few years.

9 Reserves and Balances

i. Un-earmarked Capital Reserve (for major projects)

The forecast position of the reserve is as follows:-

	2010/11 £000	**2011/12 £000**
Balance at 1 April 2010	1,733	1,005
Added from 2009/10 net underspends	165	
Budgeted surplus 2010/11	251	
Inflation proofing	35	35
Funding St Michael's Street	-1,044	
Less required for revenue costs of scheme	-135	
Balance at 31 March	1,005	1,040

It is recommended that no decision is currently taken as to how much of the reserve is used to fund the St Michael's Street Scheme. However there is clearly scope to reduce the budgeted level of borrowing, saving £10,000 for every £100,000 funded from the reserve rather than loan.

ii. Pensions and Other Staff Issues

At present, £1,480,000 is held in this reserve at 1 April 2010. The potential issues covered by the reserve are:-

- Retained Firefighters Pensions (2001-2006)
- Retained Firefighters Pay and Conditions (2001-2009)
- Extra Pensions costs not funded by the revenue budget and Pensions Account
- Other one-off but irregular staff payments

The main issues at present are clearly the retained staff matters for the period 2001-2009. No further developments have taken place, other than an acknowledgment by the National Employers that the period of compensation for unequal pay and conditions has extended to 2010 at an additional potential one-off cost of £20,000 to £30,000.

10 Treasury Management and Investment

The Fire Authority has decided to minimise investment of cash balances by using spare funds to finance capital expenditure on a temporary basis. This has resulted in no additional loans being taken out since the 2008/09 financial year. However due to slippage in capital payments only a total of £250,000 of loans has been held over to 2010/11.

Investments have still been made, within the restricted creditworthiness criteria adopted. The following loans were outstanding on 12 July 2010:-

To:-	£m	(Rate %)	Date Repayable
Lloyds TSB	1.66	0.28	19 July
Nationwide Building Society	1.00	0.52	29 July
Nationwide Building Society	1.00	0.48	6 August
Clydesdale Bank	1.00	0.45	29 July
Debt Management Office	1.90	0.25	(Overnight)
	£6.56		

Officers are however in constant contact with our Treasury Management providers, and will take up Public Works Loan Board borrowing if it is judged that future interest rate prospects warrant the short-term costs of borrowing at this time.

In the meantime it can be confirmed that the Authority is operating within its prudential and treasury guidelines for 2010/11.

11 Financial Implications

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

12 Legal Comment

There are no direct legal implications arising from this report.

13 Equality Impact Assessment

This report is purely an update on budget spend to date and so the recommendations within the report have no impact on people.

14 Appendices

There are no appendices attached to this report.

15 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Legal	*
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Efficiency Savings		Operational Assurance	
Environmental		Retained	
Financial	*	Risk and Insurance	
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	
Freedom of Information / Data Protection / Environmental Information		West Midlands Regional Management Board	
Integrated Risk Management Planning		Equality Impact Assessment	*