

Pay and Prices Assumptions

Report of the Treasurer

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

1 Purpose of Report

This report sets out the possible provision to be made for pay and price inflation in 2011/12 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

The Fire Authority has always had a policy of fixing a realistic provision for unknown pay and prices changes. This avoids on the one hand making too big a charge on the tax payer, leading either to pressure elsewhere when setting the budget or to possible under-spends at the year-end. On the other hand, if the provision is too small, then the shortfall would have to be funded from elsewhere in the budget during the year, either from reserves or possibly by cuts in service. The following year's budget would then have to make up the shortfall; and find money to restore the service cuts, if they were not to be ongoing.

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

- i) Analyse its base budget (2010/11) 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 problem areas, 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

The Authority's policy has always, therefore, been to make realistic provision for unknown pay and price changes. In recent years pay and prices have been relatively stable. It has proved sensible to base forward planning on an across the board average of 2.5% for both pay and prices, and for each year in the forward plan period. Assumptions for pay cover not just the pay award itself but the variations year on year on the net cost of increments and Continued Professional Development (CPD) payments

In 2010/11 pay inflation for the Fire Authority appears to have become minimal, although no final settlements have yet been completed. Price inflation has been more mixed with large increases in some areas such as fuel and transport but low increases or even reductions elsewhere. Looking forward, there is great uncertainty. The key determinants are pay settlements – in July for firefighters and April for support staff. Will these continue to be low or will there be upward pressure as prices continue to rise for many items of everyday expenditure and the effect of January's VAT increase works through? The table below shows the relative significance of elements of the Fire Authority's budget and therefore the relative impact of inflation.

	Base Budget 2010/11 £ 000	Change of a 1% variation £000
Firefighter etc pay; NI and Pensions	12,715	127
Support staff etc pay; NI and Pensions	2,853	29
Prices / Income Changes	4,933	49
Zero Items	1,115	-
	21,616	205

i.e. 1% error in the assumptions on the firefighters' pay settlement costs / saves £127,000 in a full year.

Next year and the following four years of our budget planning for pay awards are therefore particularly difficult to predict. Will 2011/12 and the early years be affected by pay freezes, possibly associated with multi year pay deals, in a

period of very tight grant settlements? Will this set the trend for later years or will inflationary pressures build up?

Prices are equally difficult to forecast, with low increases generally expected while economic growth recovers. However there will be areas of high inflation, e.g. in fuel and power.

5 Conclusions

There is no consensus over how pay and prices will move over the next year, or indeed the five years of the service plan. In addition, other unknown factors may increase or reduce the cash costs of simply maintaining current service levels. It is, therefore, recommended at this stage to model a second scenario and test the impact on decision making. Option 1 is the model we have used to-date and Option 2 is a slightly higher forecast for future pay increases but retains the 3% assumption for prices in 2011/12 but reduces this to 2% in later years. Both options are broad-brush and will overstate some areas and understate others and will need to be reviewed as the budget process progresses, particularly for the later years.

	Option 1 Pay %	Option 2 Pay %
2011/12	Zero	1.5
2012/13	1.5	2.0 (and prices)
2013/14	1.5	2.0 (“)
2014/15	2.0	2.0 (“)
2015/16	3.0	2.0 (“)

The detailed calculations are shown below:

	Option1	Option 2
2011/12	£148,000	£336,000
2012/13	£340,000	£401,000
2013/14	£393,000	£425,000
2014/15	£466,000	£433,000
2015/16	£624,000	£442,000

For the present it is recommended that the figures in Option 2 are adopted. They front load costs and therefore give more scope to adjust spending plans as the budget process is completed and do allow more scope to accommodate any unexpected additional costs such as increments if staff turn-over reduces.

6 Financial Implications

The financial implications are as outlined in the report.

7 Legal Comment

There are no direct legal implications arising from this report.

8 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.

9 Appendix

There are no appendices attached to this report

10 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.

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