

**Minutes of the Meeting of
Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
held at Headquarters, Shrewsbury
on Wednesday, 24 November 2010 at 2.00 pm**

Present

Members

Councillors Mrs Barrow (Vice-Chair), Hartin (Chair), Hurst-Knight, Minnery, Picken, Roberts and West

Officers

Chief Fire Officer, Deputy Chief Fire Officer, Assistant Chief Fire Officer, Treasurer, Principal Accountant and Management Support Officer

1 Apologies for Absence

There were no apologies for absence.

2 Declarations of Interest

The Chair reminded Members that they should declare any personal and/or prejudicial interests at this point and that they should leave the meeting room before any item, in which they had a prejudicial interest, was discussed.

There were no declarations of interest.

3 Minutes

Members received the minutes of the Strategy and Resources Committee meeting, held on 23 September 2010.

Councillor West referred to item 8 of the minutes and reported that he, the Chief Fire Officer (CFO) and the Treasurer had held meetings with Mark Pritchard MP, Owen Patterson MP and Philip Dunne MP. As a consequence of the meeting with Mark Pritchard MP a meeting had been arranged between the Fire Minister, Bob Neill, and this Fire Authority. The meeting with the Minister was attended by the CFO, the Chair and the Treasurer as well as Daniel Kawczynski MP, Philip Dunne MP and Mark Pritchard MP. It was a constructive meeting, during which the Authority managed to get the idea of rural sparsity over to the Minister, who indicated that sparsity and flooring would be looked at.

It was proposed by Councillor West, seconded by Councillor Roberts, and

Resolved that the minutes of the Strategy and Resources Committee meeting, held on 23 September 2010, be agreed and signed by the Chair as a correct record

4 Public Questions

No questions, statements or petitions had been received from members of the public.

5 2011/12 and Later Years Revenue and Capital Budgets

This report brought together the elements of the budget as set out in the reports that followed, and sought the Committee's approval for a budget outline to be recommended to the Authority in December 2010.

The Treasurer explained that normally only expenditure is considered at this point. The Grant settlement is likely to be announced during the first week of December, therefore budget planning has been related to income assumptions, £2.8 million reductions, information from the Comprehensive Spending Review and Public Value outcomes.

As set out in section 5 of the report, it is likely that the Authority will be 'better off' by £233,000. The Treasurer explained that the table on page 3 includes some items from the Public Value list, which were already committed before Public Value was agreed. If these Public Value savings are discounted, then the Authority appears to be slightly worse off.

Page 5 of the report sets the estimated deficits year by year. Councillor Hartin asked if the settlement was for two years. The Treasurer explained that the Fire Minister had indicated that this was likely to be the case. After the two years, there would be a change to local government funding with a consequent change in the settlement.

The Treasurer referred to the table on page 6, which sets out the Public Value reductions. The figures at the bottom of the table will be available to address the deficits set out earlier in the paper. These figures are speculative but the deficit is likely to grow by 2015/16. Councillor Hartin asked why the total savings were now £2.115 million, when Public Value had been looking at reductions of £2.8 million. The Treasurer explained that £638,000 had been taken away, as the savings had already been achieved.

The meeting then agreed to receive and consider papers 5a to 5f before returning to agenda item 5 to consider the recommendations.

5a Base Budget plus Committed Change

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

The Principal Accountant talked through the table on page 2 of the report, which set out the revised budget position and explained that some of the committed changes are out of the Authority's control. A full review of the debt charges has been undertaken, which has led to some money being removed. The changes to the Local Government Pension Scheme valuation figure reflect a reduced contribution rate. The committed growth includes Integrated Risk Management Planning legacy items, which are already committed but are still subject to Public Value.

Councillor Hartin asked for an update on the firefighters pension situation. The Principal Accountant reported that there had been an indication that there were no plans to increase the employer contribution. The Chief Fire Officer further commented that it was prudent to include this issue, given that pay inflation may lead from the issues around increased pension contributions for employees, which is currently being rumoured.

Resolved that the Committee note the contents of the report, for inclusion in the budget summary shown in report 5

5b Pay and Prices Assumptions

This report set out the possible provision to be made for pay and price inflation in 2011/12 and later years.

The Treasurer explained that he was recommending option 2, as set out in the report, to the Authority due to the possible upward trend in inflation. The downside of this is that it may leave the Authority short in the year occurring and this will then need to be found.

Resolved that the Committee recommend that the Fire Authority base its future budget plans at present on option 2 as exemplified in paragraph 5 of the report

5c Efficiencies 2011/12 and Forward Budgets

This report looked at progress in identifying efficiencies for the period 2010/11 to 2015/16.

The Treasurer talked through the table on page 2 of the report. He explained that there was a mistake on the second line of the table, which should read 'ill health retirement costs' not 'ill health retained costs'. This figure had been budgeted on an estimate of three per year but has now dropped to two, with the costs to be phased out at £40,000 a time.

The Treasurer explained that in addition to the pension efficiency, a total of £150,000 has been included for efficiencies. Two savings, totalling £35,000 have already been identified, leaving a balance of £115,000 still to be found. A further £150,000 will be added in each year plus the growth in ill health retirements.

The Treasurer also explained that a paper on growth items had not been brought to this meeting, as officers have not yet considered the service developments. £200,000 could come out of the budget, if there are no growth items, or they can be readily absorbed, which would mean that a possible net £85,000 could be removed from the budget. Further information on growth items will be brought to the December meeting of the Fire Authority.

Resolved that the Committee recommend to the Fire Authority that it include £290,000 for planning the 2011/12 budget, and that it continue with a target of £150,000 per year for later years

5d Capital Programme 2011/12 to 2015/16

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

The Treasurer explained that the schemes detailed in the report have not yet been formally approved.

Councillor Hartin referred to the £100,000, which has been allocated for building improvements at Wellington and asked what this scheme would include. The CFO explained that key areas for improvement had been identified, which will ensure that the accommodation will be of a satisfactory standard for a further five years. Possible opportunities for future development at Telford are being investigated.

Councillor Hartin then referred to the appliance replacement scheme, which currently runs over a 15 year programme. At present there are six appliances, which are due to be replaced in 2015/16. The CFO explained that this had been caused by the move to XL cabs and that officers are currently looking to flatten out the replacement of vehicles for future administrations, if money became available in the short / medium term.

The meeting debated various options for addressing this issue, including the possible movement of appliances between Retained Duty System (RDS) stations, depending on levels of use. The general consensus was that there were options available but that the CFO should decide on the best options for service efficiency and effectiveness.

Resolved that the Committee propose to the Authority, for inclusion in its five year budget planning

- a) The schemes set out in the appendix to the 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

5e Public Value Outcomes 2010

This report set out the summary financial and service planning outcomes arising from the 2010 Public Value review, particularly in respect of the scheduling and nature of proposed budget cuts during the period 2011-2015. The outcomes and proposals set out in the report had been considered and accepted by the Fire Authority's Strategic Risk and Planning Working Group (STRaP).

The Assistant Chief Fire Officer (ACFO) explained that this was a summary of the paper, which had been considered by STRaP at its meeting on 12 November 2010. Since this date, public consultation sessions have been held at Shrewsbury, Telford and Craven Arms, which were attended by 34 invited members of the public. The attendees had been asked about their appetite for the proposed cuts over the period. Statistically 71 percent felt that they were 'fair and reasonable'; 21 percent thought they were 'not acceptable'; 3 percent thought that they 'did not go far enough'; and 3 percent did not respond to the question.

The ACFO explained that there was a mistake in section 5 of the report, which should have read that 'the proposals (summarised in the appendix)' not 'the proposals (summarised in Table 1 above)'

The ACFO explained that this is a four-year plan, which is 'profiled against natural attrition', i.e. the cuts will only work, if they are aligned to people leaving etc. Councillor Hartin asked if this would mean that savings are built up over the period. The ACFO confirmed that it was a frontloaded approach.

A review report on Public Value will be taken to the December meeting of the Fire Authority. Councillor West commented that the Fire Authority must recognise that all of the cuts are integrated and that there is no real room for manoeuvre, especially within the first two years. The ACFO explained that an annual review of public value will be undertaken. He also referred to the issue of union resistance and explained that the unions within Shropshire Fire and Rescue Service have given verbal confirmation that they understand the Public Value outcomes as well as recognising the concept of frontloading. The Unions have been asked to confirm this in writing. The CFO commented that there may be national resistance across the Fire Service but he hoped that this can be managed at a local level.

It was proposed by Councillor West, seconded by Councillor Roberts and

Resolved that the Committee:

- a) Note the contents of the report and agree to the recommendations of the STRaP (as detailed in section 5 of the report); and
- b) Endorse the recommendations of STRaP to the next meeting of the Fire Authority on 15 December 2010

5f Provisions, Reserves and Funds

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

The Treasurer explained that this is not part of the revenue budget but it does need to be considered as part of the budget planning process. The Treasurer drew Members' attention to the General Reserve and explained that the pay and prices issue could be reviewed in coming years, if necessary.

With regard to the Pensions Liabilities and Other Staff issues reserve, the Treasurer explained that the bulk of this is linked to the Retained Duty System pension issue, the estimated cost of which is growing each year. The settlement of this issue is 'still around the corner', although the Principal Accountant has been informed that a decision is due to be reached soon with a statutory instrument for consultation being developed.

The Treasurer referred to the Un-earmarked Capital Reserve, as set out on page 4 of the report. It is estimated that this could be £900,000 by the end of next year, which could be used instead of borrowing, for example to address IT issues or potential work at the Telford site.

The CFO urged caution with the reserves to allow freedom of decision making in the future, particularly as opportunities to replace reserves may not be as readily available in coming years.

The Treasurer referred to the Precept freeze grant and explained that there is a school of thought, which advises ignoring this and collecting the money, thereby taking a chance in the fifth year of the budget, if the grant remains. Both the Treasurer and CFO, however, recommended that the Authority should take advantage of the Government offer for year 1 but would need to look at precept increases in years 2 and 3, if it were to balance the budget without significant service reductions.

Resolved that the Committee propose to the Fire Authority that it:

- a) Confirm the existing policy and continue the Equipment Replacement Provision;
- b) Review the level of the General Reserve as the current budget position becomes clearer;
- c) Re-price the General, Earmarked Capital, 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 and un-foreseen capital schemes.

At this point the meeting revisited item 5 on the agenda.

5 2011/12 and Later Years Revenue and Capital Budgets

It was proposed by Councillor Barrow, seconded by Councillor Minnery and

Resolved that the Committee:

- a) Approve the revised expenditure figures as a basis for developing the budget at the Fire Authority on 15 December 2010;
- b) Approve seeking to secure the precept freeze grant by setting a zero increase in precept in 2011/12; and
- c) Approve the current policy for reserves and provisions, (subject to addressing the outstanding issues highlighted), at the December meeting of the Fire Authority

6 Capital Update on Activity and Finance

The purpose of this report was to provide an overview of all the capital schemes within the Brigade and their current status.

The CFO informed the meeting that two of the schemes, carried forward from 2009/10, are on hold and are being reviewed by the ACFO. These are Document Management (Intranet) and Retained Duty Service Availability System 2008/09 and 2009/10. The Light Pumping Unit scheme is currently being reviewed by the Resources Manager but is likely to be cancelled.

The CFO also advised that the tender notice for the Fire Kit (Personal Protective Equipment) Replacement scheme has been issued.

Resolved that the Committee note the progress so far on current schemes

7 Financial Performance to September 2010, including the Mid Year Treasury Report

This report provided information on the financial performance of the Service, and sought approval for action, where necessary.

The Principal Accountant talked through the paper and highlighted the following to the meeting:

- The debt charges review has released £145,000, due to savings in the base budget.
- There may be a potential saving, if pay awards are zero.
- The virements detailed on page 3 of the report have been agreed under powers delegated to the CFO and the Treasurer.
- The Authority is operating within its prudential indicators.
- Cash flow is currently running higher than anticipated.
- There is a mistake on page 5 of the report, where the Balance of Investments at 30 Sept 2010 should read £7,660,000 not £5,660,000.
- The Public Works Loan Board rates, quoted on page 5 of the report, are those prior to the Comprehensive Spending Review announcement.

Councillor Minnery asked if there was an opportunity to reduce any borrowing if there was more cash available. The Treasurer explained that it would not pay to repay any borrowing earlier, as the Authority will incur a penalty for early repayment.

It was proposed by Councillor Minnery, seconded by Councillor West and

Resolved that the Committee recommend that the Fire Authority:

- a) Note the position of the revenue budget;
- b) Approve virements to the revenue budget where requested;
- c) Note the position on the capital programme;
- d) Note performance against prudential indicators to date in 2010/11;
- e) Note the mid year review of treasury activities for 2010/11; and
- f) Note the information provided on balance sheet items.

The meeting closed at 3.15 pm.

Chair.....

Date.....

Financial Performance to September 2010, including Mid Year Treasury Report

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202, or Joanne Coadey, Principal Accountant, on 01743 260215.

1 Purpose of Report

This report provides information on the financial performance of the service, and seeks approval for action, where necessary.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Note the position of the revenue budget;
- b) Approve virements to the revenue budget where requested;
- c) Note the position on the capital programme,
- d) Note performance against prudential indicators to date in 2010/11,
- e) Note the mid year review of treasury activities for 2010/11;
- f) Note the information provided on balance sheet items

3 Background

This report comprises a review of financial performance to date for 2010/11, and encompasses the monitoring of revenue budgets and capital schemes, the review of treasury management activities, including prudential indicators, and the monitoring of other balances held within the Authority's accounts.

4 Revenue Budget

Monitoring has continued on the revenue budgets and capital programme for 2010/11, and the position after the first half of the year can now be reported.

	(Over) / Under spend £'000
Executive and Resources	
Debt Charges – due to slippage on some elements of the capital programme, some savings have been identified on the 10/11 budget	145
Corporate Performance and Operations	
Pay – communications staff vacancies have resulted in an underspend	11
Service Delivery	
District: Projected savings on watches to the end of the year	29
Retained Duty System: Retaining Fee savings	40
Turnouts	50
Retained Pension costs	(10)
Prevention: Community Fire Safety advocates – to be restructured	24
Road Safety officer – vacancy to the end of the year	17
Inspecting Officer vacancy	19
Inspections – Watch Manager vacancy	16
Total	341

It is proposed that variances will be transferred to individual contingencies. There will be underspends in pay contingencies if the pay awards are confirmed as zero, and these will be reported when the situation is resolved.

Contingencies – following approval by the Fire Authority earlier this month, reported variances have been transferred to the individual contingencies within each directorate. Virements have also been approved under powers delegated to the Chief Fire Officer and the Treasurer:

	£'000
The provision of scientific advice on hazardous materials at incidents	3
Writing of additional reports to aid Human Resources and Sickness Absence management	5
Additional software licences to enable future report writing	2
Management training	9
Quality audit	2
Fire Safety systems review	7
Total	28

The balance on each contingency is as follows:

	£'000
Executive and Resources	105
Corporate Performance and Operations	112
Human Resources and Development	-12
Service Delivery	-13

This is the position after vacancy savings of £150,000 had been achieved.

Reserves and Provisions – the position reported in the Statement of Accounts at 31 March 2010 is unchanged. There has been no development in the Tribunal regarding retained firefighters and part-time regulations.

5 Capital Programme

Progress on each of the schemes has been reported elsewhere on the agenda. Following the Fire Authority's approval of some additions to schemes earlier this month, there are currently no variances to report to the committee.

6 2010/11 Prudential Indicators

In line with CIPFA's Prudential Code for Capital Finance, the Treasurer is required to establish procedures to monitor performance against all forward looking prudential indicators and, in particular, that net external borrowing does not (except in the short term) exceed the requirement to borrow for capital purposes.

The Fire Authority has established that it will receive quarterly monitoring reports during the year; the position to the end of July is shown below.

- **Authorised Limit for External Debt (£10.165m)**

The Authorised Limit represents the amount required to fund the Authority's capital financing, plus a provision for temporary borrowing, should the receipt of revenue money be delayed, although this should happen very rarely.

Borrowing currently stands at £5.810m, i.e. well within the indicator. No temporary borrowing has been necessary.

- **Operational Boundary for Borrowing (£6.710m)**

The Boundary represents the capital investment entered into by the Authority, including any loans to be taken during the year. Unlike the Authorised Limit, this may be exceeded, although this would trigger an investigation.

At £5.810m, the borrowing is well within the set indicator; the Fire Authority has yet to borrow £200,000 of its requirement.

- **Capital Financing Requirement (£6.710m)**

This is the amount required by the Authority to fund its capital investment.

The Capital Financing Requirement has been reviewed following closedown of the accounts, and has been updated to £6.710m. This includes all capital investment expected to be made this year, less any contributions such as capital grant or revenue.

The Authority is currently operating within the requirement.

- **Net Borrowing**

Currently, the Fire Authority's borrowing of £5.810m exceeds outstanding investments of £5.660m.

7 Balance Sheet Items

Cash and Investments

Cash flows into and out of the Authority's bank accounts are recorded by Finance officers, and are monitored by Finance, and by Treasury Services to assist the investments process.

Cash flow projections established at the start of the year estimated a cash balance available for investment at the end of September of £5.5m; the actual balance was £7.6m. As well as top up grant of £2.3m for the Pensions Account being received in July, purchases and payments made by the Authority have been lower than anticipated at the beginning of the year, and

excess cash will also be available due to the pay freeze currently imposed by Government.

Debtors

In terms of amounts owed to the Authority, there are no issues to be brought to the attention of the Committee at this time.

8 Mid Year Treasury Review 2010/11

Compliance with the Treasury Policy Statement

This review is presented in accordance with the Fire Authority's Treasury Policy Statement, which complies with the CIPFA Code of Practice on Treasury Management in Local Authorities which requires a mid year review report of the current year.

This is the mid year review report for 2010/11.

Current Portfolio

The Fire Authority's treasury position at 30 September 2010 is set out below with the position as at 31 March 2010 in brackets.

	Balance at 30 Sept 2010 £000	Interest Rate ¹ 30 Sept 2010 %
a) Outstanding debt for capital purposes Fixed Rate	5,810 (5,810)	4.49 (4.49)
b) Investments SC Treasury Team	5,660 (4,750)	0.52 (0.44)

Note¹: The interest rates shown represent:

- a) the average cost of the debt portfolio, and
- b) the average return on cash investments during the year.

Borrowing

The Fire Authority's approach to borrowing during the first half of the year was to use cash balances to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised savings in debt charges, as investment rates were much lower than most new borrowing rates.

As a result of this approach, no new borrowing has been entered into during the first half of 2010/11, and the average borrowing rate for the total portfolio remained at 4.49%.

The Authority's Treasury Strategy allows up to 30% of the total outstanding debt to mature in periods up to 10 years. It is prudent to have the Authority's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. Current debt maturity levels are within this guideline.

The Economy and Interest Rates

Following the general election in May 2010, the coalition government has put into place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence.

Inflation and Bank Rate – The Consumer Price Index has remained high so far during 2010, settling at 3.1% in August. The Retail Price Index remains high at 4.7% in August. No increase to the Bank Rate (currently 0.5%) is envisaged until mid 2011.

AAA Rating – due to Sterling's strengthened position against the US dollar, it is envisaged that the UK will retain its AAA rating.

Long-term Interest Rates

The Public Works Loan Board (PWLB) 50 year rate started the year at 4.7% and is predicted to fall to 4.3% by the end of March 2011.

Following the Chancellor's announcement on the Spending Review on 20th October 2010, HM Treasury has instructed PWLB to increase the average interest rate on all new loans to an average of 1% above the Government's cost of borrowing which will take effect immediately. This means that all of the Fire Authority's future PWLB borrowing will be increased by up to 1%, confirming the current policy of using cash balances rather than borrowing.

Investment Rates in the first half of 2010/11

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.35% for the first half of 2010/11. The actual investment return was 0.52%.

Current Investments

Funds currently invested are shown below:

Nationwide	£2.0m
Lloyds	£2.0m
Nat West	£1.0m
Barclays	£2.0m
Clydesdale	£1.0m
Total	£8.0m

9 Financial Implications

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

10 Legal Comment

There are no direct legal implications arising from this report.

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 from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

12 Appendix

There are no appendices with this report

13 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		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings	*	Public Value	
Environmental		Retained	*
Financial	*	Risk and Insurance	
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*
Legal	*		