

**Non-exempt Minutes of the Meeting of
Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
held at Headquarters, Shrewsbury
on Thursday, 20 January 2011 at 2.00 pm**

Present

Members

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

Officers

Chief Fire Officer, Deputy Chief Fire Officer, Treasurer, Principal Accountant, Planning and Performance Manager and Management Support Officer

1 Apologies for Absence

Apologies for absence had been received from Councillors Minnery, Picken and West.

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 24 November 2010.

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

Resolved that the minutes of the Strategy and Resources Committee meeting, held on 24 November 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 Financial Performance to December 2010

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 Committee:

- The underspends in the pay budgets, as detailed on page 2 of the report, are due to the ongoing recruitment freeze.
- The growth items, as set out on page 2 of the report, are to be contained as 'one-off' schemes.
- There is a error on page 3 of the report, where the total below the contingency balances should read **£266,000**, not £158,000

Councillor Mrs Barrow referred to the debtors item on page 4 of the report and asked if there were any debtors at present. The Principal Accountant explained that there were debtors but there were no significant issues, which needed to be brought to the Committee's attention.

Councillor Roberts referred to the growth items on page 2 of the report and asked for clarification of what the building legislation awareness training was. The Principal Accountant explained that this was a Fire Safety Team training need to ensure that officers were up-to-date with current legislation. Councillor Hurst-Knight, as a member of Shropshire Council's planning Committee, asked what input the Fire Service had into planning applications. The Chief Fire Officer (CFO) explained that all applications are submitted to the Fire Safety Team for comment. Fire Safety then talk to local fire stations and Incident Command for operational comments, for example relating to access etc.

It was proposed by Councillor Hurst-Knight, seconded by Councillor Mrs Barrow, 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; and
- e) Note the information provided on balance sheet items.

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 Planning and Performance Manager presented this report and talked through the schemes that are currently being monitored. With regard to the Training Improvements scheme, detailed in the 2009/10 carried forward schemes, it is believed that planning permission for the drill tower at Craven Arms, which concerned moving the tower by 30 degrees and adjustments to its height, has now been granted. With regard to the 2010/11 schemes, work on the refurbishment of Minsterley Fire Station is due to start on 24 January 2011.

Certain elements of the appendix to this report were considered in the closed part of the meeting, as they were exempt from publication under paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

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

7 Adequacy of Provisions and Reserves and Robustness of Budget

This report undertook a full analysis of Reserves and Provisions; provided an assurance on the adequacy of reserves and provisions; and gave an assurance on the robustness of the budget.

The Treasurer reported that he believes the budget to be robust in terms of capping / excessiveness tests by Government, particularly as we are eligible for council tax freeze grant. He also advised that the Fire Authority's reserves could be used to offset budget shortfall in the future, however this would need to be done as part of a considered strategy.

It was proposed by Councillor Roberts, seconded by Councillor Hurst-Knight and

Resolved that the Committee:

- a) Recommend to the Fire Authority:
 - i) The reserves and provisions, as set out in the appendix to the report; and
 - ii) The Treasurer's assurances covering the robustness of the 2011/12 budget and adequacy of the reserves and provisions; and
- b) Note the material uncertainties from 2013/14 onwards.

8 Revisions to the 2011/12 Budget and Medium Term Financial Planning

This report developed a final revenue budget package for 2011/12 for consideration by the Fire Authority, taking into account latest information. The report also addressed the options for dealing with planning for later years.

The Treasurer reported that there are no expenditure changes to the budget. Any vacancies identified in 2010/11 have already been absorbed by Public Value reductions and the Regional Control Centre (RCC) changes can be funded from existing budgets. The CFO reported that Shropshire Fire and Rescue Service (SFRS) is better placed to deal with the cancellation of the RCC than other fire and rescue services, however the Service will still fight for any grant funding that is available.

The Treasurer reported that there is likely to be a £17,000 increase to the Collection Fund, which will now be made up of £30,000 from Shropshire Council and £87,000 from Telford & Wrekin Council. Therefore, the balance to the Capital Reserve is likely to be £536,000, rather than £519,000, as stated in the report.

With regard to consultation on the budget, the Treasurer reported that there has only been one response received via the website. However, it was clear from the Public Value consultations that the public accept the budget implications. The current year's Council Tax leaflet was tabled to the Committee, a copy of which is attached to the signed minutes. The leaflet for 2011/12 will be based on that for the current year, subject to amendments to reflect changed requirements.

Councillor Mrs Barrow asked whether it was wise to include information about smoke alarms on the leaflet for the coming year. The CFO explained that the smoke alarm budget will be reduced in years 3 and 4 of the current budget, which allows for a gradual re-education of the public, and the public should not at this stage be discouraged from asking about smoke alarms.

The Principal Accountant reported that the Prevention Team is looking at changing the wording on the leaflet. The Deputy Chief Fire Officer commented that the intention is to reinforce householder responsibility in relation to smoke alarms. Fire Safety will still fit alarms for vulnerable people and will still provide home fire safety checks and give advice on fire safety to all sections of the public. The Committee then agreed that it was happy with the proposed Council Tax leaflet for 2011/12.

The Treasurer reported that the Medium Term Financial Plan (MTFP) is being updated in line with the budget decisions made at the Fire Authority meeting in December 2010. There are concerns over the next settlement but the factors affecting this are outside of the Fire Authority's control. The MTFP will be concluded and badged as 2011/12. Work will start on the next Service and Medium Term Financial Plan after the February 2011 meeting of the Fire Authority.

Councillor Hartin asked the CFO if his meeting with Bob Neill MP, Fire Minister, had provided any clarity regarding the changes to the grant settlement. The CFO reported that there are unlikely to be any changes to the settlement. There would appear to be no apparent errors with the calculation of the settlement and it would, therefore, appear that some of the factors considered in the settlement have changed. Members and officers will need to lobby the Government for years 3 and 4 of the settlement, as the method of calculation is being changed.

Councillor Hartin commented that he was under the impression that the Fire Minister was supportive of our case. The CFO reported that the Minister was surprised at the position that the Fire Authority was in and was clear that this was not a political decision. The CFO also commented that the grant changes could go beyond a single Parliament.

It was proposed by Councillor Mrs Barrow, seconded by Councillor Roberts, and

Resolved that the Committee:

- a) Propose to the Fire Authority a revenue budget of £20,837,000 for 2011/12, which together with a transfer to reserves gives a budget requirement of £21,356,000;
- b) Set its current Medium Term Financial Plan on the assumptions considered by the Fire Authority in December; and
- c) Start to develop service and financial planning for the next Service and Medium Term Financial Plan, so that it can fully respond to any consultation by government on changes to the grant system from 2013/14 onward.

9 Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines

This report presented the capital programmes for 2011/12 to 2015/16, for consideration by the Committee in the context of Prudential Guidelines.

The CFO explained that with regard to capital schemes, officers are asked to assess the costs of the scheme and then to submit a bid for the scheme to the CFO and/or Fire Authority. Information about the total costs of all schemes will be brought to the open session of the Strategy and Resources Committee meeting but specific details about individual items will be placed into closed session for consideration. The Committee agreed with this approach.

The appendix to the report was considered in the closed part of the meeting, as it was exempt from publication under paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

It was proposed by Councillor Mrs Barrow, seconded by Councillor Roberts, and

Resolved that the Committee recommend that the Fire Authority:

- a) Confirm the 2011/12 onward programmes, as set out in the appendix to the report, as part of its final precept deliberations;
- b) Approve the Prudential Indicators and the Treasury Strategy for 2011/12; and
- c) Approve the Minimum Revenue Provision Policy 2011/12.

10 Corporate Risk Management Summary

This was the latest of the regular Risk Summary Reports to the Strategy and Resources Committee. As previously, this report is intended to enable Members to meet the requirement of this Committee's Terms of Reference as it relates to the Fire Authority's management of corporate risk. The progress reported related to that achieved since the last Summary Report, which was received by this Committee at its meeting on 23 September 2010.

The Planning and Performance Manager presented this report and highlighted the two new risks, which had been added to the Risk Register since the last summary report.

Risk 66, as detailed on page 8 of the report, which relates to the FiReControl project, will be removed from the Risk Register, as the RCC project has now been abandoned. A consultation document has been released about this issue, which outlines the options for taking the project forward. The CFO reported that there is a meeting in London on 24 January 2011 to discuss the issues surrounding the abandonment of the project. The CFO also reported that there is a need for SFRS to look at establishing a partnership with another fire and rescue service to ensure that there is capacity to deal with large scale incidents. There should be Government funding available for this. Hereford and Worcester Fire and Rescue Service is currently tendering for its command and control system. The tender includes the provision of compatibility with SFRS. Other possible options for partnering at the moment include Cleveland, Manchester or Lancashire Fire and Rescue Services.

Resolved that the Committee note the contents of the report

11 Local Government Act 1972

Resolved that, under section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involved the likely disclosure of exempt information, as defined by the provisions of Part I of Schedule 12(A) to the Act, by virtue of Paragraphs 3 and 4

12 Capital Update on Activity and Finance (Paragraph 3)

The Committee received the second part of the Appendix to Report 6 – Capital Update on Activity and Finance, which contained exempt information.

Resolved that the Committee note the Appendix to Report 6 – Capital Update on Activity and Finance

13 Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines (Paragraph 3)

The Committee received the Appendix to Report 9 – Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines, which contained exempt information.

Resolved that the Committee note the Appendix to Report 9 – Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines

14 Corporate Risk Management Summary – Exempt Information (Paragraphs 3 and 4)

The Committee had received an open session report (Item 10), which summarised its current exposure to corporate risk. This report supplemented that one, as it contained information that was exempt from publication by virtue of the Local Government Act 1972, Schedule 12A.

Resolved that the Committee note the contents of this report, in conjunction with the Corporate Risk Management Summary discussed in open session (Item 10)

The meeting closed at 3.00 pm.

Chair.....

Date.....

Financial Performance to December 2010

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 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 nine months of the year can now be reported.

| | (Over) / Under spend £000 |
|---|--|
| Executive and Resources | |
| Pay – savings on Finance salaries | 4 |
| Service Delivery | |
| District – further savings are anticipated on watches | 30 |
| Retained Duty System – Retained Support Officer vacancy | 7 |
| Prevention – Inspections – Crew Manager vacancy | 16 |
| Total | 57 |

It is proposed that variances will be transferred to individual contingencies.

Pay and Prices Contingency

If the Authority has received no pay award instructions by the end of the financial year, there will be a balance of £300,000 remaining in the pay and price contingency.

Growth

As part of the budget setting process, officers were asked to submit business cases for growth items for the next financial year. These bids were considered by senior officers, and, where possible, they are to be funded from underspends identified in the current year. Successful bids are shown below, with those over £10,000 also approved by the Chair and the Vice Chair of the Authority.

| | £000 |
|---|-------------|
| Officer training courses | 14 |
| Core skills courses | 13 |
| Building legislation awareness training | 12 |
| Telephone exchange replacement at Telford | 8 |
| Continuation of temporary IT post | 9 |
| Enhancements to call handling | 3 |
| Commander training equipment | 2 |
| Total | 58 |

The balance on each contingency is as follows:

| | £000 |
|--------------------------------------|-------------|
| Executive and Resources | 0 |
| Corporate Performance and Operations | 108 |
| Human Resources and Development | 0 |
| Service Delivery | <u>158</u> |

This is the position after vacancy savings of £150,000 had been achieved, and also takes into account the rescheduling of the capital scheme at Wellington fire station, also to be funded from 2010/11 underspends.

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. 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 December 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 outstanding investments of £7.74m exceed borrowing of £5.81m.

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 have estimated a cash balance available for investment at the end of December of £7.4m: the actual balance was £7.8m. The excess balance relates to fewer purchases and payments being made than projected.

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 Treasury Review 2010/11

Current Investments

Funds currently invested are shown below:

| | |
|------------|---------------|
| Nationwide | £2.00m |
| Lloyds | £1.00m |
| Nat West | £1.74m |
| Barclays | £2.00m |
| Clydesdale | £1.00m |
| Total | <u>£7.74m</u> |

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 Appendices

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 | | | |

Adequacy of Provisions and Reserves and Robustness of Budget

Report of the Treasurer

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

1 Purpose of Report

This report: undertakes a full analysis of Reserves and Provisions; provides an assurance on the adequacy of reserves and provisions; and gives an assurance on the robustness of the budget.

2 Recommendations

The Committee is asked:

- a) To recommend to the Fire Authority:
 - i) The reserves and provisions, as set out in the appendix; and
 - ii) The Treasurer's assurances covering the robustness of the 2011/12 budget and adequacy of the reserves and provisions; and
- b) To note the material uncertainties from 2013/14 onwards.

3 Background

The Finance Officer is required, under section 25 of the Local Government Act 2003, to report on the robustness of estimates and adequacy of reserves.

This is also linked to the requirement of the Prudential Code that authorities should have full regard to affordability, when making recommendations about future capital programmes.

In our case the issue of the reserves and capital is closely linked, because of the intention to maximise the funding of the “Shrewsbury Capital Project” from the Un-Earmarked Capital Reserve and to use capital reserves to minimise the cost of future years’ capital programmes.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Guidance Note on Local Authority reserves and balances (LAAP Bulletin 55), which is reflected in this report. The Bulletin states that it is contrary to the freedoms of local authorities for an external body to impose general minimum or maximum levels of reserves, as there is a broad range, within which authorities might reasonably operate. The Bulletin does say that reserves should be not only adequate but also necessary. It also reminds authorities of the power of Government to set a minimum level of reserves, and that Government has undertaken not to impose such a level, unless an authority does not act prudently, ignores advice, and is heading for serious financial difficulty.

4 Major Risks and Uncertainties

The basic check, made each budget round, is to ensure that all major risks identified in the risk register are taken into account. These are:

- i Retained Firefighters’ Pension 2000 to 2006 and Terms of Employment issues;
- ii Firelink / Firecontrol and the implications for current IT and communication services;
- iii Implications of the current financial situation, particularly the review of central government funding of local authorities; and
- iv Linked to iii above, the risk of being capped, to be superseded by tests of excessiveness and the risk of triggering local referenda.

These risks are addressed in this report together with the overall adequacy of each reserve and the robustness of the budget.

5 General Reserve

The General Reserve was the first established by the Authority in 2004, with the purposes of, firstly, providing a working balance to cushion the impact of uneven cash flows, thereby avoiding unnecessary temporary borrowing, and, secondly, cushioning the impact of unexpected events or emergencies.

The balance is expected to be £536,000 at 1 April 2011. The basis for this, before inflation proofing, is set out in the appendix to Report 5f to the Strategy and Resources Committee 24 November 2010 – now encompassed in the “Green Book” to the Authority in December 2010.

The balance of the reserve is made up of a number of relatively small risks, although it is clear that the consequences of the cancellation of the national Firecontrol project have now to be dealt with.

Given that this specific risk is being dealt with as part of the budget process, that the reserve is still needed in aggregate for cash flow and contingency purposes, and that £525,000 would be about 2.5% of budget, it is recommended that the reserve remain at that level, subject to regular review and to repricing.

6 Extreme Weather Reserve

The Extreme Weather Reserve is expected to total £303,000 at 1 April 2011. If it does, then it will not yet have been used to pay for budget overspends arising from demands on the Service from extreme weather. These would arise primarily on the Retained Service or charging for Firelink usage.

Last year the Fire Authority decided to maintain the reserve at current levels. There has not been any call on the reserve this year; however, given the long-term nature of the risk, it is recommended that the reserve is left unchanged.

7 Pensions and other Staff Issues

This reserve is expected to total £1,180,000 at April 2011, which is made up of:

i **Sickness Retirements**

Lump sum contributions are required to the Pensions account and an annual total of 3 is provided for in the revenue account. Any more would have to be met from this reserve. One extra retirement would cost about £130,000.

ii **Other staff costs**

Such as injury awards, and other costs, which are not covered by the employee’s pension contribution, and, therefore, not chargeable to the Pensions account

iii **Retained Firefighter pensions and conditions of employment costs** for the period between April 2000 and March 2006 (to date as regards conditions)

Costs could amount to £980,000, based on the numbers of staff employed during the period and those already in pension scheme membership and a number of assumptions about how and when payments will become due. The level of uncertainty, both of higher costs, and, on the other hand, Government assistance remains significant.

The amount set aside in the reserve appears, however, to be a reasonable response to dealing with the problem. A National Joint Council circular (NJC 1/11) was received on 11 January to say that formal agreement is imminent and that settlement can be expected this year. The costs shown in the Appendix are estimated to fall partly in 2010/11 and partly next year.

- iv **One-off or irregular staff costs**
which it would be in-appropriate to provide an annual budget.
- v **Any local implications of developments elsewhere in the Fire Service**, such as equality issues
- vi **Arrears of pay** etc.

Given the high level of uncertainty on a number of these issues, it is recommended that this reserve is left unchanged.

8 Capital Reserve - Earmarked

This reserve is intended to fund minor and/or recurring capital schemes, thereby avoiding borrowing costs. Where an asset has a defined life and will need replacing, contributions are made over its life from the revenue account. The reserve will require a transfer of £110,000 from the Un-earmarked Reserve next year, when outgoings are temporarily expected to exceed receipts.

9 Capital Reserve - Un-earmarked

This reserve is intended to fund the St. Michael's Street capital scheme and, if possible, be used to reduce debt charges on future major capital projects. £135,000 of revenue expenditure to cover temporary arrangements, such as rent, has been transferred out of the reserve, leaving £3,855,000 of the £3,990,000 St. Michael's Street scheme costs to be met from capital. The phasing of expenditure on the capital scheme itself has been revised, as set out below.

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | Total £000 |
|-----------------------------------|-----------------|-----------------|-----------------|---------------|
| Expenditure | 124.0 | 2,065.9 | 1,665.1 | 3,855.0 |
| Funding: | | | | |
| Grant | 103.0 | 691.0 | | 794.0 |
| Reserve - Un-earmarked Capital | 21.0 | 1,044.0 | | 1,065.0 |
| Borrowing | | 330.9 | 1,665.1 | 1,996.0 |
| Total Funding | 124.0 | 2,065.9 | 1,665.1 | 3,855.0 |

The Un-earmarked Capital Reserve is currently expected to total £1.437m, after funding the St. Michael's St. Scheme. This could fund any excess cost revealed, whilst the scheme is in progress, or be used to replace borrowing on this or other schemes.

10 Efficiency Reserve

This reserve is earmarked for investing in efficiencies and has been further earmarked for seeking efficiencies from the St. Michael's Street project. The reserve is currently expected to be used for this purpose and to be exhausted by 31 March 2011. Consideration might be given, when closing the 2010/11 accounts, to setting aside some money to invest in future efficiencies.

11 General Fund

The General Fund is not a reserve but the amount by which revenue income exceeds expenditure. The Fire Authority attempts to redistribute any such balance through the budget process, rather than hold tax payers' funds unnecessarily. The fund has been fully used to meet the expenditure approved by the Fire Authority in June this year.

12 Adequacy of Reserves

The reserves have not been unexpectedly reduced from last year, when an assurance was given of their adequacy. The major uncertainties of last year do, however, continue, except that there is a much clearer picture of the implications of the St. Michael's Street capital project and the Firecontrol / Firelink project. In light of this and the analysis set out above, a continued assurance can be given that every effort has been made to ensure that reserves are adequate. A full statement of reserves is set out in the appendix to this report

13 Robustness of Estimates

Given that reserves are adequate, I believe the budget is robust for 2011/12 in respect of the process to minimise errors and omissions, the level set aside for future pay and price increases, and the realism and deliverability of the reductions approved as part of the Public Value process. The method for identifying additional spending pressures, both through the Public Value and budget processes, is comprehensive.

A major unknown in the past has been the threat of capping, which is to be replaced by the new process of government defined excessiveness and referenda. At a zero increase the precept level would clearly not be within the Government's definition of an excessive increase and, indeed, will qualify for the precept freeze grant.

Future Years

Although the assurances required under statute are for the coming year only, there must be concern over the grant settlement from 2013/14 onward, particularly the outcome of the funding system review; prospects for inflation up or down; Council Tax base changes; as well as the greater uncertainties of budgets generally over that time.

It will, therefore, be important to use the next two years to monitor such budget matters carefully and to review service consequences in the Service and Medium Term Financial Plan (MTFP). This will be needed to ensure that the Authority can take part robustly in consultation with government to ensure as far as possible service and financial stability from 2013/14 onward.

14 Financial Implications

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

15 Legal Comment

The Treasurer is obliged to give the assurances set out in this report by the Local Government Act 2003.

16 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.

17 Appendix

Schedule of Reserves, Provisions and General Fund

18 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 | | | |
| Legal | * | Equality Impact Assessment | * |

Schedule of Reserves, Provisions and General Fund

**Budget for the
year 2011/12
£ 000**

1. Equipment Replacement Provision

| | | |
|---|-------------|----------|
| a) Reason / Purpose | 1 April | 22 |
| To smooth out revenue expenditure each year on the replacement of items of operational equipment. | Additions | 34 |
| | Withdrawals | 50 |
| | Repricing | <u>3</u> |
| | 31 March | <u>9</u> |
| | | |
| b) How and When Used | | |
| The provision purchases items of equipment and receives equal annual instalments from the revenue account over the life of that equipment. Interest is also added on balances to ensure inflation proofing. | | |
| | | |
| c) Procedures for Management and Control | | |
| The expected expenditure and contributions is approved by the Authority as part of the annual budget process and controlled as any other revenue budget. | | |
| | | |
| d) Process and timescale for Review | | |
| The provision is reviewed each year as part of the budget setting process, again during the closing of the accounts, and in addition if budget variations are required during the year. | | |

2. General Reserve

| | | |
|---|-------------|------------|
| a) Reason / Purpose | 1 April | 536 |
| To provide a cash reserve to avoid unnecessary short-term borrowing. Also to meet known risks which are difficult to quantify or to predict when they will occur. | Additions | 13 |
| | Withdrawals | <u>-</u> |
| | 31 March | <u>549</u> |
| | | |
| b) How and When Used | | |
| The General Reserve would be used to finance a one-off expenditure occurring during a year on one of the scheduled risks anticipated. The General Reserve is funded from the revenues of the Authority both to meet risks and to cover inflation. | | |
| | | |
| c) Procedures for Management and Control | | |
| Risk are listed and amended with changes to the Risk Register. Each is quantified and probabilities ascribed to their occurring. The resulting total is then available to meet an individual risk identified (or unknown) occurring, subject to formal approval by the Authority. | | |

**Budget for the
year 2011/12
£ 000**

d) Process and Timescale for Review

Review takes place as part of the annual budget setting process and on closing the accounts. The Risk Management Group also considers changes in risk throughout the year and proposes changes to the Authority as necessary.

3. Extreme Weather Reserve

a) Reason / Purpose

The purpose is to average out the revenue implications of hot summers, flooding or other weather events that impact on the retained service costs in particular.

| | |
|-------------|-----|
| 1 April | 303 |
| Additions | - |
| Withdrawals | - |
| 31 March | 303 |

b) How and When Used

The revenue budget provides for an annual average cost. Underspends in any year are added to the reserve, overspends funded by the reserve.

c) Procedures for Management and Control

The Authority will approve additional revenue costs in the normal way on the basis of an assurance that they could be funded by the reserve and after any other funding – e.g. Bellwin claims had been identified.

d) Process and Timescale for Review

The reserve and associated budgets are reviewed as part of the annual budget setting process, and on closing the accounts.

4. Pensions and Other Staff Matters Reserve

a) Reason / Purpose

The reserve is to meet one-off staff related costs such as pension or equal pay/conditions retrospective liabilities, sickness pension costs above the average annual revenue budget provision, injury benefits and payments of arrears.

| | |
|-------------|-------|
| 1 April | 1,180 |
| Additions | - |
| Withdrawals | -680 |
| 31 March | 500 |

b) How and When Used

The Authority would approve any additional budget costs on the assurance they could be met from the reserve. The reserve would receive annual inflation proofing contributions.

c) Procedures for Management and Control

The specific risks covered are regularly monitored and reports taken to the Authority of any variations in the reserve that might be required.

**Budget for the
year 2011/12
£ 000**

d) Process and Timescale for Review

Review is part of the annual budget setting process, and again on closing the accounts. Risk Management Group also regularly reviews these risks because of their high significance in service and financial terms.

5. Capital Reserve- Earmarked

a) Reason / Purpose

The Capital Reserve meets the cost of small and recurring items of capital and receives contributions from the revenue account to provide for replacement of recurring items. The reserve is also intended to maximise self-funding of the Shrewsbury HQ replacement / refurbishment scheme in order to minimise prudential borrowing.

| | |
|-------------|------|
| 1 April | 18 |
| Additions | 245 |
| Transfer | 110 |
| Withdrawals | -395 |
| Repricing | 25 |
| 31 March | 3 |

b) How and When Used

As part of the annual Capital budget, the Authority decides which schemes are likely to need replacement, and are small enough or of relatively short life to warrant self-funding. If the fund can meet these costs it is then replenished over the life of the asset where replacement is expected. Contributions ensure that replacement provision is inflation proofed. The Shrewsbury HQ Project will be considered specifically during 2009/10.

c) Procedures for Management and Control

The Capital Programme, its funding (including from this reserve) and revenue implications are considered and approved as part of the budget setting process in the context of the Prudential Code and Guidelines.

d) Process and Timescale for Review

The reserve is reviewed during the annual budget process, on closing the accounts and in the light of continuous budget monitoring of the capital programme.

6. Capital Reserve- Un-earmarked

a) Reason / Purpose

The purpose is to fund major capital schemes and minimise borrowing costs.

| | |
|-------------|-------|
| 1 April | 993 |
| Transfer | -110 |
| Additions | 519 |
| Repricing | 35 |
| Withdrawals | - |
| 31 March | 1,437 |

b) How and When Used

The reserve is created from savings and efficiencies that become available from revenue budgets. These funds are used to finance the St. Michael's St. scheme.

c) Procedure for Management and Control

The Authority approves the release of the reserve to match expenditure on the project taking into account grant and other funding sources.

d) Process and Timescale for Review

It is envisaged that the fund will be finished in 2011/12. However this will depend on the cost and phasing of the St. Michael's St. scheme. Any surplus funds would be available to meet the cost of future major projects.

7. Efficiency Reserve

a) Reason / Purpose

The purpose is to invest in one-off initiatives intended to deliver efficiency savings or practices in subsequent years.

| | |
|-------------|-------|
| 1 April | - |
| Additions | - |
| Withdrawals | - |
| | <hr/> |
| 31 March | - |
| | <hr/> |

b) How and When Used

The Authority approves in advance contributions from the reserve for specific efficiency proposals. Income from revenues of the Authority is earmarked as part of the review process.

c) Procedures for Management and Control

Proposals require specific Authority approval as part of the budget process.

d) Process and Timescale for Review

Review takes place as part of the annual budget setting process and on closing the accounts.

8. General Fund

a) Reason / Purpose

The General Fund is the balance of income over expenditure required to fund expenditure that has slipped into the following year or is approved to be added to the next year's budget by the Authority.

| | |
|-------------|-------|
| 1 April | - |
| Additions | - |
| Withdrawals | - |
| | <hr/> |
| 31 March | - |
| | <hr/> |

b) How and When Used

The budgets financed by the General Fund are enhanced in the new year, and the balance at 1 April is therefore wholly used during the year.

c) Procedure for Management and Control

The General Fund can only be used on the specific approval of the Authority.

d) Process and Timescale for Review

Budgets financed from the General Fund are automatically enhanced at the beginning of the year by the Finance Section, and then monitored as part of normal budget monitoring.

Note

- 1 All Provisions and Reserves are specifically monitored by officers monthly. Outcomes are then reported to the Strategy and Resources Committee and approvals where necessary are sought at the next Fire Authority meeting.
- 2 More detail on Provisions and Reserves is contained in the Authority's annual Statement of Accounts particularly in the "Statement of Accounting Policies"

Capital Programmes 2011/12 to 2015/16 and Prudential Guidelines

Report of the Treasurer

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

1 Purpose of Report

This report presents the capital programmes for 2011/12 to 2015/16, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Confirm the 2011/12 onward programmes, as set out in the Appendix, as part of its final precept deliberations;
- b) Approve the Prudential Indicators and the Treasury Strategy for 2011/12; and
- c) Approve the Minimum Revenue Provision 2011/12.

3 Background

Consideration of the future capital programmes must be in the context of producing a balanced budget. This means that the increases in capital expenditure must be limited by increases in debt charges caused by increased borrowing and increases in running costs from new capital projects.

The Fire Authority must also have regard to the Prudential Code and must set Prudential Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable.

4 Amendments to the Capital Programme

The capital programme approved for consultation purposes in December 2010 produced the following summary.

| Total Cost of Schemes | Revenue Consequences | | | | |
|-----------------------|----------------------|---------|---------|---------|---------|
| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 2,930 | 33 | 108 | 125 | 190 | 227 |

Since the December 2010 meeting, no changes have been made to the programme.

The capital programme now proposed to the Fire Authority for its 2011/12 budget appears as an **exempt** appendix to this report, shown at item 14 on the agenda for this meeting.

5 Treasury Management Strategy Statement

The Local Government Act 2003 requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Fire Authority employs Shropshire Council to manage its Treasury Functions, who in turn have appointed Sector Treasury Services as their advisor.

6 Prudential Guidelines

The Act requires the Authority to 'have regard to' the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

The key issue is to ensure that the revenue consequences of the proposed investment will not lead to unacceptable financial pressures in later years.

A summary of the prudential indicators for the budget period is shown below.

| Prudential Indicator | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Capital Financing Requirement (CFR) | 6,410 | 8,256 | 8,256 | 8,256 |
| Operational boundary for external debt | 6,410 | 8,256 | 8,256 | 8,256 |
| Authorised limit for external debt | 9,410 | 11,256 | 11,256 | 11,256 |
| | | | | |
| Ratio of financing costs to net revenue stream | 3.58% | 4.32% | 4.84% | 4.79% |
| Impact of new capital investment on Band D precept | | 21p | 45p | 11p |

7 Treasury Strategy 2011/12

Economic Background

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years.

Borrowing Strategy

It is anticipated that borrowing will continue to be made through the Public Works Loan Board (PWLB).

Rates for PWLB loans were increased by one per cent following the Comprehensive Spending Review, which has made borrowing more expensive.

The 25 year and 50 year rates are likely to start the year at 5.2% - 5.3%, rising steadily to 5.4% – 5.5% by the end of the year.

External versus Internal Borrowing

The next financial year is expected to be one of historically low Bank Rate, and again offers the opportunity for the Fire Authority to review its strategy of undertaking new external borrowing.

As long as borrowing rates are expected to be higher than rates to be earned on investing our cash balances, and look likely to be for the next couple of years, external borrowing could be avoided in order to maximise short-term savings.

The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

However, short-term savings should also be weighed against the potential for incurring long-term extra costs by delaying unavoidable new external borrowing until later years when PWLB long-term rates are forecast to be significantly higher.

Borrowing strategy will therefore be based on the balance of advantage. Borrowing will be avoided initially, but the situation will be monitored, and, should the prospect of borrowing rates rising significantly in future years and/or investment rates recovering increase, some PWLB loans will be taken. It is not, however, intended that money will be borrowed in advance of spending needs.

Investment Strategy

The Fire Authority will have regard to Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") issued in March 2010, any revisions to that guidance, the Audit Commission's report on Icelandic Investments and the 2009 revised Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code").

The Fire Authority's investment priorities are:

- a) Firstly, the security of capital; and
- b) Secondly, the liquidity of its investments.

The Fire Authority will also aim to achieve the optimum return on its investments within the primary objectives of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

This is the initial strategy for 2011/12, and will only be revised by the approval of the Fire Authority, should there be significant improvement in the position of current lending uncertainties.

The Fire Authority will only lend to bodies of high credit quality, that is, the UK Government, local authorities or counter parties with a credit rating acceptable to Shropshire Council and endorsed by your Treasurer, or which effectively take on the creditworthiness of the UK Government itself.

The Fire Authority employs Shropshire Council to manage its investments, and they:

- use three credit rating agencies
- are advised by investment consultants
- monitor and review creditworthiness regularly
- provide appropriate training to Treasury Management staff.

The Treasurer is updated regularly on all changes to acceptable borrowers and may be more restrictive to ensure that security of capital is prioritised. It has been agreed that investments with any one borrower will be limited to £2.0m, except the UK Government through the Debt Management Office (DMO). In the current period of uncertainty, and to ensure liquidity, no loans will be made for a period of more than 12 months.

Investments will be sterling denominated. Funds available for investment are cash flow derived, but there is a core balance available through the Fire Authority's reserves. This explains much of the difference between gross and net borrowing, which should reduce, particularly as the Un-earmarked Capital Reserve is used to fund the St Michael's Street project.

At the end of the financial year, the Fire Authority will report on its investment activity as part of its Annual Treasury Report, and will also provide quarterly updates throughout the year.

Prudential Indicators for Borrowing and Lending

Consistent with Treasury and Investment Strategies, the Fire Authority is recommended to adopt the following Prudential Guidelines for the period to 31 March 2014:

1. Borrowing

- a) Upper limit for net principal fixed interest rate exposure - 100%
- b) Upper limit for net principal variable interest rate exposure - 20%

2. Investment

- a) Upper limit for net principal fixed interest rate exposure -100%
- b) Upper limit for net principal variable interest rate exposure - 100%

3. Maturing Structure of Fixed Rate Borrowing

| | Upper Limit (%) | Lower Limit (%) |
|------------------------------|------------------------|------------------------|
| Under 12 months | 30 | 0 |
| 12 months to 24 months | 30 | 0 |
| 24 months and within 5 years | 30 | 0 |
| 5 years and within 10 years | 30 | 0 |
| 10 years and above | 100 | 70 |

4. Investments for more than 364 days – nil

8 Minimum Revenue Provision 2011/12

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these was the new provision for dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount that an authority charges to its revenue account in respect of the financing of capital expenditure.

Under the new regulations, an authority is required to set aside an amount of MRP which it considers prudent. Interpretation within the guidance states that:

“Provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.”

Essentially, this means that provision charged to the revenue account in respect of borrowing must reflect the lives of the assets, for which funds have been borrowed.

Authorities are required to produce an annual statement on their policy for MRP for each financial year. This statement is being submitted for the financial year 2011/12, prior to the start of the financial year.

9 Options

The guidance on prudent provision contains four options for calculating MRP. Authorities may choose an alternative method, but must demonstrate that it is prudent.

The following policy is recommended to Members for use by the Fire Authority:

- For all borrowing incurred during or before 2006/07, the MRP applied in 2007/08 will be calculated on the basis of 4% of the Capital Financing Requirement (CFR).

This method was used for the 2007/08 financial year, and will continue to be used in future years for all capital expenditure incurred before 31 March 2007. In addition, a voluntary revenue provision of 4 % has been made on all assets other than land and buildings from schemes starting in 2005/06, to align financing costs to the lives of those assets.

- For all borrowing incurred in 2007/08 and subsequently, the MRP applied has been calculated on the basis of the Asset Life method. This method was selected, because it charges the financing costs of assets over the lives of those assets in equal instalments each year, and follows the same principles as the provisions made by the Fire Authority from 2006/07. This method will be continued into the coming year.

10 Financial Implications

The financial implications are as set out in the report.

11 Legal Comment

The Local Government Act 2003 requires the Fire Authority to “determine and keep under review how much money it can afford to borrow”. In doing so, it “shall have regard to the Prudential Code for Capital Finance in Local Authorities”.

12 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.

13 Appendix

Exempt item 13 Capital Programmes 2011/12 to 2015/16

14 Background Papers

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services

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 | | Initial Equality Impact Assessment | |
| Legal | * | | |