

2008/09 to 2009/10 Revenue and Capital Budgets

Report of the Treasurer

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

1 Purpose of Report

This report brings together the various elements of the expenditure budgets and projections. It recommends them to the Fire Authority as a basis for its budget consideration on 19 December 2007.

2 Recommendations

The Committee is asked to:

- a) Recommend that the Fire Authority does its three year budget and precept planning on the basis of the following revenue expenditure (before net service developments):-

2008/09	£19,707,000
2009/10	£20,615,000
2010/11	£21,490,000

- b) Recommend the following provisional capital programme (prior to detailed appraisal of schemes):-

2008/09	£1,035,000
2009/10	£1,470,000
2010/11	£2,589,000

- and to seek to maximise the use of the capital reserve;
- c) Note the potential scope for headroom for net service additions as set out in paragraph 5; and
- d) Recommend the reserves and provisions be maintained at present real term values, subject to maximising the capital reserve should resources become available.



3 Background

The Committee has been asked to bring forward expenditure proposals for consideration by the Authority on 19 December 2007, when hopefully it will be able to relate these to the Provisional Grant Settlement.

These papers cover all aspects as in previous years with the exception of service developments. Work is proceeding on these, and on potential savings in line with the “what-if” scenarios set out in the Medium Term Financial Plan (MTFP).

4 Revised Budget Summary

The revenue expenditure covered in the following papers, can be summarised as follows:-

Report	2008/09	2009/10	2010/11
	£ 000	£ 000	£ 000
5a Base plus Committed Growth	19,168	19,280	19,330
5b Pay and Prices	577	1,204	1,848
5c Efficiencies 2008-11	100 -	100 -	100 -
5d 2008/09 Capital Programmes	62	231	412
Total Expenditure	19,707	20,615	21,490
Percentage Increase	+2.9%	+4.6%	+4.2%

The capital expenditure, prior to the detailed review of project appraisals and spending proposals linked to new service developments is:-

	2008/09	2009/10	2010/11
	£ 000	£ 000	£ 000
Expenditure	1,035	1,470	2,589
Capital Funding			
Borrowing – supported (estimated)	420	420	420
- prudential	325	595	1,405
Capital Reserve (subject to resources)	290	455	264
Capital Receipts	-	-	500
	<u>1,035</u>	<u>1,470</u>	<u>2,589</u>

5 The “What-If” Analysis

The MTFP set out an optimistic and a pessimistic scenario for resources and then examined the surpluses or shortfalls that would arise in funding the expenditure forecast last February with a 5% a year increase in the precept.

Since then, the Comprehensive Spending Review has been announced, but does not help in refining grant that might come to the fire service in general or this Authority in particular. Local government as a whole will see a cash increase, which after inflation, equates to about a 1.0% real-term growth per



annum. This does raise the hope that the pessimistic assumption of a net nil cash change to grant will not happen, and even allowing for the fire service possibly growing less fast than other local services in cash terms, the hope that there will be a cash increase.

At this stage, however, there is no hard evidence to amend the resource assumptions in the “What-If” analysis.

There is however a need to change the February forecast of expenditure for the latest budgets summarised in paragraph 4.

In fact the position for all three years has improved as follows:-

	2008/09	2009/10	2010/11
	£ 000	£ 000	£ 000
Estimate in February (2010/11 estimates in August)	20,144	20,990	21,666
Changes now calculated:-			
Committed Changes (mainly Firefighters pensions)	103 -	60 -	18 -
Other following budget monitoring (mainly investment income and pay awards)	185 -	187 -	195 -
Forecast Inflation	49 -	29 -	2 -
2008/09 efficiency - proposed	100 -	100 -	100 -
Other (net) including ending of retained reserve		1	139
Total Variation	----- 437 -	----- 375 -	----- 176 -
Latest Estimate	19,707	20,615	21,490

If the net variations are applied to the “What-if” scenario, then the following position emerges:-

	2008/09	2009/10	2010/11
	£ 000	£ 000	£ 000
Pessimistic	58 headroom	161 shortfall	409 shortfall
Optimistic	505 headroom	569 headroom	622 headroom

This demonstrates that a shortfall against 5% precept growth may only occur on the pessimistic scenario in years 2 and 3.

6 Service Developments and Precept Strategy

The range of pessimistic and optimistic scenarios should give the Authority scope to consider potential service additions, the level of precept increase and, once the distribution of resources through the three years becomes clear, the strategy to be adopted over the period.

At present, officers are considering a number of service developments put forward by Business Area Managers totalling some £300,000. Some are one-



off proposals, but others are ongoing. These will be prioritised and presented to members in December, when they can be considered in the light of the Authority's service and precept strategy over the next three years. The outcome would then form the basis for public consultation in January.

7 Financial Implications

The financial implications are as detailed in the report.

8 Legal Comment

There are no direct legal implications arising from this report.

9 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.

10 Appendices

There are no appendices attached to this report.

11 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	*



Base Budget plus Committed Change

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

2 Recommendations

The Committee is asked to note the contents of the report, for inclusion in the budget summary shown in report 5.

3 Background

As the first step in the budget setting process, finance staff and heads of department have reviewed all current budgets. This review has taken into account both changes as a result of the 2006/07 outturn, and unavoidable events so far in 2007/08.



4 Revised Position following Review

	2008/09 £'000	2009/10 £'000	2010/11 £'000
a) 2007/08 Budget	19,146	19,146	19,146
b) Committed Changes			
Firefighters' Pensions	13	61	134
Local Govt Pension Scheme	16	16	16
Leasing	(32)	(93)	(108)
Debt Charges:			
2007/08 Capital Programme	80	80	80
MRP	(15)	(17)	(20)
Retained Review	193	284	284
Efficiencies 2007/08	(63)	(27)	(27)
c) Other			
Injury allowances and pensions – current pension budgets not sufficient – in year virement approved by the Fire Authority in October	40	40	40
Pay and Prices – savings identified in 07/08 which are ongoing	(75)	(75)	(75)
Investment Income – based on levels of reserves and balances available to be invested	(139)	(139)	(139)
Rates – ongoing saving as a result of recent rates appeal	(38)	(38)	(38)
Waste disposal – to cover WEEE regulations and confidential shredding	4	4	4
Water charges – increased charges due to unexpected costs this year	6	6	6
Vehicle repairs – additional funds for 3yrs to overhaul pumps	5	5	
Vehicle repairs – regular replacement of primers on major pumps	4	4	4
Hydrants – road working safety notices may be required	9	9	9
False alarm reduction – publicity material to encourage further reductions	3	3	3
Youth Initiatives – increases required for Firesetter training, and further work with schools and young people	5	5	5
Community Safety – increases required to include marketing and publicity and printing costs	6	6	6
Total	19,168	19,280	19,330



In the note to the Budget Working Group on 30 August 2007, a figure of £19,519,000 was reported for base plus committed changes in 2008/09. The actual increase on Firefighters' Pensions is lower than originally anticipated, due to fewer retirements in 2006/07 than expected. In addition, interest earned on investments has been evaluated for the coming years, and will generate more income for the Authority. Finally, a successful rates appeal resulted in lower charges on the Authority's buildings from 2007/08.

5 Financial Implications

There are no financial implications other than those mentioned in the report.

6 Legal Comment

There are no direct legal implications arising from this report.

7 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.

8 Appendices

There are no appendices attached to this report.

9 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	*



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 additional provision to be made to the 2008/09 and subsequent years' budgets for pay and price changes not known at the time of fixing the budget.

2 Recommendations

The calculations based on current assumptions would require the following additional amounts, which are recommended for inclusion in budget planning:

2008/09 Budget	£577,000
2009/10 Budget	£1,204,000
2010/11 Budget	£1,848,000

3 Background

The 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 in the budget or to under-funding. If too small a provision is made then the balance would have to be funded elsewhere in the budget, 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:

- i) Analyse its base budget (2007/08) into the spending areas where pay or price charges can be significant;



- ii) Make pay assumptions for firefighters based on any consensus that exists among fire authorities for a formula based on negotiated outcome;
- 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 Long Service Increment (LSI) / Continuous Professional Development (CPD) payments; rank to role; expected progression through scales etc;
- v) Analyse the prices budget into key elements including those to which no inflation applies, such as debt charges, and apply appropriate percentages to each.

4 The Current Position

		2008/09 £ 000	2009/10 £ 000	2010/11 £ 000
Firefighters Pay				
July 2007 – 3.5%		111	111	111
July 2008 – 3.5%		355	474	474
July 2009 – 3.5%			368	490
July 2010 – 3.5%				360
LSI/CPD (net)				
Rank to role				
Competence Acceleration		30	30	30
Support Staff				
April 2008 – 3.0%		51	51	51
April 2009 – 3.0%			52	52
April 2010 – 3.0%				50
Prices				
Premises	2008/09	22	22	22
	2009/10		22	23
	2010/11			24
Fuel and oil	2008/09	3	3	3
	2009/10		2	3
	2010/11			3
Other Transport	2008/09	9	9	9
	2009/10		8	9
	2010/11			9
Hydrants and Equipment	2008/09	22	22	22
	2009/10		20	22
	2010/11			22
Other	2008/09	32	30	30
	2009/10		28	30
	2010/11			30
Income	2008/09	9 -	9 -	9 -
	2009/10		10 -	10 -
	2010/11			10 -
		626	1,233	1,850



5 Future Prospects

If the 2007/08 base budget of £19,146,000 is analysed and current assumptions applied, the following calculations would result.

Information may become clearer, nearer the end of the year, but it is recommended that planning continues, for the time being on the basis of these calculations.

Current Base and Latest Assumptions

	Base £ 000	Assumption %	2008/09 £ 000	2009/10 £ 000	2010/11 £ 000
Firefighters' Pay					
2007 (July)	12,144	2.5	76	76	76
2008 (July)	12,220	3.5	320	428	428
2009 (July)	12,648	3.5		332	443
2010 (July)	13,091	3.5			343
			396	836	1,290
Chief Officers' Pay					
January 2008	492	3.5	13	13	13
January 2009	509	3.5	4	18	18
January 2010	527	3.5		5	18
January 2011	545	3.5			5
			17	36	54
Support Staff Pay					
April 2008	1,796	3.0	54	54	54
April 2009	1,850	3.0		55	55
April 2010	1,905	3.0			57
			54	109	166
Prices					
Premises 2008/09	851	2.5	21	21	21
2009/10	872	2.5		22	22
2010/11	894	2.5			22
Hydrants etc 2008/09	862	2.5	22	22	22
2009/10	884	2.5		22	22
2010/11	906	2.5			23
Other 2008/09	3,443	2.5	86	86	86
2009/10	3,529	2.5		88	88
2010/11	3,617	2.5			90
Income 2008/09	749	2.5	19	19	19
2009/10	768	2.5		19	19
2010/11	787	2.5			20
Zero Items (net)	307				
			110	223	338
2008/09	19,146		577	1,204	1,848



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 Appendices

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	*



Efficiencies 2007/08 and Forward Budgets

Report of the Treasurer

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

1 Purpose of Report

This report seeks the scrutiny and approval of the Committee to the backward and forward looking Annual Efficiency Statements (AES) for 2007/08. Although no longer required by Government it is good practice to monitor progress.

It also looks at the implications for setting efficiency budgets in 2008/09 to 2010/11.

2 Recommendations

The Committee is recommended to:

- a) Agree to the AESs as set out in paragraph 4; and
- b) Submit the efficiencies set out in paragraph 5 for inclusion in future budget planning.

3 Background

The Authority had a total of £930,000 of on-going savings if it was to meet the national average target of efficiencies by March 2008.

Confirmed efficiencies up to the end of 2006/07 were £688,000 leaving £242,000 to find during 2007/08. The Authority took £85,000 out of its budget for efficiencies during 2007/08 therefore leaving a further £157,000 to be found.

4 2007/08 Efficiencies

Set out below are the efficiencies actually budgeted, together with the latest situation:-



	Efficiencies £ 000		Actioned £ 000		To be actioned £ 000		
Original Plans							
1	Reissue of Fire Kit	20	-	14	-	6	-
2	Market Drayton rental	9	-		-	9	-
3	Ill-health retirements	16	-	16	-	-	-
4	Hydrant Contract savings	20	-	20	-	-	-
5	Recruit Training	10	-	10	-	-	-
6	To be identified - target	10	-	See below	-	-	-
		85	-	60	-	15	-
Further efficiencies identified							
7	Saving in rates after investing in appeals	-	-	38	-	-	-
8	Vehicle insurance through continued low claims	-	-	3	-	-	-
9	Management of turn-out performance with vacancies for firefighters	-	-	100	-	160	-
10	Conversion of Inspector post in Fire Safety from uniformed to non-uniformed	-	-	17	-	-	-
		85	-	218	-	175	-
							(max)

It is proposed to include the “actioned” efficiencies as our statement of backward looking efficiencies and the “to be actioned” in our original plans (£15,000) as our forward looking efficiencies. If all were actioned the Authority would have delivered £921,000 against its target of £930,000. However there is still some work to do on firefighter vacancies. The further saving of £160,000 identified in 2007/08 may be achievable as an efficiency, either in whole or part.

5 2008/09 to 2010/11

The Comprehensive Spending Review for the period seemed to identify an annual 3% target for efficiencies, although details of how a target might apply to the Fire Service in particular were not given. Subsequently, it is understood that a target of 1.6% might be set for the Fire Service.



If one assumes a similar base line, then the equivalent figure for 2007/08 estimated expenditure is £17,238,000 i.e. 3% a year would be £517,000. It is difficult to see how an annual target of this level could be achieved whilst still maintaining the current level of service. 1.6% would equate to about £275,000.

The Authority would probably in any case wish to continue its policy of maximising efficiencies and therefore value for money, whether or not this fell short or exceeded any national average target that might be confirmed for the Service.

The current situation for 2008/09 is that efficiencies might be delivered through managing service delivery and staff vacancies, without increasing associated costs such as overtime (see item 9 in paragraph 4). It is therefore proposed that an efficiency of £100,000 be taken forward into 2008/09 and subsequent budgets, pending further investigation.

Finally it has been possible to maintain an estimated £50,000 balance within the Efficiency Reserve, partly by using other underspendings to invest in efficiencies – e.g. undertaking work to reduce the rates bill. Given the present uncertainty on future targets it would be prudent to maintain this balance for pump-priming future efficiencies.

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 Appendices

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	*



Capital Programme 2008/09 to 2010/11

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 current schemes put forward for inclusion in the next three years' budgets. It then sets out the potential revenue consequences, subject to project appraisals and a review of financing possibilities.

2 Recommendations

The Committee is recommended to propose to the Authority for inclusion in its three year budget planning:-

- a) The schemes set out in paragraphs 4, 5 and 6;
- 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.

3 Background

The Authority has already agreed capital programmes for 2007/08 and earlier years. It has also agreed how these schemes are funded and the revenue consequences for future years. These figures are included in earlier papers as commitments.

In fact there is some scope for changing the revenue consequences by altering policy on how these committed schemes are financed, although this is not recommended as it will have implications for prudential guidelines and committed growth in later years.

This report deals with the options available for new schemes starting next year.



4 2008/09 Starts Programme

The schemes included in the Medium Term Financial Plan (MTFP) are as follows:-

	2008/09	Revenue Implications		
	£ 000	2008/09 £ 000	2009/10 £ 000	2010/11 £ 000
Financed from Borrowing				
1 Building Improvements	65	3	6	6
2 Fire Appliances	680	17	91	91
	<u>745</u>	<u>20</u>	<u>97</u>	<u>97</u>
Financed from Capital Reserve				
3 Small Fires Unit	100	14	14	14
4 Training Facilities	30	4	4	4
5 Information Technology	50	7	7	7
6 Regional Fire Control Link	10	2	2	2
7 Station End Equipment	25	4	4	4
8 ITC Equipment Room relocation	75	11	11	11
	<u>290</u>	<u>42</u>	<u>42</u>	<u>42</u>
	<u>1,035</u>	<u>62</u>	<u>139</u>	<u>139</u>

The revenue consequences are calculated in the following way. It is assumed that a loan will be raised at a mid point in the year – at 5%. Provision to repay the loan is required at least at a rate of 4% (Minimum Revenue Provision or MRP) from 1 April in the year following when the loan is raised, i.e. a further 4% is added from 2009/10 onward. The Authority has decided however to set a higher MRP where asset life is shorter than 25 years. In the case of scheme 2 – Fire Appliances, assets are replaced after 12 years, and therefore an 8.3% revenue provision is made each year.

Officers are currently producing project appraisals for each scheme to confirm the service value of each scheme, the capital cost, phasing of expenditure and revenue consequences. There is therefore scope for these figures to change, especially if there are any knock-on revenue consequences such as running costs of property or systems.



5 2009/10 Starts Programme

The schemes included in the MTFP are:-

	2009/10 £ 000	Revenue Implications	
		2009/10 £ 000	2010/11 £ 000
Financed from Borrowing			
9 Building Improvements	105	3	9
10 Crucial Crew venue	150	4	14
11 Fire Appliances	510	12	68
12 Light Pumping Unit	250	7	33
	<u>1,015</u>	<u>26</u>	<u>124</u>
Financed from Capital Reserve			
13 Small Fires Unit	100	14	14
14 Training facilities	30	5	5
15 Information Technology	50	7	7
16 Station End Equipment	25	4	4
17 Fire Kit replacement	250	36	36
	<u>455</u>	<u>66</u>	<u>66</u>
	<u>1,470</u>	<u>92</u>	<u>190</u>

In fact, from the paper on Reserves and Provisions, the Capital Reserve would barely be adequate to fund the £455,000 envisaged.

6 2010/11 Starts Programme

The schemes included in the MTFP are:-

	2010/11 £ 000	Revenue Consequence	
		2010/11 £ 000	2011/12 £ 000
Financed from Borrowing			
18 Building Improvements (Retained Stations)	65	3	6
19 Shrewsbury IRMP (funded £500,000 from receipts)	1,500	25	90
20 Fire Appliances	510	12	68
21 Firekit Replacement	250	6	48
	<u>2,325</u>	<u>46</u>	<u>212</u>
Financed from Capital Fund Reserve			
22 Small Fires Unit	100	14	
23 Gas Tight Suits	34	5	
24 Breathing Apparatus upgrade	50	7	
25 Training facilities	30	4	
26 Information Technology	50	7	
	<u>264</u>	<u>37</u>	
	<u>2,589</u>	<u>83</u>	



At present funds available in the capital reserve would be limited largely to new contributions coming in during 2010/11 limiting the value of schemes financed to £264,000. Scheme 21, at £250,000, would therefore have to be financed from borrowing.

7 Summary

At present, the build-up of commitments (assuming capital reserve is available), is as follows:-

	2008/09	2009/10	2010/11
	£ 000	£ 000	£ 000
2008/09 starts	62	139	139
2009/10 starts		92	190
2010/11 starts			83
	62	231	412

The main overall question concerns sustainability. Government supported borrowing totals a little over £400,000 each year, therefore the Authority would be undertaking prudential borrowing and is required to take into account prudence and sustainability as well as the merits of the schemes involved. By the end of the three year period, the proposed projects will have added £400,000 of committed growth, rising to £578,000 in 2011/12. A fuller picture will emerge when the capital programme is considered in the context of the overall budget. However, the issues round the Shrewsbury Integrated Risk Management Planning have the potential to cause a lift in costs during 2011/12 and the following year or two.

8 Financial Implications

The financial implications are as outlined in the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 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.

11 Appendices

There are no appendices attached to this report.



12 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	*



Provisions, Reserves and Funds

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

2 Recommendations

The Committee is recommended to:

- a) Confirm the existing provisions and general reserve;
- b) Review the level of the capital reserve as the current budget position becomes clearer;
- c) Confirm the other earmarked reserves; and
- d) Consider how to use the general fund later in the process with one possible use being to deal with the FiReControl / FireLink transition.

3 Background

The Authority's provisions, reserves and funds at 1 April 2007 were as follows:

Provisions	£000
Equipment Replacement	87
Continuing Professional Development Payments	19
	<hr/>
	106
Reserves	
General Reserve	955
Efficiency Reserve	105
Retained Service	190
Transitional Funding	101
Extreme Weather	285
Pensions	445



Capital	822
	<hr/>
	2,903
General Fund	<hr/>
	352
Total	<hr/>
	3,361

Of these, £352,000 in the General Fund has been released to add to the 2007/08 budget, partly to enable expenditure, which had slipped from 2006/07, to take place and partly to enhance the budget for Community Fire Safety.

This leaves £3.009m of reserves and provisions.

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for known future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled;
- Review the provisions and reserves during the budget process and on closing the accounts;
- Ensure that all provisions and reserves are inflation-protected, i.e. earn interest; and
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery.

4 Provisions

a) Equipment Replacement

The equipment replacement fund smoothes out expenditure on items of operational equipment, receives annual contributions for their replacement over their expected life, and replaces them when necessary.

The balance is budgeted to be £85,000 in April 2008 and £89,000 in April 2009. The provision has proved useful in dealing with the ongoing replacement of equipment, particularly relating to leases, and it is recommended that the provision is maintained.

b) Continuing Professional Development Payments

This represents monies unspent in 2006/07 as Long Service Increments (LSI) were phased out. It will be needed to offset the cost of phasing out LSI and of Continuing Professional Development (CPD) payments, which have been introduced in their place.



5 General Reserve

The General Reserve meets known risks, which are difficult to quantify or schedule. The Authority does not wish to take tax revenue, which may never be needed, and, therefore, tries to attribute a weighting representing the likelihood of an individual risk happening. This has led to a provision of £955,000, details of which are set out in the appendix.

The level of value of the risks has been repriced to match inflation, and the probabilities reviewed. Two new risks, 13 and 14, have been added after reviewing the risk register on closing the accounts. A new risk, that of unsuccessful court action under the Regulatory Reform Order, has been identified. However, the amount of £10,000 could be accommodated within existing totals. The total reserve of £955,000 represents just under 5% of gross expenditure, i.e. in line with general Audit Commission guidelines.

The two areas of major current uncertainty are the questions of Retained Service Pensions prior to April 2006 (risk 10) and the transition to Firelink/Regional FireControl. In the case of the former, there remains no clear calculation of the size of the risk:

- Who would retrospectively wish to contribute to the old style scheme?
- How many years would a retrospective award cover?
- Would Government support or borrowing approval be available?

Without more clarity, it is recommended that the current level of risk and potential commitment within the reserve is maintained. The other risk is the cost of Firelink/FireControl transition. At present some risk of maintaining current systems is covered (net £31,000) but there may be further problems, and there may be a case for setting aside a specific reserve for this major one-off risk.

6 Earmarked Reserves

a) Efficiency

There is a budgeted expenditure of £50,000 for investment in consulting advice on the future of the St Michael's Street site. This would still leave about half of the fund, and it would be useful to retain this for future initiatives, especially if new efficiency targets (thought to be 1.6% per year) are confirmed. The reserve has been effectively maintained by funding efficiency investments from net savings in yearly budgets.

b) Retained Service

These funds were set aside to ensure that the planned investment in the Retained Service can be completed within the scheduled increases in net budgets. This reserve should, therefore, continue and be released as planned.



c) Transitional Funding

The remaining balance is being used in 2007/08 to offset the grant being clawed back by the Government to pay for modernisation monies previously given to Fire Authorities. The grant from 2008/09 onwards will not be reduced, although the issue may be obscured by the changes to the new, three-year settlement.

d) Extreme Weather

The balance represents the monies saved in previous years against the budget provision for an average year. This year, extreme weather costs to date will be offset by a Bellwin Claim, and out-of-area costs are also being recovered.

e) Pensions

The purpose of this reserve is to meet one-off contributions required by the Government to the Pensions Account for sickness retirements, above the past average of three each year provided for in the revenue budget. The reserve also meets other costs, which are not met by the Pensions Account, such as injury benefits. It is too early to decide whether our performance can lead this reserve to be revised. At present the notional provision by the Government Actuary for sickness pensions nationally would be £375,000 each year. Our present revenue budget is £223,000, i.e. reflecting our anticipated better-than-average performance at managing ill-health retirements. This does however argue for caution before reducing this reserve.

f) Capital

The objective of this reserve, set up at the end of 2005/06, is to fund small and recurring items of capital, and receive contributions over their life, thereby ensuring their eventual replacement from the reserve. It is also a possible source for funding peaks in capital expenditure, such as may be needed for dealing with the Brigade site in St Michael's Street.

The present position is as follows:

	Actual		Estimates			
	2006/07		2007/08		2008/09	2009/10
	£000		£000		£000	£ 000
Balance 1 April	675		822		436	299
Expenditure	109	-	520	-	290	455
Income						
- Contributions	16		97		139	204
- One-off receipts	212		13		-	-
- Interest	28		24		14	8
Balance 31 March	<u>822</u>		<u>436</u>		<u>299</u>	<u>56</u>

From this it can be seen that, if all eligible capital expenditure in 2008/09 (£290,000) is funded from the reserve; a closing balance next year of £299,000 can be expected. The total contributions made to replace assets brought through the reserve up to the end of 2008/09



will be £252,000. Allowing for some inflation, the reserve is, therefore, broadly in balance, i.e. with likely funds available largely earmarked to replace capital assets.

In 2009/10, there is a potential £455,000 of capital payments that would be funded from the reserve. If this took place, the whole of the reserve, plus the new contributions in 2009/10 would nearly all be needed to fund the £455,000.

In 2010/11, there is a total of £514,000 of schemes that could be funded from the reserve, but the reserve will only be able to cover £264,000 of them (see paragraph 6 of paper 5d). £250,000 would then be funded by prudential borrowing.

This is therefore, one reserve, action on which might best be considered once full details of the Government's finance settlements are known. The issue is covered in more detail in the report on Capital Programmes.

7 Reserves established in 2007/08

The Authority has established a reserve of £180,000 to deal with 2009 – Staff Turnover. This paper does not re-examine this reserve which was agreed in October.

8 General Fund

The General Fund is simply the net balance of over and underspendings during the year. The Authority's policy is not to accumulate funds year on year, (and obviously to deal with any potential overspend). All of the General Fund at 31 March 2007 has been committed to expenditure this year.

From monitoring reports to date, there looks to be a potential balance in this fund at 31 March 2008, and the Authority will need to decide how best to deploy the resources as the overall budget situation becomes clearer.

9 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.

10 Appendix

Build-Up of General Reserve 2007/08



11 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	*



Build-up of General Reserve 2007/08

	Risks as categorised by CIPFA	Absolute Level	Probability	Current Provision	Comment
		£ 000	%	£ 000	
1	Cash Flow	50	10	5	No reason to change
2	Inflation Assumptions	402	50	201	Adequate given realistic assumptions. Covers “rank to role” and other pay issues
3	Capital Receipts	-	-	-	Currently not an issue
4	Severe weather and other demand pressure	-	-	-	Severe weather dealt with. No significant other pressures
5	Other demands	50	10	5	Deals with issues such as Regional Fire Control. Should be quantifiable in good time to provide a formal budget.
6	Firelink / RCC	310	10	31	Delay could mean IT upgrades
7	Specific Risks	112	50	56	Based on specific known experience – e.g. I.C.H.S
8	Ongoing Risks				
	i Vehicle Accident	195	20	39	Would deal with one major appliance at £180,000
	ii Ill health and injury	-	-	-	Dealt with by pensions earmarked reserve provision
	iii Industrial Action	100	50	50	Based on known experience
	iv Technical Problems	98	50	49	Principally IT or telecoms problems
	v Uninsurable Risks	200	50	100	Would cover such issues as anti-discriminatory legislation and data protection
9	Loss of Grants	112	50	56	Loss of New Dimension, RMB, New Burdens
10	New Legislation	1,305	20	261	Specifically Retained Service Pensions prior to April 2006
11	Centralised Purchasing	104	50	52	Could mean current contracts unviable
12	Financial Control	230	10	23	Reflects likely risk of overspends through weak systems of control
13	Uninsurable health and Safety Risks	125	10	12	Identified from the risk register on closing the accounts. Really an additional aspect of 8v above
14	Fines resulting from Corporate Manslaughter Legislation	150	10	15	Based on the £150,000 fine imposed on an Authority recently. Not a high risk but amount based on the belief that fines would be limited by the effect they would have penalizing local taxpayers.
	General Reserve	3,543		955	

