

Pay and Prices Assumptions

Report of the Treasurer

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

1 Purpose of Report

This report sets out the possible provision to be made for pay and price inflation in 20010/11 and later years.

2

Recommendations

The Committee is asked to recommend that the Fire Authority base its future budget plans at present on an across-the-board inflation assumption of 2½ % per year for each of the next five years, and include a provision for the potential increase in National Insurance rates from April 2011.

3 Background

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

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

- i) Analyse its base budget (2009/10) into the spending areas where pay or price changes can be significant;
- ii) Make pay assumptions for firefighters, based on any consensus that exists among fire authorities for the likely outcome of the nationally negotiated settlement;

- iii) Make pay assumptions for other pay, based on a realistic expectation of the outcome of any outstanding negotiations;
- iv) Take account of known problem areas, such as increments; rank to role; expected progression through scales; and tax changes; and
- v) Analyse the non-pay and income budgets into key elements, including those to which no inflation applies, such as debt charges, and apply appropriate percentages to each.

4 Current Developments

The Authority's policy has always, therefore, been to make realistic provision for unknown pay and price changes. After a number of years, during which pay and prices have been relatively stable, assumptions of 3½% for firefighters' pay, 3% for other pay and 2½% for prices have proved effective. Assumptions for pay cover not just the pay award itself but the variations year on year on the net cost of increments and Continued Professional Development (CPD) payments

In 2009/10 price inflation has exceeded estimates but this has been matched by pay settlements being lower than anticipated. Looking forward, there is great uncertainty. The key determinants are pay settlements – in July for firefighters and April for support staff. For example, the table below shows how our forecast for 2009/10 was originally made up:

	Base Budget 2009/10 £ 000	Pay and Price Contingency £000
Firefighter pay etc	13,394	473
Support staff pay etc	1,986	60
Prices / Income Changes	4,400	111
Zero Items	1,066	-
	20,846	644

i.e. 1% error in the assumptions on the firefighters' pay settlement costs / saves £134,000 in a full year.

Next year and the following four years of our budget planning are particularly difficult to predict. In addition there is the complication of the direct link with future grant increases, especially if there is a national public sector pay norm, which is either imposed or has a major impact on national pay bargaining. If we assume a low increase for pay, this should be accompanied by a low, or even negative, assumption for grant increases. There are also issues over the movement of inflation through the five-year period. Will 2010/11 be different, to be followed by post-election settlements? Will there be multi-year deals or will negotiations get increasingly difficult?

Prices are equally difficult to forecast, with low increases generally expected, but with possible areas of high inflation, e.g. in fuel and power, or in relation to imported goods.

5 Conclusions

There is no consensus over how pay and prices will move over the next year, or indeed the five years of the service plan. In addition, other unknown factors may increase or reduce the cash costs of simply maintaining current service levels. It is, therefore, recommended at this stage to use an across-the-board increase of 2.5% for all five years. This will overstate some areas and understate others and will need to be reviewed as the budget process progresses, particularly for the later years. The detailed calculations are shown in the appendix, and the totals given below.

2010/11	£487,000
2011/12	£536,000
2012/13	£549,000

To this should be added the projected increase in employers' National Insurance rates from April 2011 of 0.5%, currently estimated at £50,000.

Projecting forward would add about £12,000 each year as the total budget increased.

2013/14	£561,000
2014/15	£573,000

6 Financial Implications

The financial implications are as outlined in the report.

7 Legal Comment

There are no direct legal implications arising from this report.

8 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

9 Appendix

Pay and Prices Assumptions 20010/11 to 2012/13

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	*