9

Shropshire and Wrekin Fire and Rescue Authority
15 October 2008

Financial Planning Strategy 2009/10

Report of the Treasurer

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

1 Purpose of Report

This report informs the Authority of the issues raised by the Strategy and Resources Committee in considering their recommendations for a budget strategy for 2009/10.

2 Recommendations

The Fire Authority is recommended to agree a budget strategy for 2009/10 that seeks to:

a) Deliver the principles agreed in the 2008/09 budget and Medium Term Financial Plan (MTFP) (set out in paragraph 3 i to v of the appendix);
b) Extend the planning horizon beyond 2010/11 into the three years of the next grant settlement;
c) Prepare to meet the implications of the various uncertainties currently known; and
d) Update the service implications of “what-if” analysis of optimistic and pessimistic grant scenarios from 2011/12.

3 Background

The Authority agreed in July 2008 as part of its Integrated Strategic Planning process to consider at this meeting, a progress report from Strategy and Resources Committee on its budget policy. The full report received by the Committee is attached as an appendix, and the rest of this report deals with the key points raised in discussion.

4 The Current Strategy

i **Precept increases of no more than 3.9% a year**
To put this in perspective a 1% variation means an increase or decrease in expenditure of £123,000.

ii **Planned growth of £200,000 a year and £150,000 efficiencies each year**
Present plans allow £141,000 of new growth in 2009/10 as £59,000 of the £200,000 has already been committed. At £150,000 (a challenging target to meet each year), efficiencies would fall short of the national average expectation of 1.6% (£275,000). Officers plan to bring identified items to the Authority in December 2008 – via Strategy and Resources Committee on 13 November 2008.

iii **Increase the capital reserve where spare resources are available**
There are prospects of some one-off savings coming available in 2008/09. In addition all reserves and provisions will be reviewed as usual, during the budget process. Spending to date on ill-health pensions and responses to extreme weather indicate that there may be opportunities to reconsider the appropriate levels of those reserves. In addition changes to the risk register may indicate the need to increase or reduce provisions.

iv **Try to close the potential budget gap of £152,000 in 2010/11 during the next two years**
To date no definite on-going reduction has been identified during 2008/09, although the savings on pay awards has not yet been fully offset by higher price increases.

v **Monitor progress especially on the St Michael's Street project**
To date no major variations have been identified, although there are some significant uncertainties to be finally resolved. Because the full impact of the St Michael's Street project impacts in 2011/12 – the first year of the next three year grant settlement, the planning horizon has been extended to five years to take in the whole of that period.

5 Current Uncertainties

The major uncertainties that could materially affect the budget, and therefore service provision are:-

i Grant in the 2011/12 – 2013/14 period. What-if analysis presented to the Committee demonstrated that resources could vary by £124,000 in 2011/12; £295,000 in 2012/13 and £470,000 in 2013/14;
ii The cost of resolving the implications for retained firefighter pensions of the Employment Tribunal decision;
iii The net cost of the Regional Control Centre and FireLink, expected to impact from May 2010;

iv Future pay awards – the single biggest annual change for the budget;
v Variations in the tax base (annual growth of 0.6% is assumed) or collection fund surpluses / deficits.

6 "What-if" Planning

In the light of this the Committee felt that "what-if" planning was essential. It was felt that the work that had already been done as part of the 2008/09 budget, and which is set out in sections 3.4 to 3.7 of the Medium Term Financial Plan, should be reviewed. In the case of growth opportunities much of the review will come through new potential development items, as most of those previously identified have been incorporated in the budget. In the case of budget reductions, some have been incorporated into the budget and the remainder will need to be reviewed to see if they remain relevant. Reductions will also need to be linked to efficiencies – with the objective of maximising the latter and minimising the potential need to make service level reductions.

7 Financial Implications

The financial implications are as outlined in the main body of 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 Appendix

Strategy and Resources Committee, 18 September 2008, Paper 7 – Financial Planning Strategy 2009/10

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	*

7

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
18 September 2008

Financial Planning Strategy 2009/10

Report of the Treasurer

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

1 Purpose of Report

The Authority agreed that officers use July, August and September to review budgets, including capital schemes, efficiencies and budget pressures, in order to lead to a progress report to Strategy and Resources Committee on 18 September 2008. This initial planning paper sets out the broad main issues and is intended to focus attention on the key planning issues that must be addressed.

2 Recommendations

The Committee is recommended to seek the approval of the Authority on 15 October 2008 to a strategy that identifies a balanced budget in 2009/10 and each year thereafter, both on the pessimistic and optimistic assumptions set out in the report.

3 Background

The Fire Authority agreed on 16 July 2008 that July, August and September should be used to:-

- Review and monitor Directorate / departmental plans, revenue and capital budgets and financial plans with partner organisations
- Review overarching issues such as pay awards, price increases, efficiencies and grants
- Consider service pressures and efficiencies over the next three years and roll forward existing capital programmes and prudential guidelines,

review completed schemes and produce new capital appraisals where necessary

- Review the Risk Register and level and nature of reserves and provisions
- Lead officers and the Partnership Advisory Group consider partnership resource needs
- The Strategy and Resources Committee would receive a progress report on budget planning issues, the effect on the current three year budget and on proposals for 2011/12.

This report refers to the report on the Integrated Strategic Planning Process agreed by the Authority on 16 July 2008 (Report 16). It builds on the three year budget that was agreed by the Authority when it set its precept for 2008/09 in February 2008, and the strategy that then formed the basis of the Medium Term Financial Plan. The key points of current strategy are:-

i aim for precept increases of no more than 3.9% a year and reduce the rise if possible;
ii plan on £200,000 new spending pressures offset by £150,000 efficiencies each year;
iii increase free balances in the capital reserve where spare resources come available;
iv try to close the potential budget gap of £152,000 in 2010/11 during the next two years especially by the development of contingency plans and "what-if analysis";
v monitor progress especially on the St Michael's Street project closely and be prepared to reconsider policy if necessary.

The main issue is that the plan was drawn up with the relative certainty of the three year grant settlement and concentrated on that period although preparations were put in place to fund the St Michael's Street project whose main costs fall fully in 2011/12. The aim of this report is to explore the likely impact of what-if analysis as we move into what might be a difficult spending settlement for 2011/12 to 2013/14.

4 Latest Position

The latest position has not been formally changed since it was established by the Authority when it set its precept in February 2008, and is summarised in the appendix. However in the meantime:-

i base variations have been identified as part of monitoring, and the latest position is summarised elsewhere on the agenda;
ii pay and prices are being closely monitored – see also the attached monitoring report.
iii capital schemes are being reviewed with a deadline for officers of 1 October 2008
iv new developments are being identified, and it is hoped to have them by 1 October 2008. There is a separate report on the Regional Control Centre (RCC)

v efficiencies are also being identified. As can be seen from the appendix, they are clearly a major potential source for funding new developments as well as delivering best value and maximising our delivery of the national target.

5 Planning for 2011/12 and later years

The attached appendix projects forward a further three years to cover the full period of the next settlement – although in practice this may only cover a further two years – with 2010/11 (hopefully unchanged) being the start of the next plan period as well as the end of the current.

For the time-being all current assumptions are retained – and it is assumed that the precept increase will remain at 3.9%. This enables potential variations in grant to be analysed and optimistic (annual 2.5% growth) and pessimistic (1% in 2011/12 and 0.5% thereafter i.e. the current floor) assumptions are shown.

From the appendix it can be seen that the currently predicted shortfall of £152,000 in 2010/11 will rise to £332,000 by 2013/14 on pessimistic grant assumptions. It will be converted to a surplus in the third year if the optimistic assumption is realised, although there would be deficits in the preceding two years.

6 Conclusions

At present it would be reasonable to say:-

i no clear evidence has yet emerged to undermine current budget strategy;
ii there remain a number of uncertainties which will need resolving - e.g. Retained Firefighter Pensions pre April 2006;
iii assumptions will need further testing – e.g. pay awards, growth in tax base;
iv the predicted deficit in 2010/11 remains;
v potential growth items need to be clearly identified in the context of RCC, delivery of efficiency targets and the current 2010/11 deficit;
vi growth, efficiencies or potential re-ordering of service priorities need to be explored in the light of “what-if” analysis of the potential implications for later years.

7 Financial Implications

The financial implications are as outlined in the main body of 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 Appendix

Draft Initial Financial Planning Strategy 2009/10

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	
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Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental	*	Risk and Insurance	
Financial	*	Staff	
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Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*

Draft Initial Financial Planning Strategy 2009/10

Ref		2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
1	**2007/08 Expenditure**	19,146	19,146	19,146	19,146	19,146	19,146
2	Base variations	64-	44	144	144	144	144
3	Pay and Prices	577	1,204	1,848	2,498	3,148	3,798
4	Capital (New Starts)	61	272	517	711	720	720
5	New Developments						
5a	-External pressures.	35	57	62	62	62	62
5b	-Local Pressures						
5c	-2008/09 budget	403	305	305	305	305	305
5d	-New projected	-	141	341	541	741	941
5e	-use of reserves	157-	-	-	-	-	-
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5f	Local Pressures	246	446	646	846	1,046	1,246
6	Efficiencies target	100-	250-	400-	550-	700-	850-
7	**Total Expenditure.**	**19,901**	**20,919**	**21,963**	**22,857**	**23,566**	**24,266**
	Funded by						
8	Grant	7,670-	7,975-	8,268-	-	-	-
	Optimist +2.5%	-	-	-	8,475-	8,687-	8,904-
	Pessimist +1&0.5%	-	-	-	8,351-	8,392-	8,434-
9	Collection Fund	38-	50-	50-	50-	50-	50-
10	Precept +3.9%	12,326-	12,896-	13,493-	14,116-	14,769-	15,450-
11	From reserves	98-	98-	-	-	-	-
		------	------	------	------	------	------
12	**Balance to(+) or from(-) capital reserve :-**	**231+**	**100+**	**152-**	**-**	**-**	**-**
	Optimistic	**-**	**-**	**-**	**216-**	**60-**	**138+**
	Pessimistic	**-**	**-**	**-**	**340-**	**355-**	**332-**

Notes

General

The table is set out on an incremental basis. This means that the new money in any year is obtained by deducting the cash in that year's column from the cash accumulated in the previous year, e.g. the provision for new inflation (line 3) in 2009/10 is £627,000 i.e. £1,204,000 less £577,000.

1 This shows the starting point for the 2008/09 budget which was the budgeted spend in 2007/08.

2 Base variations are committed changes to 2007/08 expenditure which were known and quantified when the budget for 2008/09 was approved. They contain growth in pension costs, the agreed annual increases in the retained review, etc.

3 Pay and prices include 3.5% for firefighter pay, 3% other pay and 2.5% for prices in the early years. The percentages effectively diminish slightly as the total expenditure base rises from 2011/12 onward.

4 This is debt charges and contributions to the capital reserve arising from new capital schemes. It assumes receipts from sale at HQ offset costs of new capital in 2012/ 13 and 2013/14. No account is yet built in for the impact of the additional government capital grant announced in FRS 25/2008, or for deployment of any free balances in the capital reserve.

5 The new development includes at 5a the imposed costs of the higher External Audit fees and the costs of the National Centre of Excellence. Also shown at 5c are the agreed developments of £403,000 in 2008/09 which include £157,000 of one-offs funded from reserves (Line 5e) i.e. totalling £246,000 of ongoing developments. The £246,000 rises to £305,000 in 2009/10. Line 5f shows the £200,000 of annual new growth in spending, although £59,000 has been already committed in 2009/10 by the £305,000. This means that in 2009/10 there is an additional £141,000 to spend on currently uncommitted developments, a further £200,000 in 2010/11 etc.

6 The Efficiencies target is to find £150,000 each year from 2009/10 onward. £100,000 is the target for 2008/09.

7 This line shows total expenditure that has to be found from reserves (excluding the £157,000 one-off used in 2008/09), grant, collection fund and precepted council tax.

8 This shows grant in the settlement for the next three years. From 2011/12 a new settlement will be introduced and the working assumptions at this time are that optimistically grant will grow at 2.5% a year, or pessimistically at 1% in 2011/12 and 0.5% thereafter i.e. current floor levels.

9 This is the surplus received by the rating authorities on collecting our precept. The current actual is £38,000 but this may be affected in future years by unitary authority changes.

10 The Band D base is also assumed to grow by the same amount each year that it did between 2007/08 and 2008/09 some 0.6%. If sustained this increases the growth in precept income from the politically set 3.9% precept growth to about 4.5%.

11 £98,000 is being released in 2008/09 and 2009/10 to offset the increases in the retained service initiative. (In addition £157,000 is being used to fund one-off growth items in 2008/09 as shown at line 5e)

12 This shows the net surplus of income over expenditure (+) or shortfall (-). The current budget predicts a shortfall of £152,000 in 2010/11. Current strategy is to add the surpluses in 2008/09 and 20010/11 to the capital reserve in order to reduce borrowing for the St Michael's Street project and look to balance the third year during the next two years. The outlook for the following three years of the next settlement, if all assumptions are proven accurate (!), is for deficits in all scenarios except for the third year optimistic forecast. It should be noted however that this assumes that we will not be able to close the funding gap in 2010/11.