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Shropshire and Wrekin Fire and Rescue Authority
10 February 2010

Revenue Budget, Capital Programme and Medium Term Financial Planning

Report of the Treasurer

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

1 Purpose of Report

This report incorporates the recommendations made by the Strategy and Resources Committee on 22 January 2010 for the Authority's 2010/11 budget, updates the figures for changes since then, and outlines the consequences for Medium Term Financial Planning.

2 Recommendations

The Fire Authority is recommended to approve:

i) Its capital programme, set out in Appendix A;

ii) The provisions and reserves, set out in Appendix B;

iii) The revenue budgets, set out in paragraph 8 of this report; and

iv) The key financial principles to be incorporated in its Medium Term Financial Plan, set out in paragraph 9 of this report.

3 Background

The Fire Authority, in December 2009, agreed a 2010/11 budget package for consultation, based on:

i) Expenditure of £21,367,000;
ii) A Council Tax precept of £84.63, i.e. a 3.9% increase; and
iii) Assumptions on the Band D tax base and collection fund that led to a surplus of income over expenditure of £369,000. This would be added to the un-earmarked capital reserve.

It requested the Strategy and Resources Committee to prepare a budget package during January, for a final decision to be made at this meeting.

In response to this request the Committee considered:

a) Responses to consultation with the public and stakeholders (full details are shown in report 6, considered by the Committee on 22 January 2010);

b) A report on the draft capital programme in the light of its prudence and sustainability (Appendix A); and

c) A report on the adequacy of reserves and provisions and the robustness of the budget (Appendix B).

4 Public Consultation

The full details of the consultation process are set out in the report to the Committee. The Committee noted that 89% of attendees were happy to pay the cash equivalent or more of the proposed precept increase. However, when expressed in percentage terms, the position became more equivocal, with 55% being prepared to pay up to, or more than, 3.9% increase in the cost of the Fire Service.

5 Capital Programmes 2010/11 to 2014/15

The Committee considered and recommended the Capital Programme in the light of the prudential guidelines. The programme was considered sustainable and prudent. The Committee noted the increasing ratios of financing costs to total budget, but that the ratio was still small in comparison to other local authorities. The Fire Authority received its assets debt free in 1998, which explains the low level of debt, but this will inevitably increase as assets, such as St Michael's Street, are refurbished.

6 Adequacy of Reserves, Provisions and the Robustness of Budget

The Committee accepted the assurances given by the Treasurer, but noted the potential threat of capping, which, if imposed, could cost a disproportionate amount in rebilling and potentially jeopardise service delivery in the difficult financial climate from 2011/12 onwards. The revisions to the phasing of the St Michael's Street scheme were noted, as was the balance available in the un-earmarked capital reserve, if that scheme is delivered to budget. The planned revenue budget surplus in 2010/11, when added, will mean that the prospects for funding the projects at Wellington and Telford are improved.

7 Proposed Final Budget Package

In the light of the above reports, the Committee considered that expenditure should be reduced in order to deliver a 2.9% increase in the precept. This would be 1% less than planned, and would reduce the contribution to the un-earmarked capital reserve by £130,000 and add equivalent amounts to the forecast deficits in subsequent years.

This action did, however, appear prudent, if it avoided the risk of capping. Furthermore, should the assumptions about inflation prove too pessimistic, then there is at least the prospect that the lost ground in later years can be recovered.

8 Developments since the Committee Meeting

Since the Committee met formal notification of the collection fund surplus as £27,000 has been received. There has also been a revision to Band D base in both 2010/11 and 2011/12 as Shropshire Council phases out its relief on long-term empty properties. The net impact is £12,000 of additional resources, which, if added to the un-earmarked capital reserve, would increase the net budget requirement to £21,618,000.

The overall position is summarised as follows:

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	£000	£000	£000	£000	£000
Expenditure and Contribution to reserves as reported to Fire Authority in December	21,736	22,434	23,229	23,930	24,706
- additional NI contribution		59	59	59	59
- effect of precepts decision	-130				
- effect of changes to Band D/ Collection Fund	12				
	21,618	**22,493**	**23,288**	**23,989**	**24,765**
Income					
Grant	-8,268	-8,372	-8,477	-8,586	-8,696
Council Tax					
£83.81 x 158,964.71	-13,323				
£87.08 x 159,986		-13,932			
£90.48 x 160,529			-14,525		
£94.01 x 161,104				-15,145	
£97.68 x 161, 681					-15,793
Collection Fund	-27	-30	-30	-30	-30
Total Income	**-21,618**	**-22,334**	**-23,032**	**-23,761**	**-24,519**
Net Deficit (-)	-	-159	-256	-228	-246

9 Medium Term Financial Planning

The Committee considered a proposal to update its Medium Term Financial Plan (MTFP), using the principles adopted during the budget process, and these are outlined below:

i) Continue planning for precept increases of 3.9% a year, whilst examining the scope for reducing the rate of increase (as for 2010/11);

ii) Continue to provide for realistic levels of increase in service pressure – currently £200,000 a year;

iii) Seek to maximise efficiencies each year and to set a realistic, but challenging, target of £150,000 a year, taking into account the findings of the Audit Commission's report 'Rising to the Challenge, Improving Fire Service Efficiency';

iv) Specifically address the forecast shortfalls from 2011/12 onwards, based on the current 'What If' analysis report to the December 2009 meeting of the Fire Authority, using the Strategic Risk and Planning Working Group; and

v) Explore all ways to minimise future committed growth, including maximising the un-earmarked capital reserve to reduce future borrowing.

The Committee is aware of the major uncertainties for public finances, and recommend a minimum refresh of the MTFP, followed by a major overhaul, once the situation becomes clearer in late spring/ early summer.

10 Financial Implications

The financial implications are detailed in this report.

11 Legal Comment

There are no legal implications other than those outlined in the report.

12 Equality Impact Assessment

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

13 Appendices

Appendix A
Strategy and Resources Committee 22 January 2010
Report 7 - Capital Programmes 2010/11 to 2014/15 and Prudential Guidelines

Appendix B
Strategy and Resources Committee 22 January 2010
Report 8 – Adequacy of Provisions and Reserves and Robustness of budget

14 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	*

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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
22 January 2010

Capital Programmes 2010/11 to 2014/15 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 2010/11 to 2014/15, for consideration by the Committee in the context of Prudential Guidelines.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

a) Consider the 2010/11 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 2010/11; and

c) Approve the Minimum Revenue Provision 2010/11.

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 produced the following summary.

Total Cost of Schemes	Revenue Consequences				
	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
5,960	86	153	342	516	679

Since the December 2009 meeting, no changes have been made to the programme.

The capital programme now proposed to the Fire Authority for its 2010/11 budget is attached as an appendix to this report.

Detailed project appraisals are available electronically for further consideration by the Committee.

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.

The position is as follows:

a) Ratio of Financing Costs to Net Revenue Stream

	2009/10 Revised	**2010/11 Budget**	**2011/12 Budget**	**2012/13 Budget**
	£ 000	**£ 000**	**£ 000**	**£ 000**
2009/10 and Earlier Programmes	813	927	1,025	1,025
2010/11 Programmes		51	112	112
2011/12 Programmes			42	187
2012/13 Programmes				44
Investment Income	-40	-20	-20	-20
	773	958	1,159	1,348
Net Revenue Stream (Budget)	20,846	21,367	22,434	23,229
Ratio	3.71%	4.48%	5.16%	5.80%

b) The impact of Capital Investment on the level of Band D Council Tax is:

2010/11	£185,000	divided by 158,543.24	117p
2011/12	£201,000	divided by 158,543.24	127p
2012/13	£189,000	divided by 158,543.24	119p

c) The capital programme that gives rise to these increases is:

	2010/11	**2011/12**	**2012/13**
	£ 000	**£ 000**	**£ 000**
Payments (see appendix) financed by:			
Loan – supported by grant	250	497	497
– prudential borrowing	0	573	623
Capital Reserve	550	100	100
Capital Grant	45	0	0
	845	**1,170**	**1,220**

d) The Capital Financing Requirement

The Prudential Code requires the calculation of the Capital Financing Requirement for 31 March in current and future years. The Capital Financing Requirement is simply the amount of capital spending not funded by grant, receipts or revenue, i.e. that which is financed from borrowing.

The position is estimated to be:

	In Year Requirement	At 31 March
	£ 000	£ 000
31 March 2009 (Preceding Year)		6,331
31 March 2010 (Current Year)	292	6,623
31 March 2011	542	7,165
31 March 2012	1,540	8,705
31 March 2013	512	9,217

The importance of the Capital Financing Requirement is that net external borrowing must not (except in the short term) exceed the total of capital financing requirements in the preceding year plus the estimates of any additional capital financing requirements for the current and next two years, i.e. £8,705,000. At present, gross external borrowing is around £5.8 million.

e) Authorised Limit for External Debt

The limit is established, beyond which borrowing is not permitted. The limit must not only accommodate the capital financing requirement, but must be adequate to meet temporary borrowing, e.g. if income is delayed.

The following limits are recommended:

	£ 000
2008/09	9,217
2009/10	9,623
2010/11	10,165
2011/12	11,705
2012/13	12,217

f) Operational Boundary for External Debt

This is set as a likely and prudent boundary that can be exceeded, but, if so, would prompt investigation and, if necessary, corrective action. The following boundaries are recommended, based solely on budgeted capital expenditure:

	£ 000
2010/11	7,205
2011/12	8,753
2012/13	9,273

7 Treasury Strategy 2010/11

Economic Background

The credit crunch of August 2007 and the near collapse of the world banking system in September 2008 pushed most of the major economies of the world into a sharp recession during 2009. Many governments were forced to recapitalise and rescue their major banks, and central banks cut bank rates to 0.10 – 1.00% in order to counter the recession.

The long awaited start of growth eventually came for some economies in quarter 3 of 2009, although not for the UK.

Inflation has plunged in most major economies and is not seen as a current problem by many, with widespread pay freezes seen in some countries in 2009.

Most major economies have introduced huge financial stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support to ailing banks, has led to a drastic expansion of government debt levels, which will take many years to eliminate.

Borrowing Strategy

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

Rates are expected to start the financial year at around 4.55% - 4.6%, and gradually increase during the year. It would be advantageous to time new long-term borrowing for the start of the year, when 25 year PWLB rates fall back to, or below, the central forecast rate of 4.65%. Rates are expected to end the year at around 4.9%.

There is expected to be little difference between 25 year and 50 year rates, so loans in the 25-50 year periods could be deemed more attractive than 50 year borrowing.

External versus Internal Borrowing

The next financial year is expected to be one of historically low bank rates, 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 rates 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 2004, 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 2010/11, 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; and
- Provide appropriate training to Treasury Management staff.

The CLG are currently consulting on “Guidance to Local Government Investments”, and any significant new issues will be reviewed at the April meeting of the Fire Authority.

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 Unearmarked 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 2013:

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 2010/11

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 2010/11, 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.

- For all borrowing incurred in 2009/10, the MRP applied in 2010/11 will be calculated on the basis of the Asset Life method.

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

Capital Programme

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.

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		Initial Equality Impact Assessment Form completed	

Capital Programme 2010/11 to 2014/15

Scheme		Total	2010/11	2011/12	2012/13	2013/14	2014/15
		£000	£000	£000	£000	£000	£000
2010/11							
Training Facilities	Fund	50	7	7	7	7	7
Appliance Replacement	Loan	185	5	24	24	24	24
Building Improvements	Loan	65	3	9	9	9	9
Fire Control Conversions	Grant	45	-	-	-	-	
Fire Kit Replacement	Fund	500	36	72	72	72	72
		845	**51**	**112**	**112**	**112**	**112**
2011/12							
Breathing Apparatus Set Upgrade	Loan	330		8	50	50	50
Training Facilities	Fund	50		7	7	7	7
Information Technology	Fund	50		7	7	7	7
Building Improvements	Loan	65		3	9	9	9
Appliance Replacement	Loan	555		14	98	98	98
Water Carriers	Loan	120		3	16	16	16
		1,170		**42**	**187**	**187**	**187**
2012/13							
Training Facilities	Fund	50			7	7	7
Telford Improvements	Loan	500			13	45	45
Information Technology	Fund	50			7	7	7
Building Improvements	Loan	65			3	9	9
Appliance Replacement	Loan	555			14	98	98
		1,220			**44**	**166**	**166**
2013/14							
Training Facilities	Fund	50				7	7
Wellington Improvements	Loan	1,000				26	90
Information Technology	Fund	50				7	7
Building Improvements	Loan	65				3	9
Appliance Replacement	Loan	370				9	48
		1,535				**52**	**161**
2014/15							
Training Facilities	Fund	50					7
Appliance Replacement	Loan	925					23
Building Improvements	Loan	65					3
Replace 5 Ford Rangers	Fund	100					14
Information Technology	Fund	50					7
		1,190					**54**
			51	**154**	**343**	**517**	**680**

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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
22 January 2010

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:

a) Undertakes a full analysis of Reserves and Provisions;

b) Provides an assurance on the adequacy of reserves and provisions; and

c) Gives an assurance on the robustness of the budget.

2 Recommendations

The Committee is asked to recommend to the Fire Authority:

a) The reserves and provisions as set out in the appendix;

b) The Treasurer's assurances covering the robustness of the 2010/11 budget and adequacy of the reserves and provisions; and

c) That it note the material uncertainties from 2011/12 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 Capital Reserve.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Guidance Note on Local Authority reserves and balances – (LAAP Bulletin 55) and this 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 issues 2000 to 2006

ii- Firelink / Firecontrol and the implications for current IT and communication services

iii- Implications of the current financial situation

iv- Linked to iii above, the risk of being capped.

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 £525,000 at 1 April 2010. The basis for this before inflation proofing, is set out in the appendix to Report 5f to the Strategy and Resources Committee 12 November 2009 – now encompassed in the "Green Book" to the Authority in December 2009.

The balance of the reserve is made up of a number of relatively small risks although it is clear that the probability of the risk of delays to the national Firecontrol / Firelink project has now become an issue. 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 £295,000 at 1 April 2010. 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.

Last year the Fire Authority, decided to maintain the reserve at £295,000, and review the impact of the £100,000 efficiency reduction in call-outs in 2009/10, before taking further action. 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, subject to review when the Accounts are closed.

7 Pensions and other Staff Issues

This reserve is expected to total £784,000 at April 2010, 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, which are not covered by the employee's pension contribution, and therefore not chargeable to the Pensions account.

iii Retained Firefighter pensions costs for the period between April 2000 and March 2006. Costs could amount to £355,000, based on those already known to be interested in pension scheme membership. The level of uncertainty, both of higher costs, and on the other hand Government assistance is significant, however efforts to quantify the risk continue in conjunction with our Pension Services Provider.

iv Any net staffing consequences from the Regional Control Centre – currently thought to be unlikely, if passed to the Company

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 but repriced annually until the outcome of the Retained Service Pensions negotiations is known.

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. There is a potential funding problem in 2010/11 of £120,000, if the full cost of the fire kit replacement scheme (£500,000) needs funding from the reserve in that year. Subsequent years would however be in balance. Should temporary funding be necessary, then this could be found from underspends at the year end or by transferring any surplus from the Un-earmarked Capital Reserve. A decision could be taken depending on circumstances next June.

9 Capital Reserve-Un-earmarked

This reserve is intended to fund the St Michael's Street capital scheme. Latest estimates have identified £175,000 of revenue expenditure to cover temporary arrangements, such as rent, and it is recommended that this sum is transferred to a revenue reserve to meet these costs over the next two years. The phasing of expenditure on the capital scheme itself has been revised as set out below. Until the tenders have been received no update is possible on the overall cost of the scheme.

	2009/10 £000	2010/11 £000	2011/12 £000	Total £000
Expenditure	107.0	3,368.5	514.5	3,990.0
Funding				
Grant	80.0	691.0		771.0
Reserve -Revenue -Un-earmarked Capital	 27.0 	 103.0 1,044.0	 45.0 	 175.0 1,044.0
Borrowing		1,530.5	469.5	2,000.0
Total Funding	107.0	3,368.5	514.5	3,990.0

The Un-earmarked Capital Reserve is currently expected to total £1.491 million, therefore, if £1.044m is required, then there should be £0.482m (including repricing) remaining that could fund any excess cost revealed when the scheme is underway.

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 balance of £60,000 is currently expected to be used for this purpose.

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.

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 issue is being formally addressed. In light of this and the analysis set out above a continued assurance can be made that every effort has been made to ensure that reserves are adequate. A full statement of reserves is set out in Appendix A.

13 Robustness of Estimates

Given that reserves are adequate, I believe the budget is robust for 2010/11 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 efficiencies. The process for identifying additional spending pressures both through the Integrated Risk Management Planning (IRMP) and the budget process is comprehensive.

There is always the chance of a major rethink of public finances after the next election. Given that precepts will have already been set on the basis of the current grant settlement, hopefully any change would affect primarily 2011/12. However one-off contingency reductions have been identified that could be activated during next year in order to keep a balanced budget and preserve, as far as possible, agreed service levels..

The major unknown would be the threat of capping. At an increase of 3.9%, the precept level itself would not be within the Government's previous definition of an excessive increase. The capping rules may change but the only formal elucidation is the letter from the Parliamentary Under Secretary of State at CLG attached at Appendix B. The lowest national average increase in Council Tax has been 2.1% 16 years ago. Apart from the increase in Council Tax, other indicators used in the past to determine capping have been the increase in budget requirement (ours is 4.3%) and our relative level of precept compared to our category of Authority, where we are one of the highest. The latest position for budget intentions of other authorities is attached at Appendix C, together with last year's precept increases.

14 Future Years

Although the assurances required under statute are for the coming year only, there must be concern over the next three years' grant settlement from 2011/12 onward; prospects for inflation up or down; Council Tax base; as well as the greater uncertainties of budgets generally over that time.

It will, therefore, be important to use the current lead-in period to monitor such budget issues carefully and to reflect planning in the Medium Term Financial Plan (MTFP) to ensure service and financial stability.

15 Financial Implications

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

16 Legal Comment

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

17 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.

18 Appendix

Appendix A
Schedule of Reserves, Provisions and General Fund

Appendix B
Letter from the Permanent Under Secretary of State 9 December 2009

Appendix C1 and C2
Proposed Increases in Council Tax and Budget for 2010/11 and Previous Years

19 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	*

Schedule of Reserves, Provisions and General Fund

Budget for the year 2010/11 £ 000

1. Equipment Replacement Provision

1 April	65
Additions	36
Withdrawals	-30
31 March	71

a) Reason / Purpose
To smooth out revenue expenditure each year on the replacement of items of operational equipment.

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

1 April	525
Additions	16
Withdrawals	-
31 March	541

a) Reason / Purpose
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.

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.

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

	Budget for the year 2010/11 £ 000

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	295
Additions	-
Withdrawals	-
31 March	295

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	784
Additions	23
Withdrawals	-10
31 March	797

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.

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.

	Budget for the year 2010/11 £ 000

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	330
Additions	344
Withdrawals	-670
31 March	4

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	1,491
Additions	35
Withdrawals	-1,044
31 March	482

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.

	Budget for the year 2010/11 £ 000
1 April	60
Additions	-
Withdrawals	-60
31 March	-

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.

	Budget for the year 2010/11 £ 000
1 April	-
Additions	-
Withdrawals	-
31 March	-

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 the Policy Group 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"

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Local Authority Leaders (inc. police and fire authorities)

Directly elected Mayors

Lord Mayor of the Corporation of the City of London

December 9th 2009

Council Tax Capping 2010-11

As you know, I announced the provisional local government finance settlement for 2010-11 in a written statement to the House of Commons on November 26th this year.

The provisional settlement for 2010-11 is in line with the previously announced three-year local government finance settlement. In the 2010-11 settlement, formula grant - which includes revenue support grant, redistributed business rates and police grant - will total £29 billion. This represents an increase of 2.6 per cent, on a like for like basis, on the 2009-10 settlement. Grant floors in the 2010-11 settlement will remain at the levels indicated last year.

This, I am glad to say, means that every authority will have received a formula grant increase on a like for like basis in every year of this, the first ever, three-year settlement. Total Government funding for local services is £76 billion in 2010-11 and this represents an increase of 4 per cent on the 2009-10 settlement.

As I said in my statement to the House of Commons, I am pleased that the average Band D council tax increase this year was 3 per cent. The Government anticipates this amount to fall further in 2010-11 whilst authorities protect and improve front line services. In fact, we expect the average Band D council tax increase in England to achieve a 16 year low in 2010-11. The Government remains prepared to take capping action against excessive increases by authorities and to require them to rebill households for a lower council tax if necessary.

As I announced in my statement, the Government has instituted capping action against the police authorities of Cheshire, Leicestershire and Warwickshire in advance of the 2010-11 settlement as a result of previous, excessive, increases set by them. No other decisions on capping in 2010-11 have been taken. These will, as in previous years, be taken after authorities have set their 2010-11 budgets. Capping principles have always been determined on a year by year basis to take into account current economic and social circumstances and this will again be the case in relation to 2010-11.

It would, therefore, be a mistake for any authority to assume that previous years' capping principles will apply to 2010-11. I have made it very clear that the Government expects the average Band D council tax percentage increase to reach a 16 year low in this period. I have also indicated that we will take capping action against any excessive increases and I do not propose to send any further written warnings about the risks involved.

I realise that decisions on council tax increases in 2010-11 are a matter for each individual authority, but the Government has clearly set out the context in which these must be taken.

Barbara Follett

BARBARA FOLLETT MP

Appendix C1 to report on
Adequacy of Provisions and Reserves and Robustness of Budget
Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
22 January 2010

Proposed increases in Council Tax and Budget for 2010-11

Authority	Contact	2010-11 Council Tax inc on Band D %	2010-11 Net Budget Inc %
		N\A	0.13
		N\A	2.5
		N\A	1.99
		N\A	2
		4	2.1
Shropshire		3.9	4.3
		3.85	2.68
		3.5	1.7
		3	1.21
		2.99	2.7
		2.95	3.1
		2.94	3.4
		2.9	2.2
		2.9	2.64
		2.8	2
		2.8	2.5
		2.75	2.4
		2.74	1.5
		2.5	1.7
		2.5	1.57
		2	2.2
		1.7	3.1
		1.5	2.8
		1.5	2
		1	1
		1	0.91
All Fire Average	[redacted]	2.62	2.17

Appendix C2 to report on
Adequacy of Provisions and Reserves and the Robustness of Budget
Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
22 January 2010

COMBINED FIRE AUTHORITIES

		Average band D Equivalent Council Tax 2004//05 £	Average band D Equivalent Council Tax 2005/06 £	Average band D Equivalent Council Tax 2006/07 £	Average band D Equivalent Council Tax 2007/08 £	Average band D Equivalent Council Tax 2008/09 £	Average band D Equivalent Council Tax 2009/10 £	% increase 2004//05 to 2005/06	% increase 2005/06 to 2006/07	% increase 2006/07 to 2007/08	% increase 2007/08 to 2008/09	% increase 2008/09 to 2009/10
E6101	Avon §‡	46.44	48.73	51.14	53.62	56.01	58.63	4.93%	4.95%	4.85%	4.46%	4.68%
E6102	Bedfordshire	69.75	68.85	72.18	75.6	78.84	81.63	-1.29%	4.84%	4.74%	4.29%	3.54%
E6103	Berkshire	43.97	46.16	47.94	50.09	52.54	55.11	4.98%	3.86%	4.48%	4.89%	4.89%
E6104	Buckinghamshire	44.65	46.87	49.86	52.33	54.95	57.69	4.97%	6.38%	4.95%	5.01%	4.99%
E6105	Cambridgeshire	45.99	48.24	50.4	52.38	54.45	56.34	4.89%	4.48%	3.93%	3.95%	3.47%
E6106	Cheshire	55.6	58.32	60.07	61	62.71	64.53	4.89%	3.00%	1.55%	2.80%	2.90%
E6107	Cleveland #§‡	48.74	51.05	53.55	55.95	58.69	61.57	4.74%	4.90%	4.48%	4.90%	4.91%
E6110	Derbyshire	52.34	55	57.64	60.52	62.97	65.52	5.08%	4.80%	5.00%	4.05%	4.05%
E6111	Devon	55.59	58.35	61.26				4.96%	4.99%			
	Devon & Somerset				63.45	66.58	69.18				4.93%	3.91%
E6112	Dorset	46.53	48.33	50.67	53.19	55.80	58.50	3.87%	4.84%	4.97%	4.91%	4.84%
E6113	Durham ‡	74.25	73.44	77.04	80.28	82.62	85.41	-1.09%	4.90%	4.21%	2.91%	3.38%
E6114	East Sussex	63.8	66.95	70.26	73.7	77.06	80.08	4.94%	4.94%	4.90%	4.56%	3.92%
E6115	Essex ‡	56.43	57.15	58.23	59.94	62.28	64.62	1.28%	1.89%	2.94%	3.90%	3.76%
E6117	Hampshire	51.3	52.11	53.64	56.07	58.23	60.30	1.58%	2.94%	4.53%	3.85%	3.55%
E6118	Hereford & Worcester **		59.05	61.95	65.01	68.21	71.57		4.91%	4.94%	4.92%	4.93%
E6120	Humberside	61.23	63.92	67.1	70.44	73.78	76.66	4.39%	4.97%	4.98%	4.74%	3.90%
E6122	Kent	55.35	57.15	59.4	61.65	63.81	66.06	3.25%	3.94%	3.79%	3.50%	3.53%
E6123	Lancashire	49.64	52.1	54.71	57.44	60.16	62.41	4.96%	5.01%	4.99%	4.74%	3.74%
E6124	Leicestershire	41.08	43.11	45.23	47.48	49.83	51.82	4.94%	4.92%	4.97%	4.95%	3.99%
E6127	North Yorkshire #§‡	50.54	52.58	53.94	56.04	58.56	60.89	4.04%	2.59%	3.89%	4.50%	3.98%
E6130	Nottinghamshire	57.08	58.01	60.85	63.53	65.44	67.73	1.63%	4.90%	4.40%	3.01%	3.50%
E6132	Shropshire	66.24	69.48	72.62	75.45	78.39	81.45	4.89%	4.52%	3.90%	3.90%	3.90%
E6134	Staffordshire	52.17	54.7	57.4	60.27	63.24	65.73	4.85%	4.94%	5.00%	4.93%	3.94%
E6139	Wiltshire #§‡	47.92	50.3	52.8	55.39	57.74	60.57	4.97%	4.97%	4.91%	4.24%	4.90%
							Mean CFA's	**3.77%**	**4.47%**	**4.40%**	**4.28%**	**4.05%**
	METROPOLITAN F&CDAs											
E6142	Greater Manchester ‡	42.66	44.73	46.38	48	49.68	51.37	4.85%	3.69%	3.49%	3.50%	3.40%
E6143	Merseyside ‡	52	53.88	55.82	57.75	60.06	62.37	3.62%	3.60%	3.46%	4.00%	3.85%
E6144	South Yorkshire #§‡	46.54	48.84	51.28	53.83	56.36	58.47	4.94%	5.00%	4.97%	4.70%	3.74%
E6145	Tyne and Wear	62.32	65.38	68.29	69.93	71.61	72.50	4.91%	4.45%	2.40%	2.40%	1.24%
E6146	West Midlands	39.32	41.21	43.18	44.43	45.74	46.90	4.81%	4.78%	2.89%	2.95%	2.54%
E6147	West Yorkshire ‡	41.62	43.67	45.84	48.02	49.91	51.38	4.93%	4.97%	4.76%	3.94%	2.95%
							Mean Met's	**4.68%**	**4.41%**	**3.66%**	**3.58%**	**2.95%**
					Mean All Precepting Authorities			**3.96%**	**4.46%**	**4.25%**	**4.14%**	**3.83%**