

## REPORT OF THE TREASURER

# SERVICE AND BUDGET PLANNING 2007/08 – 2009/10

### 1 Purpose of Report

This report informs Members of the progress so far in developing the financial plan, as approved by the Fire Authority in July.

### 2 Recommendations

The Committee is asked to recommend the Authority to:

- a) Endorse a thorough review of its base plus committed growth budget, and agree to developing a budget built up on business plan lines, as set out in Appendix A;
- b) Reserve its position on pay and prices assumptions until later in the process;
- c) Set a target of £252,000 for efficiencies;
- d) Continue to develop proposals for growth, notably through the Integrated Risk Management Planning (IRMP) Action Plan, and to match these to efficiencies;
- e) Produce a zero-based capital programme, with all projects subject to an individual project appraisal; and
- f) Review thoroughly all of its reserves, provisions and balances, particularly linking the capital reserve to the capital programme.

### 3 Background

The Fire Authority agreed in July to a strategy towards producing its financial plan and linking its development to the Performance Plan, Medium Term Financial Plan, Integrated Risk Management Plan and the Retained Service Implementation Plan.

It was envisaged that, during the current period, work would commence on service changes, capital, inflation and reserves. In addition, the current budget would be



scrutinised. Set out below is the present position, there having been an initial meeting of the Budget Working Group.

#### 4 Base Budget plus Committed Change

The Fire Authority has not had a thorough-going zero base budget since its inception in 1998-99 and it would be difficult to undertake one within current resources. It is, however, planned to undertake the usual comprehensive review of 2006/07 budgets between budget holders and finance staff, based on the new Business Plans established in the current year. In addition, Members will be aware of:

- Ongoing variations already being investigated as a result of closing the final accounts;
- Variations already identified during 2006/07 in monitoring reports on the budget (see later agenda item 8); and
- Progress with the Retained Service Implementation Plan.

Work is also underway on examining Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking statistics.

In addition there are a number of changes “committed” by earlier decisions of the Fire Authority. The current position is set out below:

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	£ 000	£ 000	£ 000	£ 000
<b>a) 2006/07 Budget</b>	18,296	18,296	18,296	18,296
<b>b) Committed Change</b>				
Firefighters Pensions		155	340	400
Retained Review Initiatives		95	193	284
Local Government Pensions		20	20	20
Leasing		63 -	113 -	113 -
Other		10	10	10
<b>c) Reserves</b>				
One-off contribution to capital reserve in 2006/07		32 -	68	68
Grant Amending Orders 2004/05 – 2005/06 retrospective adjustments treated as expenditure		170 -	170 -	170 -
	<b>18,296</b>	<b>18,311</b>	<b>18,644</b>	<b>18,795</b>

The new Business Plan budgets are set out in Appendix A.

#### 5 Pay and Price Assumptions

These make a significant difference to the budget, adding between £400,000 and £500,000 a year using the present assumptions of 3.5% for pay awards and 2.5% for price rises. A key assumption will be the national settlement for firefighters each



July. Although too early to revise predictions, it will be important to find out what the consensus is between other fire authorities. The Government target for public sector pay of no more than 2% should also be noted, especially for its impact on grant settlements.

## 6 Efficiencies

At present £252,000 of efficiencies would need to be found in order to achieve the Fire Authority's share of the national target by 2007/08. There is varying capacity to find further efficiencies for authorities like ourselves with a good record of achievement in the past, compared with some larger brigades. Nevertheless, it is proposed that the Fire Authority should continue to aim to meet the target, but not regard it as an end in itself. Equally, future national targets of about 2.5% a year could also be adopted.

## 7 Growth in Expenditure

The Fire Authority's policy is to fund new growth from efficiencies. At present potential growth items for the Road Safety Strategy (subject to an Authority report in October for potential start this year) and for the IRMP action plan have been identified.

For future years, the main potential variation will be the implementation of Firelink and Regional Control Centres. It is too early to introduce quantified net costs or savings, and for the present it is assumed that there will be a neutral effect on budgets.

## 8 Capital Programme

The current three-year capital programme produces revenue implications as follows:

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Year of Scheme Start</b>			
2006/07 Programme	96	209	209
2007/08 Programme	-	36	153
2008/09 Programme	-	-	65
	<hr/>	<hr/>	<hr/>
	96	245	427
	<hr/>	<hr/>	<hr/>

This clearly shows the significant build-up of revenue commitments into future years. There is also concern, however, that schemes often start later than planned, disguising the build-up and creating initial revenue underspends.

It is, therefore, recommended to implement project appraisals for schemes, in all years, paying particular attention to the realism of their payment profiles. All schemes in the present three-year programme will be reviewed and not automatically retained in the Programme.



## 9 Reserves, Provisions and Balances

A report on the current policy for, and levels of, reserves, provisions and balances was presented to the Audit and Performance Management Committee on 7 September and is attached at Appendix B. Views from that Committee will be fed into the financial planning process.

There is a general agreement that current policies are still appropriate subject to:

- i A full re-appraisal of the risks covered by the general reserve;
- ii Monitoring other reserves and provisions;
- iii Closely linking the capital reserve to the outcome of the review of the capital programme, particularly in view of the relatively large element of borrowing not supported by Government grant, and of the potentially significant cost of managing relocation from St Michael's Street in future years; and
- iv Reviewing the total level of funds held and the opportunity costs for the Fire Authority and Council Tax payer of holding these sums.

## 10 Precept Outlook

The foregoing figures will be worked up to show potential expenditure plans for 2007/08 to 2009/10. It is too early to predict the implications for the precept, as figures for grant and council tax base will not be known until late November/December. The figure for grant in 2007/08 is, however, not likely to vary greatly from that announced last January. If it is assumed that grant will increase by 2.5% each year thereafter (plus removal of transitional funding claw back), then the following summary can be produced.

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>			
Base plus Committed Growth	18,311	18,644	18,795
Inflation	500	1,000	1,500
Efficiencies/Growth	-	-	-
Capital	149	331	500
Reserves	-	-	-
<b>Expenditure</b>	<b>18,960</b>	<b>19,975</b>	<b>20,795</b>
% increase	+3.6%	+5.4%	+4.1%
<b>Grant</b>			
	7,195	7,477	7,664
Net expenditure from Council Tax and Collection Fund	11,765	12,498	13,131
% increase	+3.6%	+6.2%	+5.1%



The table does **not** predict what the precept, or its increase, is likely to be. This will depend on the change in the base of Band D equivalent properties. It does, however, show that there is a relatively large increase in 2008/09, although this may well change once the new three year grant settlement is agreed in November/December 2007.

## 11 Financial Implications

There are no financial implications other than those outlined in this report.

## 12 Legal Comment

There are no legal implications arising directly from this report.

## 13 Appendices

**Appendix A** Allocation of Revenue Budget to Service Areas 2006/07

**Appendix B** Policy for Reserves, Provisions and Balances

## 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.

Balance Score Card		Integrated Risk Management Planning	*
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Equality and Diversity		Retained	*
Efficiency Savings	*	Risk and Insurance	
Environmental		Staff	
Financial	*	Strategic Planning	*
Fire Control/Fire Link		West Midlands Regional Management Board	

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



**Allocation of Revenue Budget to Service Areas**

**2006/07**

	<b>Staff Budgets</b>	<b>Other Budgets</b>	<b>Total Budget</b>	<b>Capital</b>
<b>Executive</b>	<b>563,486</b>	<b>1,850,139</b>	<b>2,413,625</b>	
Executive	282,720	59,390	342,110	
Corporate Support	148,752	356,957	505,709	
Finance	132,014	1,433,792	1,565,806	
<b>Service Delivery</b>	<b>10,664,125</b>	<b>35,460</b>	<b>10,699,585</b>	
Operational Response	272,202	0	272,202	
Fire Prevention	993,758	33,860	1,027,618	
District Performance	8,756,314	1,600	8,757,914	
Fire Control Convergence	641,851		641,851	
<b>Strategy and Performance</b>	<b>684,541</b>	<b>666,487</b>	<b>1,351,028</b>	
Management of Risk	294,449	20,700	315,149	
Programme Office and Regional Management Board	229,261	29,800	259,061	65,000
Information and Communications Technology	160,831	615,987	776,818	120,000
<b>Human Resources and Development</b>	<b>903,471</b>	<b>867,246</b>	<b>1,770,717</b>	
Human Resources	249,799	417,712	667,511	
Training and Development	653,672	449,534	1,103,206	50,000
<b>Resources</b>	<b>377,912</b>	<b>1,683,407</b>	<b>2,061,319</b>	
Technical Services	235,810	1,606,097	1,841,907	1,380,000
Workshops	142,102	77,310	219,412	
<b>Grand Total</b>	<b>13,193,535</b>	<b>5,102,739</b>	<b>18,296,274</b>	<b>1,615,000</b>
<b>Revenue Budget 2006/07</b>			<b>18,296,274</b>	
<b>Capital Programme 2006/07</b>				<b>1,615,000</b>

## REPORT OF THE TREASURER

# POLICY FOR RESERVES, PROVISIONS AND BALANCES

### 1 Purpose of Report

This report seeks views on the Fire Authority's policy on reserves, provisions and balances, in order to advise the service and financial planning process for 2007/08 to 2009/10.

### 2 Recommendations

The Committee is asked to report its views to the Fire Authority in order that they are considered during the planning process for the next three years

### 3 Background

The Fire Authority's policy on reserves, provisions and balances has been developed from a position of having no reserves at 31 March 2004, to having to re-evaluate completely the position as a self-precepting authority. This was done in the context of a conflict between needing to build up reserves, yet avoid the threat of capping. The policy has, therefore, evolved as the financial situation stabilised and can currently be summed up as a basic desire to ensure continuous service delivery, without major financial changes, year on year by:

- i Identifying quantifiable and specific financial risks and making reserves and provisions to deal with them;
- ii Examining remaining risks, attempt to evaluate them, apply probabilities to their occurrence and create a general reserve;
- iii Using any further one-off funding to create a capital reserve to minimise the impact of future known capital problems – notably the replacement of the St Michael's Street site;
- iv Reviewing risks and the actual experience of each reserve and provision each year as part of the service and budget plans; and
- v Considering the impact on the Council Tax payers of holding the cash on their behalf, as part of these budget reviews.



## 4 Issues for 2007/08

Assuming that risks are reviewed and the actual events that have affected each fund are taken into account, then there are still the following overall issues to be addressed:

- i Are all reserves and provisions still appropriate? A schedule of the original budgets is attached as an appendix to this report.
- ii To what extent should the policy of adjusting the capital reserve for variations in one-off resources continue?
- iii Should one-off reserves be released for other service priorities or as part of precept fixing?
- iv Are the other fundamental principles behind the current policy still valid?

Any views the Committee has will be fed into the budget process – firstly into the Strategy and Resources Committee and then onto the Fire Authority in October.

## 5 Financial Implications

There are no direct financial implications arising from this report.

## 6 Legal Comment

There are no legal implications arising directly from this report.

## 7 Appendix

Reserves and Provisions 2006/07

## 8 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.

Balance Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Equality and Diversity		Retained	
Efficiency Savings		Risk and Insurance	*
Environmental		Staff	
Financial	*	Strategic Planning	*
Fire Control/Fire Link		West Midlands Regional Management Board	

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## Reserves and Provisions 2006/07

	<b>Balance at 1 April 2006</b>	<b>Budgeted Balance at 31 March 2007</b>
	<b>£ 000</b>	<b>£ 000</b>
<b><u>Specific Reserves</u></b>		
1 Efficiency	100	95
2 Bad Weather	273	273
3 Transitional Funding	201	101
4 Pensions Reserve	400	400
<b><u>Provision</u></b>		
5 Equipment Replacement	100	107
<b><u>General Reserve</u></b>		
6 General	911 <sup>1</sup>	911
<b><u>Capital Reserve</u></b>		
7 Capital	675	387
	<b>2,660</b>	<b>2,274</b>

<sup>1</sup> The actual balance is £1,126,000 but this includes £215,000 slippage carried forward to add to budgets in 2006/07.

