

## Agenda

### Councillors

#### Herefordshire:

Brigadier P Jones, Mr D C Taylor

#### Worcestershire:

Mr T J Bean (Vice-Chairman), Mr M H Clarke, Mr A I Hardman, Mr P T Mills, Mr P A Mould (Chairman), Mr D W Prodger, Mr C T Smith, Mr R Udall, Mr G C Yarranton

#### 1. Apologies for Absence

To receive any apologies for absence.

#### 2. Named Substitutes

To receive details of any Member of the Authority nominated to attend the meeting in place of a Member of the Committee.

#### 3. Declaration of Interests (if any)

To invite any Councillor to declare any interest in any of the items on this Agenda.

#### 4. Confirmation of Minutes

To confirm the minutes of the meeting held on Friday 24 November 2006 (copy attached – pink pages).

#### 5. Budget Preparation 2007/08 (p.1-8)

To give an update on the 2006/07 budget position and to review the current position in relation to Revenue and Capital Budgets for 2007/08 and beyond and the implications for the precept.

**Hereford & Worcester Fire and Rescue Authority**  
**Budget Committee**  
**24th November, 2006 Headquarters, 2 Kings Court, Charles Hastings**  
**Way, Worcester (10.30 am)**

## **Minutes**

### **Present**

#### **Herefordshire:**

Brigadier P Jones.

#### **Worcestershire:**

Mr TJ Bean (Vice-Chairman), Mr PA Mould (Chairman), Mr AI Hardman, Mr DW Prodger, Mr CT Smith, Mr RM Udall, Mr GC Yarranton.

### **Available Papers:**

- A. The agenda paper and appendices referred to (previously circulated).
- B. The Minutes of the meeting of the Budget Committee held on 12th October, 2006 (previously circulated).

(A copy of the agenda papers will be attached to the signed Minutes)

#### **7. (Agenda item 1) Apologies for Absence**

Apologies were received from Mr R Udall.

#### **8. (Agenda item 2) Named Substitutes**

None

#### **9. (Agenda item 3) Declaration of Interests**

*Mr PA Mould advised the Authority that if the Firemen's Pension Scheme was discussed in such detail that it affected his personal position, he would declare a personal and a prejudicial interest. (That proving not to be the case, there was no need for Mr Mould to leave the room during the meeting.)*

#### **10. (Agenda item 4) Confirmation of Minutes**

**RESOLVED: that the Minutes of the meeting of the Budget Committee held on 12th October 2006 be confirmed as a correct record and signed by the Chairman.**

#### **11. (Agenda item 5) Review of Medium Term Financial Plan**

The Committee received a report on a half-year review of the approved Medium Term Financial Plan (MTFP) combining an update on the 2006/07 Revenue Budget and consequences for future years.

The Treasurer to the Authority reported that the transfer arrangements from the Fire fighters old Pension scheme to the new Pension Scheme had been misinterpreted and that this had resulted in a marginal cost addition to the Authority. He informed the Committee that the cost gap of £200,000 would be partially offset by utilising Pensions Reserves over the five year Medium Term Financial Plan period. These consequences were reflected in Appendices 1 and 1a to the report. He would be investigating the need to introduce a cost saving target in two to three years with a view to bridging the gap between projections of expenditure over income.

With reference to the suggestion by the Chairman, the Committee was informed that to enable the Redditch Supplementary Crewing pilot project monies to be included within the MTFP in future years, there would be a requirement for the Fire and Rescue Authority to find appropriate savings from within other budgets.

**RECOMMENDED: that the revised Medium Term Financial Plan be endorsed and submitted to the Authority to form the basis of the detailed budget calculations for 2007/08.**

**12. (Agenda item 6) Treasury Activities 2006/07**

The Committee reviewed the Treasury Activities for the first half of 2006/07.

**RESOLVED: that the Treasury Activities Half Year report for 2006/07 be noted.**

**13. (Agenda item 7) Pebworth Fire Station**

The Committee received a report on the progress to date in respect of the Pebworth Fire Station Replacement Scheme.

**RESOLVED: that the current position with regard to the Pebworth Fire Station Replacement Scheme be noted.**

The meeting ended at 11.21 am

Chairman .....

## **5. BUDGET PREPARATION 2007/08**

### **Purpose of report**

1. To give an update on the 2006/07 budget position and to review the current position in relation to Revenue and Capital Budgets for 2007/08 and beyond and the implications for the precept.
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### **2006/07 Revenue Budget**

2. At its meeting on 24 November 2006 the Committee considered a significant revision to the Medium Term Financial Plan (MTFP), primarily as a consequence of the need to amend the accounting treatment in respect of the new financial arrangements for Firefighter Pensions. This revised Plan was approved by the Fire and Rescue Authority (FRA) in December.
3. In order to accommodate the pension pressures in 2006/07 considerable work was done on reviewing out-turn forecasts for this year. It is expected that the year will out-turn in accordance with the revised MTFP, this projection is based on actual expenditure to the end of December 2006.

### **2007/08 Resource Position**

4. The provisional grant settlement announcement of £10.355m, was made in late November 2006 and subject to the normal formal consultation, will be confirmed in late January 2007. However, under the multi-year Settlement regime it is unlikely to be changed.
5. The grant increase over 2006/07 is 3.1% which is marginally above the average of 3.0%, but continues to be marginally reduced by the grant damping regime.
6. The grant settlement continues to be the lowest per head for Combined Fire Authorities at 75% of the average.
7. Final details of Council Tax-bases and Collection Fund surpluses or deficits are still awaited from Billing Authorities, and therefore the tax yield is based on a prudent estimate.
8. In accordance with the FRA strategy on precept increases, these assumptions would provide total precept income of £17.792m for 2007/08.
9. This gives a total resource availability of £28.147m for 2007/08 which is in accordance with the revised MTFP.

### **Revenue Budget Requirement Projection 2007/08**

10. In accordance with the FRA MTFP cycle the Fire and Rescue Service has been working on assumptions about 2007/08 resources for a considerable period. Significant work was undertaken in the revision of the MTFP referred to above and the full details of the proposed budget changes from 2006/07 are shown in Appendix 1.
11. The budget proposal is based around the following assumptions which are consistent with the revised MTFP.
  - a. Pay Award provision in line with Chancellor of the Exchequer's limit for public sector pay at 2%.
  - b. Other inflation at 2%.
  - c. Small provision for cost of Ill Health Retirements.
  - d. Retained Duty System (RDS) Pensions take up at 1/3 of eligibility.
  - e. Firefighters in the "old" pension scheme to not elect to move to the "new" scheme in large numbers. (A 50% switch could save £0.450m pa, but there are no indications that this level of change will materialise). Thus no adjustment to the budget has been made.
  - f. Overall RDS activity (including training) is budgeted to be 10% higher than in 2006/07.
  - g. A capital programme based on indicative provisions, where in accordance with established practice full business cases for significant projects (ie non-routine vehicle replacements and Integrated Risk Management Plan (IRMP) Station improvements) would come to the Budget Committee for scrutiny prior to recommendation (if appropriate) to FRA – see below.
12. The proposed Net Budget Requirement for 2007/08 at £28.147m represents an increase of 4.0% against the 2006/07 figure of £27.061m.
13. Appendix 2 shows how this budget would be allocated to the agreed budget heads, which have been adjusted to reflect the revised structure.
14. Finalisation of the budget allocation within the total resources available is continuing and final Service recommendations will be considered by the Service Management Team on 17th January. Any variation to the allocations shown in Appendix 2 will notified to the Committee at the meeting.

### **Capital Programme**

15. It has been clear throughout 2006/07 that the previous indicative IRMP Buildings programme was very ambitious and a more modest programme is now proposed. In addition the Urgent Decisions Committee recently approved a proposal for the workshop replacement. The proposed Capital Budget is shown at Appendix 3, and the revenue consequences included in the revenue budget proposal.

16. In respect of the proposed IRMP Buildings programme, the phasing in of locations is illustrative and remains flexible, in order to accommodate amendments as opportunities arise and in line with the capacity to deliver the project.

### **Medium Term Financial Strategy**

17. The existing MTFP has been based on cautious assumptions about future grant increases and a continuation of the current FRA strategy on precept increases. This has now been updated to take account of changes to 2007/08 and is shown at Appendix 4. This will require savings to be identified in future years.
18. Projections beyond 2007/08 are limited by lack of knowledge of government's grant intentions under the latest Spending Review. As the Treasurer reported at the last FRA meeting, worst case scenarios of a 3 year cash freeze of 2007/08 grant levels are being discussed.
19. There are a number of practical considerations with this approach, such as the freezing in of the Ceiling effect for 5 years, the lack of funding to replace assets inherited on establishment of the Authority, and the fact that the 06/07 and 07/08 grant amounts are reduced to fully claw-back 2004/05 Transitional Grant. The latter amounts to £0.164m for this Authority which if returned would add 1.6% to 2006/07 grant.
20. If, as is possible, this is coupled with a tightening of the precept capping limit from the present 5% to say 3.5%, this would have significant effects for future years. The impact of this is also shown in Appendix 4.
21. Such major reductions in the budget base could require radical changes to the Service, beyond the routine efficiency savings. It is too early to provide options at this stage but it is suggested that a comprehensive report will be produced for the July 2007 meeting of this Committee. This will include an assessment of Government spending policy, the implications of the Lyons Inquiry and, as requested by the Authority in December, possible developments in charging policy being contemplated by the Service as a whole.

### **Revenue Balances**

22. The revised MTFP budget allows for general balances to be held at around £1m over the plan period. This equates to around 3.0% of Core budgets.
23. The table below summarises the general balances position, and is based on the current MTFP rather than the worst-case scenario referred to above.

<b>General Balances</b>	<b>2005/06 £000</b>	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>	<b>2010/11 £000</b>
Brought forward		865	1,016	1,021	1,008	1,007
In year build up		151	5	(13)	(1)	12
Carried forward				1,008	1,007	1,019

**Hereford & Worcester Fire and Rescue Authority  
Budget Committee  
22 January 2007**

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		1,016	1,021			
as % of Core Budget		3.74%	3.60%	3.43%	3.31%	3.21%

24. Whilst this build up of balances is desirable, there is an opportunity cost of holding balances. They could be used to finance expenditure or to reduce the Council Tax precept. The risk is, however, that any unforeseen expenditure could not be met.

### **Efficiency Gains**

25. The current efficiency regime runs to the end of 2007/08 and requires cashable savings for the Service nationally of £105m. This averages at just over 5.0% of the target year budget (2004/05.).
26. The FRA has submitted Annual Efficiency Statements (AES) as required and is on target to achieve cashable efficiency gains of 7.2% by the end of 2006/07, well in excess of the national target.
27. It is anticipated that there will be a more stringent Efficiency regime under the next Spending Review, which is expected but not confirmed to be a requirement to achieve a further 3% cashable efficiencies per annum for the 3 years to 2010/11. This is likely to be the key source of closing the potential funding gap referred to at paragraph 20 above.
28. It is now clear that the, then, Office of the Deputy Prime Minister's recognition of the differential ability of FRAs to achieve efficiencies has now been superseded by a common target approach.

### **Recommendation**

**The Chief Fire Officer and the Treasurer recommend that the report be approved in principle and that, subject to the grant settlement being confirmed, the Fire and Rescue Authority approve the budget and consequential precept.**

### **Background papers**

None

**Hereford & Worcester Fire and Rescue Authority**  
**Budget Committee : 22nd January 2007**  
**Change in Net Budget Requirement 2007/08**

	£m
<b>2006/07 Core Budget - as originally approved</b>	<b>27.159</b>
<b>Inflation</b>	
Uniformed Award	0.280
Support Staff Award	0.052
Support Staff Increments	0.010
Non-Pay Inflation	0.102
	<b>0.444</b>
<b>Capital Financing</b>	
Workshop	0.073
Vehicle Replacement	0.079
IRMP Projects	(0.034)
FRAHQ Project	(0.061)
Other	0.020
	<b>0.077</b>
<b>Other Variations</b>	
removal of 2006/07 one off items	(0.085)
revised FF Pensions financial arrangements	0.508
ORS surveys - cyclical	(0.010)
RDS Pay	0.100
Property - Rates/Utilities etc	0.200
Fire Control Pay	(0.040)
	<b>0.673</b>
<b>2007/08 Core Budget Requirement</b>	<b>28.353</b>
from Transitional Grant Reserve	(0.164)
from Pensions Reserve	(0.047)
to General Balances	0.005
<b>2007/08 Net Budget Requirement</b>	<b>28.147</b>

**Hereford & Worcester Fire and Rescue Authority****Budget Committee : 22nd January 2007****Proposed Revenue Budget Allocation - Revised Management Structure**

	<b>Amended Budget 2006/07 £m</b>	<b>Current Proposal 2007/08 £m</b>
Wholetime - Uniformed Pay	13.749	13.798
RDS - Uniformed Pay	2.840	2.929
Fire Contol - Uniformed Pay	0.728	0.700
Support Staff - NonUniformed Pay	2.939	3.197
Residual FF Pensions	0.161	0.671
Temp Staff	0.047	0.048
Other Employee Costs	0.034	0.035
	<b>20.498</b>	<b>21.378</b>
Policy, Planning & Performance	0.205	0.139
Community Safety	0.301	0.317
Personnel	0.150	0.143
Approved Centre	0.012	0.012
Training	0.482	0.492
IT	0.452	0.461
Comms	0.276	0.282
Equipment Support	0.926	0.945
Property	0.979	1.198
Fleet	0.448	0.457
Health & Safety	0.040	0.041
FRA Costs	0.238	0.242
Administration	0.157	0.145
Insurances	0.293	0.299
Finance SLAs etc	0.114	0.117
Miscellaneous	0.060	0.060
	<b>5.133</b>	<b>5.350</b>
Capital Financing	1.607	1.684
	<b>1.607</b>	<b>1.684</b>
USAR (Total Cost)	0.710	0.722
USAR Crewing Grant	(0.730)	(0.730)
Firelink Contingency	0.100	0.050
Other Special Grants	(0.159)	(0.101)
	<b>(0.079)</b>	<b>(0.059)</b>
<b>CORE BUDGET</b>	<b>27.159</b>	<b>28.353</b>
from Earmarked Reserves to General Balances	(0.163)	(0.211)
	0.065	0.005
	<b>(0.098)</b>	<b>(0.206)</b>
<b>NET BUDGET REQUIREMENT</b>	<b>27.061</b>	<b>28.147</b>

**Hereford & Worcester Fire and Rescue Authority**  
**Budget Committee : 22nd January 2007**  
**Indicative Capital Programme**

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	SUB-TOTAL £000
<b><u>IRMP SCHEMES</u></b>						
<b>Indicative Plan</b>						
PEBworth		550				550
WORCESTER				850	2,550	3,400
REDDITCH		512	1,538			2,050
HEREFORD			512	1,538		2,050
MALVERN					513	513
	<b>0</b>	<b>1,062</b>	<b>2,050</b>	<b>2,388</b>	<b>3,063</b>	<b>8,563</b>
<b><u>WORKSHOP SCHEME</u></b>						
<b>Expenditure</b>	1,000	1,300				2,300
	<b>1,000</b>	<b>1,300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,300</b>
<b><u>VEHICLE PROGRAMME</u></b>						
<b>Routine Replacment</b>						
Pumps (3 pa)		600	600	600	600	2,400
Cars - expiring leases		199	82	336	165	782
Vans - expiring leases		138		85	30	253
	<b>0</b>	<b>937</b>	<b>682</b>	<b>1,021</b>	<b>795</b>	<b>3,435</b>
<b>Other Proposals</b>						
Foam Carrier or CAF* (2)		125				125
FWD/CAF* (2)						0
Aerials (2+1)			440			440
ISU		250				250
4WD - Water Rescue						0
	<b>0</b>	<b>375</b>	<b>440</b>	<b>0</b>	<b>0</b>	<b>815</b>
	<b>0</b>	<b>1,312</b>	<b>1,122</b>	<b>1,021</b>	<b>795</b>	<b>4,250</b>
<b><u>OTHER SCHEMES</u></b>						
<b>Expenditure</b>						
Minor Buildings		300	300	300	300	1,200
IT		300	300	300	300	1,200
	<b>0</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>2,400</b>
<b>TOTAL EXPENDITURE</b>	<b>1,000</b>	<b>4,274</b>	<b>3,772</b>	<b>4,009</b>	<b>4,458</b>	<b>17,513</b>
Less proposed leases	0	(337)	(82)	(421)	(195)	(1,035)
	<b>1,000</b>	<b>3,937</b>	<b>3,690</b>	<b>3,588</b>	<b>4,263</b>	<b>16,478</b>
Less Capital Receipts	0	(675)	(275)	(514)	(813)	(2,277)
<b>NET BORROWING</b>	<b>1,000</b>	<b>3,262</b>	<b>3,415</b>	<b>3,074</b>	<b>3,450</b>	<b>14,201</b>

\* CAF : Compressed Air Foam system

**Hereford & Worcester Fire and Rescue Authority**  
**Budget Committee : 22nd January 2007**  
**Future years Impact**

	2008/09 £m	2009/10 £m	2010/11 £m
<b>Proposed 2007/08 Core Budget</b>	<b>28.353</b>	<b>28.353</b>	<b>28.353</b>
<b>Inflation</b>			
Uniformed Award	0.326	0.689	1.061
Support Staff Award	0.075	0.153	0.233
Pay Award Contingency	0.080	0.180	0.280
Support Staff Increments	0.010	0.020	0.020
Non-Pay Inflation	0.104	0.210	0.318
	<b>0.595</b>	<b>1.252</b>	<b>1.912</b>
<b>Capital Financing</b>	<b>0.263</b>	<b>0.481</b>	<b>0.655</b>
<b>Other Variations</b>			
Pensions build up	0.042	0.064	0.085
Fire Control/Fire Link Net new Costs	0.110	0.560	0.560
ORS surveys - cyclical	0.000	0.000	0.010
Invest to Save Provision			0.375
Misc Other	(0.001)	(0.002)	(0.002)
TARGET SAVINGS TO BE IDENTIFIED		(0.243)	(0.255)
	<b>0.151</b>	<b>0.379</b>	<b>0.773</b>
	<b>29.362</b>	<b>30.465</b>	<b>31.693</b>
from Pensions Reserve to General Balances	(0.070) (0.013)	(0.001)	0.012
	<b>29.279</b>	<b>30.464</b>	<b>31.705</b>
<b>Current MTFP</b>			
Band D Precept at 4.9% annual increase	£ 68.22	£ 71.59	£ 75.13
Tax-base at 0.25% annual increase	274,359	275,045	275,733
Precept Yield (£m)	18.717	19.690	20.716
Grant at 2% pa increase (£m)	10.562	10.773	10.989
<b>Anticipated Resources (£m)</b>	<b>29.279</b>	<b>30.464</b>	<b>31.705</b>

<b>Worst Case Scenario</b>			
Band D Precept at 3.5% annual increase	£ 67.29	£ 69.64	£ 72.08
Tax-base at 0.25% annual increase	274,359	275,045	275,733
Precept Yield (£m)	18.460	19.154	19.874
Grant frozen at 07/08 cash level	10.355	10.355	10.355
<b>Anticipated Resources (£m)</b>	<b>28.815</b>	<b>29.509</b>	<b>30.229</b>

Additional Savings Required	0.464	0.955	1.475
savings required in MTFP	0.000	0.243	0.255
<b>TOTAL TARGET SAVINGS - WORST CASE</b>	<b>0.464</b>	<b>1.198</b>	<b>1.730</b>