

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 Thursday 12 October 2006 (copy attached – pink pages).

5. Review of Medium Term Financial Plan (p.1-6)

To provide Members with a half-year review of the approved Medium Term Financial Plan, combining an update on the 2006/07 Revenue Budget and consequences for future years.

6. Treasury Activities 2006/07 Half Yearly Report (p.7)

To review Treasury Activities for the first half of 2006/07.

7. Pebworth Fire Station – Replacement Scheme (p.8)

To advise Members on the progress of this project.

Hereford & Worcester Fire and Rescue Authority
Budget Committee
Thursday 12th October, 2006 Headquarters, 2 Kings Court, Charles
Hastings Way, Worcester (11.30 am)

Minutes

Present

Herefordshire:

Mr DC Taylor.

Worcestershire:

Mr TJ Bean (Vice-Chairman), Mr AI Hardman, M PT Mills, Mr PA Mould (Chairman), Mr DW Prodger, 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 26th July, 2006 (previously circulated).

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

8. (Agenda item 1) Apologies for Absence

Apologies were received from Brigadier P Jones and Mr R M Udall.

9. (Agenda item 2) Named Substitutes

None

10. (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.)

11. (Agenda item 4) Confirmation of Minutes

RESOLVED: that the Minutes of the meeting of the Budget Committee held on 26th July 2006 be confirmed as a correct record and signed by the Chairman.

12. (Agenda item 5) Budget Monitoring 2006/2007

The Committee received a report which informed Members of the current position on Capital budgets and the projected outturn in Revenue budgets for 2006/07.

RESOLVED: that the 2006/07 Budget Monitoring report be noted.

13. (Agenda item 6) 2007/08 Budget Preparation

The Committee received a report which provided Members with information on the 2007/08 budget preparation process.

RESOLVED: that the 2007/08 Budget Preparation report be noted.

The meeting ended at 11.53am

Chairman

5. REVIEW OF MEDIUM TERM FINANCIAL PLAN

Purpose of report

1. To provide Members with a half-year review of the approved Medium Term Financial Plan, combining an update on the 2006/07 Revenue Budget and consequences for future years.

Background

2. Before consideration of next year's budget it is best practice to review progress this year and the prospects for the Medium Term Financial Plan.

Summary of Mid-Year Review

3. A number of significant issues have arisen in respect of 2006/07. These are described in detail in Appendix 1 and 1a. They are quantified in Appendix 2. The main adverse issues are:
 - Pensions accounting;
 - Retained Duty Staff pay costs; and
 - National Non Domestic rates, utility costs and other property matters.
4. The implications of the adverse issues can be offset by a number of favourable variances:
 - Capital financing costs;
 - Pay costs in 2006 onwards;
 - Changes to accounting policies;
 - Organisational restructuring; and
 - Training requirements review
5. Some of these issues have longer term consequences.
6. In reviewing the overall position, two key facts have been uppermost: to contain any changes within the Authority's precept increase policy of restraining council tax increases to no more than 5% and to maintain adequate reserves.

Conclusions

7. The key cost drivers are unavoidable; however, measures being proposed will not impact adversely on service delivery or worsen the precept strategy or risk balances.
8. There continue to be risk issues particularly around pay awards and pensions (Retained Duty Staff take up costs and potential savings from existing staff electing to transfer to the new scheme).

Reserves Policy

9. It would be prudent to attempt to ensure that general working balances do not fall below £1 million for the foreseeable future. At this level the balances will represent between 3.5% and 3.75% of the core budget forecast. Reserves at this level are adequate but towards the lower end of what might ideally be desirable. Aiming for accumulated reserves of 4.2% of core budget or £1.3 million means resources of around £0.3 million over the latter two years of the Plan would need to be generated through lower spending. Greater reductions in spending would further strengthen balances.
10. 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.

Recommendation

The Treasurer recommends that the revised Medium Term Financial Plan be endorsed and submitted to the Authority so that it can form the basis of the detailed budget calculations for next year.

Background papers

None

PENSIONS ACCOUNTING ADJUSTMENT

1. Since the budget was prepared, it has become clear that a key understanding of the arrangement was fundamentally wrong. This is offset to a certain extent by the prudent approach that was taken in respect of other elements of cost. The net position is shown in Appendix 1a.
2. The new financial arrangements for the Firefighters' Pension Scheme differentiated between costs that should fall on the Department for Communities and Local Government (DCLG) Financed Pension "Fund" and the Fire and Rescue Revenue Account. It was initially thought that this applied to retirements from 2005/06. This was supported by the fact that the resultant net reduction in Fire and Rescue Authority costs of £1.5m was equal to the reduction in Revenue Support Grant (RSG) as a consequence of the change.
3. With the establishment of the Firefighters' Compensation Scheme and clarification of definitions arising from the DCLG annual Pensions data collection exercise, it is clear that the costs of all existing Retained Duty System (RDS) pensions (paid if RDS staff were injured on duty) and the injury element of all pensions actually are required to be met from the Revenue Account.
4. The cost of this in 2006/07 is £0.5m, which means that the grant change of £1.5m was matched by a net reduction in Fire and Rescue Authority costs of £1.0m. This equates to a real reduction in grant of £0.5m, equivalent to 3.0% of the 2006/07 Band D precept.

FIRELINK/FIRE CONTROL – UPDATED ESTIMATES

5. Although there is still an absence of firm information on costs for these nationally driven projects, latest intelligence indicates that the current estimates are potentially low.

REDDITCH PILOT

6. The costs of the Redditch Pilot, running until March 2007 are met from within the net saving as a result of the timing of the Service restructure (see below).

RETAINED DUTY SYSTEM (RDS) PAY

7. Pay costs in the second quarter of 2006/07 are higher than expected. This derives in part from the spate conditions in July and August and increased activity in this period. The level of activity is higher than that on which the budget was based.

RATES, UTILITIES AND OTHER PROPERTY ISSUES

8. These are issues that were reported to the October Budget Committee. There is continuing pressure on gas and electricity prices and impact of the increase in rateable value of the Headquarters building. There are also costs associated with proposed capital schemes (for example Pebworth) which were expected to be capitalised but for which there is as yet no capital expenditure.

REVISION TO CAPITAL FINANCING

9. Again, the principles have previously been reported. However, in summary they arise from a combination of lower than budgeted interest rates, consequences of greater use of capital receipts in 2005/06 and a re-phasing of Integrated Risk Management Plan (IRMP) buildings planned expenditure onto a less ambitious and more achievable programme.

CHANGES TO PAY ACCRUAL POLICY

10. The new financial arrangements for pensions make it necessary to change the present policy on pay accruals. This is to ensure consistency, between different elements and as a consequence will release resource previously set aside.

TIMING OF RESTUCTURE

11. As Members will be aware, the investment in new posts under the restructuring was conditional on savings being achieved. The financial control discipline was that investment would not be made until the savings had been secured. This timing difference created a financial saving, which has been actively managed, partly to fund the Redditch Pilot (see above) and partly to meet the costs of the pension accounting correction.

TRAINING REQUIREMENT REVIEW

12. It is anticipated that an under-spend in training expenditure will arise in 2006/07 and is not considered prudent to spend it until training requirements arising from the restructuring are properly prioritised.

FIRE CONTROL PAY

13. Budget Monitoring reports have previously identified that the actual budget provision for Fire Control staff is slightly over-stated. This is mainly because a number of staff have decided not to join the pension scheme.

JULY 2006 PAY AWARD

14. As previously reported, the July 2006 uniformed pay award was 0.8% lower than budgeted.

PENSIONS & RANK TO ROLE RESERVES

15. In order to close the remaining budget gap it has been necessary to use these 2 reserves of the 3 year period to 2008/09.
16. The pension reserve was set up to meet potential un-budgeted cost of the new financial arrangements for pensions as they became clearer and is thus used for its intended purpose.
17. The Rank to Role reserve was set up to meet potential back-dating costs once the Service moved to a role based structure. It is now clear that the whole of this reserve is not required for these purposes.

NEW PENSION FINANCIAL ARRANGEMENTS REVIEW OF ACCOUNTING - COST PROJECTION

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2009/10 £000
Existing Injury Awards	520	530	541	552	563
Existing Retained Duty System Pensions	30	31	31	32	32
06/07 Ill Health Retirements	137	37	37	21	21
07/08 Provision for potential Ill Health Retirements		78	38	38	21
08/09 Provision for potential Ill Health Retirements			78	38	38
09/10 Provision for potential Ill Health Retirements				78	38
10/11 Provision for potential Ill Health Retirements					78
	687	676	725	759	791
less : Budget Provision					
06/07 Base Budget	(187)	(168)	(171)	(174)	(178)
07/08 Medium Term Financial Plan increase		(193)	(197)	(201)	(205)
08/09 Medium Term Financial Plan increase			(200)	(204)	(208)
Net Additional Cost	500	315	157	179	200

Revised Medium Term Financial Plan 2006/07 to 2010/11

Details	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Funding assumptions					
Council Tax					
Council tax base (yield from £1 Band D)	0.272993	0.273675	0.274359	0.275045	0.275733
Band D with 4.94% annual increases	61.95	65.01	68.22	71.59	75.13
Yield from council tax	16.912	17.792	18.717	19.691	20.715
District Council Collection Fund Surplus	0.107				
Formula Grant	10.042	10.384	10.592	10.804	11.020
Total forecast recurring income	27.061	28.176	29.309	30.495	31.735
<i>% increase</i>		4.12	4.02	4.05	4.07
Spending projection:					
Core forecast budget: 15 February 2006	27.159	28.177	29.147	30.313	31.492
Add Adverse changes					
Pensions accounting	0.500	0.315	0.157	0.179	0.200
Retained Duty Staff pay	0.194	0.100	0.100	0.100	0.100
Rates, utilities and other property issues	0.206	0.200	0.200	0.200	0.200
Redditch Pilot Project	0.060				
Net individual variances less than £50k	0.015	0.010	0.020	0.030	0.030
FireLink/FireControl cost revision			0.060	0.060	0.060
Higher capital financing costs					0.043
Sub total	28.134	28.802	29.684	30.882	32.125
Less favourable changes					
Lower capital financing costs	-0.257	-0.253	-0.151		
July 2006 pay settlement below estimate	-0.100	-0.127	-0.130	-0.132	-0.135
Fire Control pay	-0.047	-0.040	-0.041	-0.042	-0.042
Timing of restructuring	-0.165				
Training requirements review	-0.136				
Longer term savings target				-0.243	-0.256
Total forecast recurring expenditure	27.429	28.382	29.362	30.465	31.692
Funding gap (-) or surplus (+)	-0.368	-0.206	-0.053	0.030	0.043
less use of ear marked reserves					
Transitional Grant	-0.163	-0.164			
Pay accruals policy	-0.188				
Rank to Role	-0.085				
Pensions Reserve	-0.083	-0.047	-0.070		
Add to general Balances	0.151	0.005	0.017	0.030	0.043
Movement on General Balances					
Opening balance	0.865	1.016	1.021	1.038	1.067
addition	0.151	0.005	0.017	0.030	0.043
use					
Closing balance	1.016	1.021	1.038	1.067	1.110
<i>Closing balance as % of recurring income</i>	3.75	3.62	3.54	3.50	3.50
<i>Spending increase without savings %</i>		3.47	3.45	4.58	4.90

6. TREASURY ACTIVITIES 2006/07 HALF YEARLY REPORT

Purpose of report

1. To review Treasury Activities for the first half of 2006/07.
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2. Current Fire and Rescue Authority Financial Regulations require that Treasury Activities are reviewed by Members twice a year.
3. Banking arrangements for the Fire and Rescue Authority, in respect of lending and borrowing, are carried out by Worcestershire County Council under a Service Level Agreement. At 31 March 2006 the Fire and Rescue Authority had long-term debt totalling £9.169m.
4. During the first half of 2006/07 further planned long-term borrowing has been undertaken as below:

Date	Amount	Period	Rate
25-Aug-2006	£550,000	30.5 years	4.30%

5. This brings the total long term debt to £9.719m, and is in accordance with the Medium Term Financial Strategy and the approved borrowing limits.
6. Surplus cash is invested on a day-to-day basis, and the average interest rate achieved in the first 6 months of 2006/07 was 4.62%. The benchmark rate, chosen by the Fire and Rescue Authority for performance comparison purposes; the “7-Day London Inter-bank Bid Rate” (LIBID), was 4.59% for the same period.

Recommendation

The Treasurer recommends that the report be noted.

Background papers

None

7. PEBWORTH FIRE STATION - REPLACEMENT SCHEME

Purpose of report

1. To advise Members on the progress of this project.
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Background

2. On 28 September 2006 the Fire and Rescue Authority approved the Pebworth Fire Station Replacement Scheme, subject to the successful conclusion of contractual negotiations.
3. It was noted that the Scheme had been contained in the Integrated Risk Management Plan and that the Budget Committee in July 2006 had considered a summarised business case and recommended approval of the Scheme.
4. It was also noted that if circumstances changed the matter would be referred back to the Budget Committee.

Current Situation

5. Since the Authority's meeting, efforts have continued to identify a suitable site in Pebworth. This is as a consequence of the proposal relating to the original land acquisition sale price not being affordable within the official valuation figures.
6. A further search of the Pebworth area has identified a potential alternative site owned by Gloucestershire County Council and discussions are currently taking place with that authority.

Recommendation

The Treasurer recommends that the current position be noted.

Background papers

None