

NORTH WALES FIRE & RESCUE SERVICE

REPORT TO:	NORTH WALES FIRE AUTHORITY
DATE:	20 DECEMBER 2004
REPORT OF:	TREASURER
SUBJECT:	DRAFT BUDGET 2005-2006

1. INTRODUCTION

1.1 This report contains proposals to the Authority in respect of the draft budget for 2005-2006, the forecasts for 2006-2007 and 2007-2008, and the papers attached set out:

- (i) the draft revenue budget (Appendix A);
- (ii) the provisional contributions required by the constituent authorities (Appendix B);
- (iii) a list of prudential indicators as required by the CIPFA Code of Practice on Treasury Management (Appendix C);
- (iv) the Treasury Management Strategy and Annual Plan for 2004-2005 (Appendix D).
- (v) the draft capital programme (Appendices E and F);

1.2 At the outset of this report, it is important to draw Members' attention to a number of key points related to the draft budget for 2005-2006.

- (a) When the budget for 2004-2005 was considered, it was agreed to set the budget increase to 7.63%, which was achieved by the use of certain provisions. After the budget was approved, the Authority was awarded £382,382 in Transitional Funding, which brought the increase down to 6.12%. This was reflected in the projected increase for 2005-2006 being 5.09% and, in cash terms, the budget would be 'short' by some £1,496,420.
- (b) The draft budget includes the full effects of the staffing costs set out in the Integrated Risk Management Plan, approved by the Authority during 2004, which includes:
 - six additional administrative staff required by the Management Structure Review;
 - the full year effect of the seven support staff in Community Fire Safety approved in the Budget for 2004-2005.
- (c) Whilst the overall impact of the National Assembly for Wales decisions in terms of the Revenue Support Grant Settlement are not usually specifically commented on in Fire Authority Budget Reports, the position for 2005-2006 is such that it should be highlighted. North Wales Local Government has fared badly from the Settlement with the average

increase in RSG being less than 4%. As a consequence, Members may wish to consider the Authority's budget in this wider context.

2. REVENUE BUDGET

2.1 The initial draft budget for 2005-2006 has been calculated at £29.412m – some 9.53% above the approved budget for 2004-2005. It takes account of the effect of nationally agreed pay awards and a 3% provision for the firefighters' pay award from July 2005. Other factors, such as general inflation, are also included, as are specific issues such as:

- the cost of energy increasing at rates well above inflation;
- provision for additional premises costs as a result of the Management Restructure Review (a separate report on this is elsewhere on the Agenda);
- additional supplies and services in support of Community Fire Safety reflecting the Authority's decisions in this respect;
- a cost of £90k for Ordnance Survey maps used by the Service in developing the IRMP, previously free-of-charge to the Fire Service.

Appendix A compares the initial budget for 2005-2006 to actual expenditure for 2003-2004, the original and outturn budget for 2004-2005 and forecasts for 2006-2007 and 2007-2008. The budget statement is provided in a format showing income and expenditure in detail and a Best Value format.

2.2 Given the earlier comments about the RSG Settlement, Members may consider that a 9.53% increase would not be acceptable and that options for mitigating the increase need to be considered. Members may also wish to keep in mind government expectations over modernisation, in which efficiencies were expected to offset costs of service improvements.

2.3 The table below summarises options for Members to consider. Commentary on each of the lines in the table and the potential risks follow:

	Budget 2004-2005 £26,852,251	
	£	% of 2004-2005
Draft Budget 2005-2006	29,412,294	+ 9.53
Transitional Funding Provision	- 281,202	- 1.05
Reduction in Retained incident fees	- 151,345	- 0.56
Revenue Consequences of Capital Expenditure	- 93,760	- 0.35
	28,885,987	+ 7.57
Defer Payment to Pension Provision	- 140,000	- 0.52
1% Efficiency Savings	- 294,123	- 1.10
	28,451,864	+ 5.95

Underspend 2004-2005	<u>- 500,000</u>	<u>- 1.86</u>
	<u>27,951,864</u>	<u>+ 4.09</u>

2.4 The table has been compiled on the basis of promised savings, which are definitely deliverable and will recur; savings which should recur and one-off savings.

- (a) Members will recall that the Government undertook to provide transitional funding to offset some of the costs arising from the early stages of modernisation. It was unclear, at this time last year, as to whether this had to be repaid, therefore a provision was made in 2005-2006's forecast to repay the monies. The NAFW has now decided that the funding does not have to be repaid, so the provision can be removed. There is no risk attached to this option.
- (b) An assessment has been made of the overall pay budget for Retained Firefighters based on experiences over the past 3 years. There is a projected underspend in 2004-2005 (see later in the report), and it is suggested that £151,345 could be removed from the budget on a recurring basis. This will not affect existing staffing levels, operational requirements or payments to staff. Risk of taking this option is low.
- (c) It may be possible to reduce the cost of revenue consequences of capital if capital receipts are used to finance capital expenditure in 2004-2005. In previous years, financing capital expenditure depended on credit approvals regulating borrowing, but it was always necessary for NWFA to have other resources to supplement BCA and to address schemes where expenditure moved from one financial year to another. Now that the Prudential Code for Borrowing is in place there is more flexibility and it is easier to assess affordability. There is little risk associated with this option in terms of revenue and the reduction would recur as the base for capital finance costs is reduced. However, there is a loss of opportunity to use capital receipts to supplement capital expenditure in future years. The overall revenue effect of this option assumes that a capital receipt accrues from the sale of the York Road premises.
- (d) The Government has begun consultation over proposals for a new Firefighters' Pension Scheme, part of which relates to reviewing the arrangements for financing the costs of "normal" retirements. If implemented, this would mean the Welsh Assembly meeting such costs with the Fire Authority paying for ill-health retirements and injury awards. This could have an effect on the Pension Provision held by the Authority – currently £1.955m – so it may be possible to defer further payments into the provision. The risk of implementing this option is considered to be low at present as the balance on the provision is healthy and the position can always be reviewed.
- (e) Members will be aware that the Welsh Assembly, in its report "Making the Connections", has set an objective for public organisations becoming 1% more efficient year on year for the next five years. This has followed the 'Gershon Report' commissioned by the UK Government. This is a feature of the RSG Settlement for 2005-2006, and no doubt will recur in future years. It should also be repeated that one of the aims of modernisation was to produce a neutral effect on budgets. An amount of £294,123 has been included in the table (1% of 2005-2006 draft, 1.1% of 2004-2005)

that has not been specifically identified. It is recommended that the Executive Panel should be tasked to determine how such savings could arise for 2005-2006 and to set parameters for future years. There is, obviously, moderate risk associated with this option since nothing specific has been identified yet. However, the IRMP process is still ongoing and consideration of the outcome of the consultation may point at areas for deliberation. There is also the possibility of additional income from charging as noted in paragraph 2.6.

- (f) The final line in the table refers to an underspend arising in 2004/5. This is currently assessed at approximately £670k but, taking into account the potential levels of operational activity over what is expected to be a severe winter, it may be more prudent to allow for an underspend in the region of £500k.

The bulk of the underspend for 2004/5 occurs in the retained pay budget and arises from:

- lower than normal levels of operational activity
- the impact of the 2003 pay agreement being less on the retained pay budget than had been initially estimated

Members will also be aware that funding of the retained budget has always been traditionally based on a full establishment level following concerns expressed by Her Majesty's Inspector of Fire Services. As achievement of a full establishment was always unlikely, this approach has tended, in most years, to give rise to an underspend. The Authority, at its meeting on 22nd June 1998, took the decision to utilise the underspend to fund the pension provision.

There is a moderate risk in utilising the underspend in the 2005/6 budget, there being no guarantee that it will recur in future years. The Chief Fire Officer and the Treasurer will continue to review this area of the budget in the light of future operational demands, which may give rise to further opportunities to budget at a more realistic level in future years.

- 2.5 The points outlined above result in an increase in the budget of 4.09%. They are not, however, exhaustive and Members may wish to take further steps to reduce the proposed increase for 2005-2006. As a guide, an amount of £134,261 would generate a 0.5% saving.
- 2.6 Although, not specifically part of deliberations for 2005-2006's budget, Members may wish to note that the Fire & Rescue Services Act 2004 contains a provision for Fire Authorities to be able to charge for certain services. The Assembly has yet to make an Order for Wales. The Authority may, therefore, want to make formal representations to the Assembly and the WLGA to have the detailed provision implemented in Wales as soon as possible. This could produce a source of income to mitigate budget increases.

3. ADDITIONAL INFORMATION

- 3.1 Appendix B sets out the provisional contributions for 2005-2006, whilst Appendix C sets out the prudential indicators required from the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy and Annual Plan for 2005-2006 is in Appendix D.

4. CAPITAL PROGRAMME

- 4.1 The draft capital programme for 2005-2006 is set out in Appendices E and F, and amounts to £2,483,410. The amount of £1,825,410 is for new schemes and £658,000 is for schemes that have been carried forward from the previous year.
- 4.2 In 2004-2005, the estimated outturn for capital expenditure is £3,432,440. It is proposed to finance this by borrowing. In 2004-2005, as part of the Management Restructure, the Authority is intending to sell some of the properties in its portfolio. The Capital Receipts expected from the sale of these properties is £393k. Sale of assets in previous years have realised Capital Receipts of £32k. The expected Capital Receipts at the end of 2004-2005 is £425k, including an amount accruing from the proposed sale of the York Road premises.

5. RECOMMENDATIONS

It is recommended that:

- (i) Members consider the options for the draft budget for 2005-2006 and determine the course of action they wish to adopt, taking account of the advice and risks identified in this report.
- (ii) Constituent Authorities be advised of the provisional contributions required for 2005-2006.
- (iii) The Executive Panel be granted delegated power to consider and approve how efficiency savings of £294,123 can be determined and implemented for the 2005-2006 budget.
- (iv) Representations be made to the WLGA and the National Assembly for Wales about implementing the provisions in the Fire & Rescue Services Act 2004 in respect of charging for services.
- (v) The Prudential Indicators set out in Appendix C be approved.
- (vi) The Treasury Management Strategy and Annual Plan for 2005-2006 set out in Appendix D be approved.
- (vii) The draft capital programme for 2005-2006 and associated methods of financing be approved.
- (viii) If any changes transpire before 31 January 2005, to delegate the powers of setting a lower budget level to the Executive Panel or, if any such announcements or savings transpire after this date but before 15 February 2005, that this power be delegated to the Treasurer in consultation with the Chairman, Chief Fire Officer and Clerk.

22 November 2004

[CTTEES04 – Fire Authority 02 (Revised)]