

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 19TH JANUARY 2009

SUBJECT: DRAFT REVENUE BUDGET 2009/2010

JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY, FINANCE OFFICER AND THE CHIEF EMERGENCY PLANNING OFFICER

1. INTRODUCTION

1.1 This report outlines the financial position facing the Authority for 2009/2010, in light of the recent Provisional Revenue Support Grant Settlement for 2009/2010, including confirmation of the Indicative Settlement for 2010/2011, and related matters.

2. BACKGROUND

2.1 In order to maintain the requisite service levels in 2008/2009, the Authority had a budgetary requirement of £58.07m. The impact of this was to require a Band D Council Tax of £71.61.

2.2 In recent years, the Authority has set comparatively low increases in its precept, with the increases in both 2007/2008 and 2008/2009 of 2.4% representing the second lowest and lowest increases nationally, respectively. In order to minimise the burden on the council tax payer, a number of efficiency savings have been realised over recent years. Principal amongst these are the implementation of the Public Private Partnership Scheme, and the inherent identification of efficiency savings within the Integrated Risk Management Plan to both fund additional community safety initiatives and to fund the financial implications of the national pay agreement originally made in 2003.

3. DRAFT REVENUE BUDGET 2009/2010

Provisional Local Government Finance Settlement 2009/2010

- 3.1 A detailed report on the Provisional Local Authority Finance Settlement 2008/2009 was presented at the Authority meeting on 15th December 2008. The main points are noted below, for information.
- 3.2 On 26th November 2008, the Minister of State for Local Government issued his provisional report for the 2009/2010 Revenue Support Grant Settlement and the Indicative Settlement for 2010/2011. This follows on from the Minister's first three-year Local Government Finance Settlement covering the period 2008/2009 to 2010/2011, which he issued on 24th January 2008.
- 3.3 The government has not made any changes to the formula grant system, and the Authority's grant entitlement for 2009/2010 of £35.184 million and for 2010/2011 of £35.570 million remain unchanged from the figures announced previously in January, 2008.
- 3.4 The levels of grant entitlement, referred to above, represent increases of 1.26% for 2009/2010 and 1.10% for 2010/2011. The Authority's grant increase, although well below the national average increases for local government generally of 2.84% and 2.65% respectively, are above the minimum (floor) increases for all fire and rescue services of 0.50% for each year.
- 3.5 The Authority's grant allocations for both 2009/2010 and 2010/2011 have been reduced in order to help fund the 'floor', which means that all fire authorities will receive at least the minimum grant increase. The table below shows the impact on the Authority's allocation of grant in each year for information:

Settlement	Adjusted Grant 2008/09	Provisional Grant 2009/10	£ Change	% Change	Indicative Grant 2010/11	£ Change	% Change
	£m	£m	£m	%	£m	£m	%
Allocation before 'floor' adjustment	34.746	35.713	0.967	2.78	35.874	0.690	1.96
Actual Allocations	34.746	35.184	0.437	1.26	35.570	0.386	1.10
Cost of Floor – grant reduction			0.530			0.304	

- 3.6 On 15th December 2008, CLG announced its proposals for distributing the Fire Capital Grant, which totals £78 million nationally. The grant has been allocated on the basis of a fixed element of £0.5 million for each authority for each of the two years with the balance being distributed according to population. As a consequence, this Authority will receive a capital grant allocation of £745,323 in 2009/2010 and £959,579 in 2010/2011.
- 3.7 This grant represents new money which is paid 'up-front' and will not involve borrowing. With the exception of a requirement that the capital grant only be used for capital expenditure, the grant will not be ringfenced. Section 7 of this report provides further analysis of the Capital Programme 2009/2010 – 2011/2012.

4. MEDIUM TERM FINANCIAL STRATEGY

- 4.1 An updated Medium Term Financial Strategy (MTFS) has been prepared taking account of all supporting Strategies and Plans, as well as Member deliberations and comment regarding the impact of these Strategies and Plans in terms of shaping the services provided by the Authority. The revised summary MTFS, which is set out at Appendix A, takes account of the following main areas:
- the mainstream fire and rescue budget is prepared on the basis of this Authority continuing to provide the currently approved levels of service;
 - the revenue implications associated with the implementation of the Strategic Review of Fire and Rescue Cover;
 - the revenue implications associated with the ongoing implementation of the IRMP;
 - the implications of the financial arrangements for firefighter pensions;
 - the implications of national and regional initiatives;
 - the revenue implications of the capital programme;
 - known service pressures identified in detail in the September report on the MTFS to the Authority;
 - known service pressures identified since the September report on the MTFS to the Authority;
 - the revenue implications of the CPA Improvement Plan.

The above items are all explained further in this report.

Efficiency Targets for Delegated Budgets

- 4.2 As identified in the MTFS 2009/2010 to 2013/2014, reported to Authority on 15th September 2008, the Chief Fire Officer has undertaken a base budget review of all delegated budgets. Whilst the overall intention is to ensure that resources are directed at key strategic priorities, in terms of developing and improving the service as informed by the Strategic Plan and the CPA Improvement Plan, this review has identified efficiency savings on delegated budgets equivalent to 3%, which have been built into the MTFS.

Strategic Review of Fire and Rescue Cover

- 4.3 As previously reported, the Public Private Partnership Scheme is now fully operational. The significant savings envisaged at the inception of the Scheme have accrued, and the planned reduction of Fire Fighters by natural wastage has enabled an annualised saving to be built into the base budget. The saving for 2009/2010 has been increased to £910,629 reflecting inflationary adjustments.

Integrated Risk Management Action Plan 2009-2012

- 4.4 Members will be aware that this Authority has produced and maintained a fully costed Integrated Risk Management Plan (IRMP) 2004-2009, which has provided significant efficiency savings to offset the financial implications of the national pay agreement and provide investment in Community Safety initiatives.
- 4.5 In September 2008, Members approved the IRMP 2009-2012, and the associated 2009/2010 Action Plan. These plans are consulted upon with the public and other interest groups prior to final consideration and approval by Members in March of each year. The financial implications of this plan have been built into the MTFS.

Firefighter Pensions

- 4.6 Members will be aware that, under the funding arrangements for the Firefighter Pension Scheme, authorities retain responsibility for meeting the cost of ill health pension awards. This Authority has invested in health awareness and intervention measures through its Occupational Health Unit, and this has brought about a reduction in the number of ill health early retirements, with none occurring during 2008/2009, up to this point. Prudent assumptions have been included in the updated MTFS 2009/2010 to 2013/2014, attached at Appendix A.

Known Service Pressures

4.7 A number of spending pressures were identified within the MTFS 2009/2010 to 2013/2014, as reported to Authority on 15th September 2008, including:

- Pay – prudent provision has been made within the MTFS for pay increases for all employee groups, which will be subject to the outcome of national pay agreements;
- General Price Increases – provision has been provided for general price inflation at 2% within the MTFS at this stage, with prudent provision being made in respect of Energy prices. There continues to be significant volatility in relation to price inflation, particularly in the energy and fuel markets, and the position will continue to be monitored ahead of setting the Authority's budget next month;
- LGPS deficiency payments – a prudent approach has been adopted within the MTFS for further stepped increases in the deficiency contribution to the Local Government Pension Fund;
- Fire Control – as previously reported there remains uncertainty regarding this project, however, given the delays in the project nationally, and in accordance with government statements, any additional costs will be fully funded for next year and for at least the three years following implementation (please see also paragraph 4.9);
- Firelink – again, detailed information is still awaited in terms of the ongoing arrangements and funding, however, in accordance with government statements, any additional costs will be fully funded for next year (please see also paragraph 4.13);

Interest on Investments

4.8 Given the significant recent reductions in the base rate the budget has been revised accordingly and will be kept under review until the final budget proposals are made to the Authority in February 2009.

National and Regional Initiatives

Regional Control Centre (Fire Control)

4.9 An update on the Fire Control project was reported to Members at the full Authority meeting in December 2008 outlining that, despite the project being delayed, the government remains committed to the Regional Control Centre project. An extension in timescales means that the new proposed 'go-live' date for this Authority is July 2010.

- 4.10 Project and transitional costs are fully funded until July 2010 and there is, therefore, no financial implication in relation to the 2009/2010 Revenue Budget. Beyond that, as reported to Members in September 2008, the published Business Case Part 1 states that, for the North East, there is a funding shortfall (difference between current costs and estimated future costs when the RCC is live) of £602,000 to be met by a resilience payment from central government, which will be reviewed after three years.
- 4.11 Additionally, there is a further funding gap, estimated at £600,000, caused by the difference between the staffing levels indicated by CLG and those considered prudent by the Local Authority Controlled Company. The overarching principle which the North East FRAs continue to pursue is that there should be no net cost to be incurred by any of the Fire and Rescue Services within the region.
- 4.12 Given the above uncertainty, this issue represents a risk to the MTFs over the medium term but not to the draft budget for next year. In view of this uncertainty, Members previously agreed to establish a reserve of £350,000 to provide a means of offsetting any costs associated with the Project on the basis that the CLG position does not currently provide an absolute assurance to the Authority.

Firelink Project

- 4.13 The position on the Firelink project remains the same as that reported to Members within the MTFs in September, with Officers currently reviewing mechanisms for apportioning shared regional costs.
- 4.14 The government has undertaken to meet the capital cost of the new system and has committed to providing additional funds to FRAs to meet additional revenue costs, initially through specific grant and then, ultimately, to be distributed through Revenue Support Grant. The uncertainty regarding the precise arrangements for the inclusion of this additional funding within the Revenue Support Grant represents a risk to the MTFs over the medium term.

Firebuy

- 4.15 As reported to Members in November 2008, CLG has consulted on issues in relation to the Revised National Procurement Strategy, including the future of Firebuy Ltd. An announcement from the CLG outlining the outcome of the consultation exercise is expected in the New Year, at which time the future of Firebuy Ltd, including funding arrangements, will be more clear.

Long Term Management of the New Dimension Capability

- 4.16 Under CLG's New Dimensions Programme, it procured a number of assets to enhance the Fire and Rescue Service's ability to respond to disruptive events, including the provision of over 400 vehicles and associated equipment, nationally. Currently, CLG owns these assets, however, the strategy is for FRSs to take full and direct responsibility for the management of New Dimensions assets in due course.
- 4.17 At this stage, arrangements are being made for the future maintenance of these assets and it is unclear as to the timing of the change of responsibility and how the funding arrangements will change following transfer of the assets to FRSs. The position will continue to be monitored.

Human Resources

- 4.18 The MTFs takes full account of the wide range of human resources developments, plans and strategies, succession planning, establishment review and the review of the operation staffing profile.

CPA Improvement Plan

- 4.19 Members will be aware that a CPA Improvement Plan includes 10 Improvement Outcomes, each Outcome having associated targets within annual plans. Funding for each of the Outcomes has been provided for within the MTFs, wherever necessary.

Revenue Implications Arising from the Capital Programme

- 4.20 An Estates Development Plan 2007 - 2012 was reported to Members in July 2007 that presented a number of proposals for future development of the Authority's estate portfolio. It is proposed to fund this building programme from the Development Reserve on a phased basis. It is likely that there will be revenue implications arising from these developments. Whilst these will become clearer as individual proposals are developed, at this stage the planning assumption is that the revenue implications will, in overall terms, be resource neutral.
- 4.21 The Capital Programme 2008/2009 includes a scheme to develop an Incident Management Training Facility at the Brigade Training Centre, incorporating USAR training facilities. Whilst there will be some additional revenue consequences arising from this, including staffing costs, it is anticipated that there will be a net saving on the revenue budget arising from this scheme, as there will be a reduced requirement for external training and opportunities for income generation as other FRAs will look to take advantage of the enhanced training facilities.

4.22 A report elsewhere on this Agenda requests Members to recommend deferring the relocation of the SafetyWorks facility and to refurbish the existing facility, using funds already earmarked within the Capital Programme (£160,000). Should this proposal be approved, an annual saving of approximately £180,000 will be achieved.

5. Tyne and Wear Emergency Planning Unit (TWEPU)

5.1 Members will be aware that, in 2005, the Tyne and Wear Local Authorities agreed that each authority would allocate 60% of its government allocation for civil protection work to TWEPU, providing TWEPU with a full-year budget for both 2005/2006 and 2006/2007 of £535,289.

5.2 In October 2006, a standstill annual budget of £535,289 was agreed up to the end of the 2009/2010 financial year, and this position will be reflected in the 2009/2010 Revenue Budget reported to the Authority in February 2009.

6. General Fund Balances, Earmarked Reserves and Provisions

6.1 In considering a prudent minimum level of balances, the Authority considers:

- known commitments against balances in future years;
- volatile elements of service delivery, which make accurate prediction of expenditure more difficult;
- financial risks faced by the Authority and the measures in place to mitigate them or meet them financially.

6.2 Taking account of the level of risk within this Authority, the retention of a minimum level of general fund balances of approximately £3 million is considered, at this stage, to be appropriate after taking into consideration the following:

- a significant modernisation programme which brings with it both financial and change management risks;
- funding required to support the Estates Development Plan 2007 – 2012;
- the uncertainty regarding price and pay inflation, including specifically energy prices, and the impact of potential further changes in base rates;
- uncertainty regarding the future funding for national projects;
- the risk analysis included in the MTFS reported to Authority in September 2008.

- 6.3 The Revenue Budget 2008/2009 Second Review reported in November 2008 that uncommitted general balances were estimated to be approximately £3.35 million by 31st March 2009. As in the previous year, a full financial risk analysis of general balances and major reserves will be undertaken prior to the submission of the final budget proposals to the Authority in February 2009. As part of this analysis, the level of uncommitted general balances will be reviewed in light of the latest Authority decisions and the final budget proposals to be considered by the Authority in February, 2009.
- 6.4 The asset management requirements of the Authority will also be reviewed, together with the capital needs over the medium term.

7. Capital Financing

- 7.1 Members will be aware that Government support for capital expenditure is provided by supported revenue allocations through Formula Grant that allow authorities to control the amount that they borrow without seeking government approval.
- 7.2 The basic principle is that authorities are free to borrow as long as their capital plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow a prudential code. This involves the setting of various prudential limits that must be decided upon by the Authority as part of the budget process. Prudential indicators must be set covering the following areas:
- Affordability;
 - Prudence;
 - Capital Expenditure and Capital Commitments;
 - External Debt;
 - Treasury Management.

As part of the budget process, these prudential indicators will be updated and reported to the Authority in February for approval.

- 7.3 The Revenue Budget 2008/2009 provides for a Revenue Contribution to Capital Outlay (RCCO) of £1.3 million within the budget (excluding slipped expenditure from 2007/2008), which has introduced additional flexibility into the funding arrangements of the Authority's Capital Programme. Financing all, or part, of the Capital Programme through a RCCO results in a reduced or nil requirement for external borrowing.

- 7.4 The Capital Programme for 2009/2010 is still under consideration, and will be reported to Members in February 2009. Given the financial pressures facing the Authority, in terms of the tightening grant settlements and the impact of price inflation and interest rates, consideration will be given to the financing arrangements of the Capital Programme in the context of balancing the overall budget position for the Authority and achieving, as far as possible, the agreed objective of restricting precept increases.
- 7.5 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are presented to Members on 23rd February 2009, and beyond that, to ensure that the optimum use is made of the available resources. These options include:
- Revenue Contribution to Capital Outlay;
 - External Borrowing;
 - Use of General Fund Balances / Reserves (including Development Reserve);
 - Use of Capital Grant (as referred to at paragraph 3.6).

8. Efficiency Savings

- 8.1 Paragraph 3.4 refers to the provisional Formula Grant allocation for 2009/2010 and 2010/2011 representing an increase of only 1.26% and 1.10% respectively, reflecting a tightening of the national funding position in those years. Clearly, this level of grant settlement brings a significant pressure on the Authority's medium-term financial position.
- 8.2 In addition, the Audit Commission's national review of the Fire and Rescue Service – "Rising to the Challenge, Improving Fire Service Efficiency" outlined a number of findings, including that the service "could save up to £200 million a year if all fire services adopted good practice from pioneering fire services". The government has, naturally, welcomed this review, and it is likely that the next Spending Review will take account of the potential for FRS's to deliver further efficiency savings when deciding on the level of grant settlements available to the Fire and Rescue Service, nationally.
- 8.3 Given the foregoing, there is clearly a need for this Authority to continue to identify and realise efficiency savings over the three-year period covering the Comprehensive Spending Review 2007.

9. Detailed Budget

9.1 The detailed Revenue Budget will be reported to a meeting of the Authority on 23rd February 2009. Presently, the draft budget is approximately £58.98 million, however, this is under review and is subject to variation at this stage. As there is no government spending guideline, the most important issue for the Authority to consider is the level of precept necessary in order to fund the budget requirement.

10. Guideline Council Tax Increase

10.1 With regard to council tax levels, the government has retained its 'Capping and Reserve powers' and expects to see average council tax increases in each of the next three years of substantially below 5%. It has stated that local government should be clear that it is prepared to use its capping powers.

10.2 Based on the above announcement, and experience in recent years, it is clear that capping is very likely to be applied to the Fire and Rescue Authority's budget if the precept increase is above 5%. The draft budget shows a budget requirement of £58.98m, which represents an overall increase in spending of 1.57%.

10.3 However, this takes no account of potential changes in the Council Tax base of the Districts or any surpluses/deficits in collection fund accounts. In addition, detailed budgets are in the final stages of preparation and the budget requirement may, therefore, be subject to variation. Notwithstanding any variation in budget requirement, it is anticipated that once the latest council tax bases and collection fund positions have been received, a precept increase of significantly below 5% will be possible.

10.4 It must be stressed that the figures are indicative only at this stage and there are a number of outstanding issues that will be clarified prior to the submission of the final budget proposals to the meeting of the Authority in February. These outstanding issues are as follows:

- final preparation of budget requirement is still ongoing at this stage, and may be subject to variation;
- the position advised in relation to the Council Tax Bases of Billing Authorities;
- the collection fund position of each of the Billing Authorities;
- ongoing uncertainties with regard to inflation and interest rate forecasts.

11. RECOMMENDATIONS

11.1 The Committee is requested to:

- a) Note the contents of the report and the draft Revenue Budget position for 2009/2010, and;
- b) Note the draft revised MTFS attached at Appendix A.