TYNE AND WEAR FIRE AND RESCUE AUTHORITY ITEM 6

MEETING: 19th NOVEMBER 2012

SUBJECT: MEDIUM TERM FINANCIAL STRATEGY 2013/2014 TO 2016/2017

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

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1. PURPOSE OF THE REPORT

1.1 The purpose is to consider:

- The draft Medium Term Financial Strategy (MTFS) 2013/2014 to 2016/2017 and the approach to meeting the funding gap, as currently forecast, on both a best and worst case scenario.
- The Budget Planning Framework for preparation of the 2013/2014 detailed Revenue Budget.

2. DRAFT MTFS 2013/2014 to 2016/2017

2.1 Strategy Document

The detailed draft MTFS 2013/2014 to 2016/2017 is set out in Appendix 1. This provides an analysis of the estimated financial position and the direction of the Authority over the next four years taking in to account potential government funding, other resources, service pressures and priorities.

It is divided into the following sections:

- Benefits and Principles underpinning the MTFS for 2013/2014 to 2016/2017
- National Economic Context
- Government Policy and Impact
- Local Government Finance Settlement
- Local Income Position
- Spending Pressures and Commitments
- Spending Priorities
- Specific Grants

- Partnerships
- Financial Risk Analysis
- Medium Term Financial Strategy
- Budget Planning Framework 2013/2014

2.2 The key Issues for Budget Planning 2013/2014 and in the Medium Term are that:

- All savings proposals currently identified are considered to be achievable. Should this not be the case, appropriate alternative actions will be considered.
- There remains uncertainty around the finance settlement for 2013/2014 and beyond. As information emerges plans will be refined and the MTFS updated.
- In this context the basis for the MTFS scenarios through to 2016/2017 set out within the MTFS is detailed at section 12 of Appendix 1.

2.3 Actions to meet the Funding Gap

The indicative budget forecasts (Appendix D) show that a range of options will need to be considered to deliver a balanced budget in 2013/2014 and also for future years. These options will be driven by a number of initiatives designed to deliver significant savings, as set out in the recently updated and agreed Integrated Risk Management Plan (IRMP). Additional plans and actions will also be considered alongside this to meet the estimated gap in funding in future years, should this prove necessary.

The overall gap in resources, as set out in the report, and the action plans of the Authority are to be subject to further discussions with members.

3. BUDGET PLANNING FRAMEWORK FOR 2013/2014 REVENUE BUDGET

3.1 It is proposed that the Chief Fire Officer and the Finance Officer take forward the preparation of the Revenue Budget for 2013/2014. The Budget Planning Framework is designed to give some flexibility for the Authority in addressing the final financial position which emerges.

4. RECOMMENDATIONS

The Fire Authority is requested to:

- Consider the Medium Term Financial Strategy for 2013/2014 to 2016/2017 at this stage and understand that it will be updated to reflect the reviews outlined in this report (Appendix 1);
- Note the Budget Planning Framework for preparation of the 2013/2014 Revenue Budget (Appendix 1 – Section 13).

Appendix 1

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2013/2014 TO 2016/2017

1. PURPOSE OF THE MEDIUM TERM FINANCIAL STRATEGY 2013/2014 TO 2016/2017

1.1 The Medium Term Financial Strategy (MTFS) is a key part of the Authority's Budget Policy framework. It aims to ensure that resources are aligned to deliver the Authority's three key improvement themes of Preventing, Protecting and Responding, as well as the need to deliver customer focused outcomes and continual service delivery improvement, as articulated in the four corporate goals. The MTFS sets out the strategic financial position and financial direction of the Authority over the next four years taking into account strategic objectives, significant government funding reductions, other resources and service pressures. It is regularly updated to reflect the dynamic changes in public sector finance. The key objectives of the strategy are:

- To maintain the strong financial resilience of the Authority;
- To identify and meet the potential significant savings required;
- To continue to facilitate investment in alternative forms of service delivery and key priorities.

2. BENEFITS AND PRINCIPLES UNDERPINNING THE MTFS FOR 2013/2014 TO 2016/2017

2.1 The MTFS assists with:

- Setting out the financial parameters and context to assist in strategic planning to best support the delivery of the Authority's service delivery outcomes;
- Responding to external and internal pressures to develop a sustainable budget over the medium term;
- Securing value for money by maximising resources available both internally and externally and highlighting financial risks and mitigating controls; and
- Reviewing the Authority's reserves policy to plan against unforeseen events.

2.2 The principles underlying the MTFS 2013/2014 to 2016/2017 are detailed below:

- The overall financial strategy will be determined to ensure that the Authority's resources are directed to address the Strategic Priorities set out in the updated Integrated Risk Management Plan (IRMP).

- The Authority's improvement planning process and associated activities will inform the review of the MTFS on an annual basis. The annual review will include an update of the four year budget forecast, expected developments within the Fire Service, and changes to legislation.

- Opportunities for working in collaboration and partnership will be identified and developed where this will support the Authority's priorities and improve service efficiency and delivery.

- The Authority recognises that it will not be able to continue to resource current levels of service without transforming services. It will continue to improve its approach to productivity and ensure that budget savings are identified to minimise the impact on frontline service delivery.

- The Fire Authority spend will be contained within original estimates. If, following monthly revenue monitoring, budgets are projected to exceed original estimates, plans will be prepared setting out the actions required to ensure spending at the end of the year does not exceed the original estimates.

- The Authority will maintain its general reserve at an adequate level to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

- The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and will be reviewed annually.

- The Authority will balance the need for council tax increases against the delivery of its priorities, taking into account the economic challenges facing its community.

- The Authority will consider the use of prudential borrowing to support capital investment and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken.

- Opportunities for securing external funding will be sought. The implications of the cessation or withdrawal of funding will also continue to be reviewed so that options can be considered on the future of funded schemes.

3. NATIONAL ECONOMIC CONTEXT

Deficit Reduction Plan

3.1 There is considerable uncertainty over the impact of the Government's policy to eliminate public sector debt over the next few years. The country has just recently come out of a 'double dip' recession, with most experts predicting only very low economic growth over the medium term. The Chancellor has indicated that his policy is working and that the total deficit has fallen by around 25% since 2010. However the cyclically adjusted current deficit (the structural debt) has, according to experts, only fallen by 13.2% to the end of 2011/2012.

3.2 The economy, therefore, remains weak and fragile with the debt crisis in the Eurozone seen as one of the major contributing factors in causing trade between Euro member states to remain depressed. The poor economic outlook and the government's stance means that public sector spending will continue to be reviewed and curtailed by the government which will now extend well into the next Spending Review period. With it is the inevitable prospect of more cuts to local government funding for a much longer period than was initially estimated. This impacts more acutely in areas such as the North East with a greater reliance on public sector jobs and where grant funding cuts have been at their most severe, meaning the fiscal outlook for the Authority continues to remain very challenging over the medium term.

3.3 The Government, via the Office for Budget Responsibility (OBR), is to provide an update of its forecasts in the Autumn. This will help provide revised information on the economy and whether the government is on track to meet its debt and deficit targets, which most economists doubt. The prospect is therefore for greater cuts in public sector funding than those originally forecast.

Inflation

3.4 The Consumer Price Index (CPI) has been above the Government's target level of 2% since December 2009, placing additional pressures on the Authority's finances, and is in addition to the cuts in grant funding. The real cuts to the Authority's budget in the last two years have been much higher as a result.

3.5 The average CPI rate was 2.6% for all items in July 2012. CPI rates have decreased from the high of 5.2% in September 2011 and are expected to continue to fall and reach the Governments target of 2.0% around the end of 2012, remaining near that level until 2015. There are a number of uncertainties contained within the forecast by the Bank of England. In particular, food inflation could be higher than anticipated due to poor levels of crop harvests in 2012, and energy prices could increase due to tensions in the Middle East. The position will continue to be regularly monitored.

Bank Base Rate

3.6 The UK economy entered its second recession within four years in 2012 and the Bank of England has forecast that the UK economy will not grow during 2012 and that growth will only be a modest 1.7% in 2013. The high level of concerns over growth in both the UK economy and, in particular the Eurozone, means that the Bank Base Rate is likely to remain low throughout 2012/2013. A number of forecasters are anticipating a further decrease in the Bank Base Rate with no rise expected until the last quarter of 2014.

The position will continue to be regularly monitored and revised to inform our approach to pay and prices, and borrowing.

4. GOVERNMENT POLICY AND IMPACT

Spending Review 2010 (SR10)

4.1 The Spending Review 2010 (SR10) was published on 20 October 2010. This set out more detailed spending plans at a national level for Government departments for the period 2011/2012 to 2014/2015. The main emphasis to tackle the budget deficit was to impose significant reductions to public sector spending of 19% on average across all government departments. Together with announced tax rises, this was aimed at reducing the borrowing deficit by £81 billion by the end of 2014/2015.

4.2 The SR10 would see Fire and Rescue Authorities receiving 25% less formula grant funding over the spending review period. However, this reduction would be 'back loaded' with the greatest reductions falling in the latter two years, so the years remaining 2013/2014 and 2014/2015.

5. LOCAL GOVERNMENT FINANCE SETTLEMENT

5.1 The headlines of the 2012/2013 settlement included:

- National Formula Grant funding for all authorities in England reduced by a further 7.3% in 2012/13.
- The Fire Service funding, in comparison, reduced by 0.7% in 2012/13.
- A transitional grant of £85m was made available that benefited 37 authorities whose revenue spending power would fall by 8.9%. This would help minimize reductions for authorities facing exceptional decreases in their overall revenue funding position. Alongside this, floor damping continued to be applied to bring authorities in line with the floor (the maximum grant decrease).

5.2 On a national level, the overall funding for the Fire Service reduced by an average of 6.5% over the two year period. However, due to the detrimental effect of the changes to the formula grant distribution mechanism, the grant allocation for Tyne and Wear Fire and Rescue Authority reduced by £3.379m or 9.5% in 2011/2012, and by a further £1.094m or 3.4% in 2012/2013, both after the application of floor damping. Without floor damping the grant reductions in 2011/2012 and 2012/2013 would have been 19.3% and 12.0% respectively. These reductions represented the largest reduction of any Fire and Rescue Authority in the country.

Settlements 2013/2014 Onwards

5.3 A second two year settlement to cover financial years 2013/2014 and 2014/2015 is expected to be announced in December 2012. Although the government indicated, at a national level, the overall grant reductions in their Spending Review 2010 for local government, it is not possible to accurately estimate the impact on each individual authority's grant allocations.

5.4 The position has been made even more uncertain due to the potential and significant impact of the Government's Local Government Resource Review, mainly through the planned implementation of the new Business

Rates Retention system which replaces formula grant funding from 2013/2014. The Government has also indicated that it will have to revise national control totals to reflect the worsening economic position.

5.5 The Business Rates Retention Technical Consultation and associated papers released in July and September, respectively, gave an early idea of the future grant allocations. It provided the Local Government Spending Control Totals as amended through a number of changes, and set the overall level of cut for Fire in 2013/2014 and 2014/2015, but not the level of floor damping.

The overall control totals and funding reduction proposals indicated in the Consultation are as follows:

	2010/11 Baseline	2011/12	2012/13	2013/14	2014/15
Fire £m	1,057.00	995.55	988.55	899.00	850.00
% change		-5.8	-0.7	-9.1	-5.4

5.6 The 14.5% reduction over the next two years is likely to be followed by further cuts, with the last Budget Statement indicating a possible further 8% cut in 2015/2016 and a 6% cut in 2016/2017.

5.7 Scenarios have been considered in section 12 and plans will need to be revisited when the funding position is clarified.

Further Issues

5.8 In addition to the reductions in Formula grant there are a number of specific grants where future funding remains uncertain at this stage. Should these grants reduce or cease then the Authority will need to review the associated service arrangements and possibly plan for additional efficiencies to bridge the potential funding gap.

5.9 Alongside the funding cuts, there is an expectation from government that Fire and Rescue Authorities will continue to identify and realise cashable efficiency savings. They have implied that it is for individual Authorities, not central government, to make local decisions on how to achieve the significant cost reductions required. However, they have identified seven areas where potential savings could be achieved:

- Flexible staffing arrangements
- Improved sickness management
- Pay restraint and recruitment freezes
- Shared service / back office functions
- Improved procurement
- Sharing chief officers and other senior staff
- Voluntary amalgamations between Fire and Rescue Authorities

6. LOCAL INCOME POSITION

Council Tax

6.1 The Localism Act received royal assent on 15th November 2011 and provides for the provision of referendums to veto excessive council tax increases. This effectively places a limit on council tax increases and if authorities exceed the government limits, the public will be able to vote to agree or veto any considered ‘excessive’ increase.

6.2 The potential additional costs of a referendum and rebilling would be significant, particularly in a year when no local government elections take place. Therefore, any proposal to increase council tax above the Government’s principles would need careful consideration, as, regardless of the outcome of the vote, there would be costs which could, in effect, negate the benefits from the council tax increase.

6.3 In recent years the Authority has set comparatively low increases in its Council Tax precept, with an increase of 0.91% in 2010/2011 and no increase in 2011/2012 and 2012/13. These represent the lowest increases nationally for any Fire Authority over the last three years.

6.4 There is early indication that the Government has lowered the threshold council tax limit to hold a referendum, to 2% from 4% in 2013/2014. This reduces the flexibility in considering the options available. In addition they have announced that they will provide a one off 1% Council Tax freeze grant for 2013/2014 for those Authorities that freeze Council Tax levels.

6.5 The MTFS will be updated taking into consideration decisions around Council Tax levels for 2013/2014 in the context of the economic circumstances.

Capital and Prudential Borrowing

6.6 The revenue implications of the Authority's Capital Programme are considered as part of the process for setting the Capital Programme. The revenue impact of the Capital Programme is reflected in the MTFS, in particular the costs associated with the level of prudential borrowing required to deliver the Capital Programme.

6.7 Prudential borrowing allows local authorities to borrow to fund capital expenditure provided it can be demonstrated that it is affordable. The Authority needs to ensure that an agreed revenue income stream is identified to meet the additional cost of borrowing. If strategic developments are pursued that do not have a clear income stream, provision will need to be made within the revenue budget to meet these costs over the medium term. However this could impact on other areas of the service where greater savings may need to be identified as a result to balance the budget.

6.8 The three year Capital Programme for 2012/2013 to 2014/2015 was set to take account of the reductions in available external funding and the increased pressure on the Authority's resources. The Capital Strategy is being developed to set out the position regarding the Authority's approach to funding current and future priorities and availability of funding.

6.9 A number of proposed capital schemes are currently being considered to ensure that the Authority continues to achieve its key priorities. The reduction in both revenue and capital funding requires the Authority to focus on new and existing opportunities for funding.

Borrowing Strategy

6.10 The Authority's borrowing strategy follows a pragmatic approach and responds to changing circumstances to secure benefit for the Authority. A benchmark financing rate of 5.50% for long-term borrowing was set for 2012/2013. Due to high levels of volatility in the financial markets, no new borrowing has been undertaken in 2012/2013.

6.11 The Borrowing Strategy for 2012/2013 made provision for debt rescheduling. However, due to the proactive approach taken by the Authority in recent years and the low underlying rate of the Authority's long term debt, it would be difficult to refinance long term loans at interest rates lower than those already in place.

Reserves and Balances

6.12 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the Authority must comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

Reserves Policy

6.13 The Authority's policy on reserves is as follows:

- The Authority will maintain its general reserve at a minimum of £3m to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

- The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.

6.14 The Authority has a range of reserves and provisions and these are fully set out in the Authority's Statement of Accounts. In addition, all reserves are reported and considered at the time the Revenue Budget is set. A full breakdown of all reserves and provisions is set out at Appendix B. The analysis shows that all reserves are earmarked for a specific purpose and provisions have been set up in accordance with proper accounting practice. In considering the MTFS, regard is given to the level of provisions, reserves and balances which the Authority needs to maintain, the purpose for which they are maintained, and their planned use.

Review of Reserves 2012/2013

6.15 A review of all strategic reserves is undertaken twice a year in line with the CIPFA guidance on Reserves and Balances (LAAP Bulleting No 77 November 2008) and the requirements of the Code of Practice on Local Authority Accounting.

6.16 The review process covers each individual strategic reserve and identifies:-

- The purpose for which the reserve is held;
- An assessment of the appropriate level of the reserve to meet potential future liabilities in line with the Authority's reserves policy;
- A risk assessment of each reserve; and
- The reviewed level of reserve following this risk assessment.

6.17 At 31st March 2013 the Authority's usable reserves are expected to be £25.614m, further details are shown at Appendix B. All of the reserves held by the Authority as set out are earmarked for specific purposes and are fully required and committed. The remaining £3.771m is held in a general reserve to provide a level of contingency to meet any unforeseen expenditure and to support the budget as planned.

7.0 SPENDING PRESSURES AND COMMITMENTS

The following matters have been taken into account in the MTFS for 2013/2014 to 2016/2017 and have been used in the budget planning framework for 2013/2014.

Pay

7.1 Following a two year pay freeze, it has been announced that there will be a pay increase of 1% in 2012/2013. This was built in to the MTFS for 2012/2013 and future years, and will be monitored and reviewed as necessary.

Pensions

Local Government Pension Scheme (LGPS)

7.2 The last actuarial review of the Local Government Pension Fund for the Tyne and Wear area was undertaken as at 31st March 2010 and updated by independent actuaries to take account the requirements of International Accounting Standard 19 (IAS19). This was implemented in 2011/2012 covering three years to 2013/2014. There is no increase in deficiency payments for 2012/2013 and 2013/2014. This will be reviewed for future years as more information is made available in the next Actuarial review at 31st March 2013.

7.3 The Authority will continue to review the position on LGPS deficiency payments with regard to the option of making a lump-sum contribution to the Pension Fund to reduce the annual revenue payments.

Public Sector Pension Review

7.4 The Government agreed to implement the recommendations from the Hutton Review in relation to reviewing public sector pensions to help reduce the costs to the tax payer of funding pensions for public sector workers and to make them more affordable. After intense negotiations the government reviewed the details of its public sector pension proposals and also recognised the fact that the Local Government Pension Scheme was a special case whereby it could be dealt with separately as it was largely seen as a self funded and managed scheme.

7.5 The cost implications of the new scheme will need to be fully reflected in the next actuarial review to be carried out in 2013. This will help inform the Authority of a more accurate assessment of the costs involved.

Financial Arrangements for Firefighter Pensions

7.6 Members will be aware that employee and employer contributions are paid into a pension account from which pension outgoings (pensions awards and lump sum payments) are met. The government provides additional funding to top up the account, or to recover any surplus, at the end of the year, as appropriate.

7.7 Under these arrangements authorities retain responsibility for meeting the cost of ill health pension awards and past service costs of ongoing injury related pensions. Prudent provision has been made within the MTFS for these awards, taking into account the Authority's investment in its health awareness and intervention measures through the Occupational Health Unit. This has brought about a reduction in the number of ill health early retirements, with one such retirement in the last three years. Whereas injury related pension costs have remained fairly consistent with only minimal increases.

Energy Prices

7.8 Energy and vehicle fuel prices continue to be particularly volatile. Prudent provision has therefore been included for continued annual increases in charges for gas, electricity and vehicle fuel over the medium term.

7.9 The Authority is aware of its responsibility in relation to Environmental Sustainability, and has established an Environmental Steering Group to consider potential schemes to make progress in this area. A Carbon

Management Plan reserve was established in 2009/2010 to facilitate implementation of the Carbon Reduction Plan, developed in partnership with the Carbon Trust. The purpose of the Plan is to make future savings in both carbon emissions and energy bills. This has helped to keep energy costs neutral over the past two years.

Other Prices

7.10 Prudent provision has been made within the MTFS for known specific price rises e.g. PFI contractor costs, although a review is to be carried out to see what can be renegotiated.

Capital Financing - Debt Charges, Capital Grant and Revenue Contribution to Capital Outlay

7.11 The Revenue Budget for 2012/2013 includes a Revenue Contribution to Capital Outlay (RCCO) of £1.245million 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 requirement for more expensive external borrowing; the MTFS takes account of this funding approach.

7.12 In 2012/2013, the Authority will receive Fire Capital Grant of £0.960 million. The Comprehensive Spending Review included a static position in terms of Fire Capital Grant issued by central government for the whole of the CSR period. The Medium Term Financial Strategy 2013/2014 to 2016/2017 includes an annualised contribution from the Fire Capital Grant towards financing the Capital Programme. This provides additional flexibility and will help to smooth the effect on the Revenue Budget over the short to medium term.

7.13 In setting and revising the Capital Programme, the Authority will review all options for capital financing in addition to supported borrowing, capital grant and RCCO. The position will be kept under review as the MTFS and the budget for 2013/2014 is developed.

Interest on Balances

7.14 Given the continued low Bank Base Rate, the revenue budget for interest on balances in 2012/2013 was set at a similar level to that set in 2011/2012 and is being kept under review. The Medium Term Financial Strategy has been prepared on the basis that this comparatively low interest rate will continue into the foreseeable future, although this position will be kept under review.

8. SPENDING PRIORITIES

The following areas have been considered in compiling the Medium Term Financial Strategy:

Improvement Plan

8.1 Members will be aware that the Authority maintains an Improvement Plan that has been restructured so that actions are now categorised under one of seven key organisational priorities. This clearly links to the Authority's strategic planning process and monitoring of these priorities is frequent and rigorous.

8.2 Members have previously supported investment in the Authority's work to reduce accidental dwelling fires and other initiatives to deliver these priorities. All of the remaining Improvement Plan actions can be addressed from existing resources, though this position will need to be kept under review as the funding position is clarified.

Integrated Risk Management Plan 2013 - 2016

8.3 Members will be aware that the Authority produces a fully costed Integrated Risk Management Plan (IRMP) to make significant changes to the shape of the service, ensuring that services are planned, designed and delivered in a way that balances efficiency and community risk.

8.4 The IRMP has been brought in line with the MTFS to cover the full spending review period. The actions set out in the IRMP are now either complete or progressing according to the agreed timescales. The current IRMP actions ate set out below:

- Review and reduce back office services
- Review Prevention services
- Review Protection services
- Introduce Day Crewing at 2 stations
- Review management
- Review staffing profiles
- Remove one retained appliance
- Review the staffing of Ariel ladder Platforms

- Review Mobilising and Control

8.5 The delivery of these actions has reduced staffing by a significant level including a 29% (75 posts) reduction in back office posts from January 2013. This has enabled the Authority to achieve a balanced budget during 2011 to 2013 and to begin preparation for further budgetary pressures from 2013 onwards.

8.6 In light of the future finance settlement, it is considered that a review of frontline appliances and diversionary activities is unavoidable. It is proposed that these form a key part of a set of new IRMP actions form 2013-2016, to include:

- Review the fire cover response model
- Review Diversionary activities
- Build on staffing flexibility
- Review cleaning and catering
- Consider business case for setting up a trading company

Review of Operational Staffing Profile

8.7 In setting the 2013/2014 Revenue Budget, the Chief Fire Officer will continue to undertake a full review of the Authority's operational staffing profile and associated salary structure. Included within this review will be assumptions in relation to the number of firefighters in the new or old firefighter's pension scheme as the employer's pension contributions vary (new scheme 11.0%, old scheme 21.3%). A prudent estimate has been factored into the MTFS.

Efficiency Targets

8.8 The Authority has responded very positively to the requirements of the government's national efficiency review. Its approach to securing efficiency and value for money is encapsulated in the Authority's Value for Money Framework. Although formal Annual Efficiency Statements are no longer required, the Authority continues to seek and achieve efficiency savings in its budget and spending plans.

8.9 The Authority is committed to delivering further efficiency savings, particularly in light of the SR10, through:

- further development of the IRMP;
- following best practice in relation to procurement of goods and services;
- working in collaboration with partners both locally and regionally;
- generating efficiency savings arising from policy and service reviews.

National and Regional Initiatives

8.10 Provision has been included within the MTFS for approved initiatives. The following initiatives are drawn to Members attention:

Firelink Project

8.11 The government will continue to meet the capital costs of the new system. However, following installation of the Firelink radio system, it is expected that the ongoing revenue costs will place an additional net overall burden on FRAs. This has not been quantified at this stage as the final stage of the project is yet to be completed.

8.12 Ongoing discussions are being carried out at a local level to identify the most appropriate method for apportioning shared regional costs. The position will continue to be monitored to ensure that there is no adverse impact for this Authority.

Control/Mobilising System

8.13 Following failure of the national FiReControl project, Tyne and Wear Fire and Rescue Authority are working collaboratively with Northumberland Fire and Rescue Authority to procure a replacement Mobilising and Resource Management System. Necessary arrangements have been put in place to ensure that this is procured and implemented before 2014.

8.14 Procurement of the system and the building alterations required to relocate Fire Control from West Denton to Service Headquarters, have both gone to tender and the chosen bidders were approved by Authority in September 2012.

8.15 The Fire Authority has received a central government Command and Control grant of £1.8 million for the project, £1.4 million towards capital costs and £0.4 million towards revenue costs.

8.16 The capital cost of the project is anticipated to be partly financed by the grant, plus the Regional Control Reserve, unapplied fire capital grant and revenue budget identified and carried forward at the end of 2011/2012. The ongoing revenue costs associated with the new system will be met from the revenue grant allocation, plus existing fire control budget. Costs will be controlled and monitored as the project progresses.

Human Resources

8.17 The MTFS takes full account of the wide range of Human Resources developments and plans and strategies, including Rank to Role pay protection, Succession Planning, Establishment Review and the Review of Operation Staffing Profile, referred to previously.

Revenue Implications Arising from the Capital Programme

8.18 The Estates Development Strategy outlines a number of proposals for future development of the Authority's estate portfolio. This was updated in March 2011 to reflect the latest developments in respect of the relocation of Fulwell and Rainton Bridge Fire Stations. It is proposed to fund this building programme from the Development Reserve on a phased basis. It is possible that there will be revenue implications arising from these developments, which 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.

Spending Priorities

8.19 Factors which the Authority has taken into consideration in previous years to determine spending priorities are:

- the relative importance of each Strategic Priority in any one year given changing circumstances;
- the results of corporate and service based consultation with the public and other stakeholders;
- local priorities identified by elected members and officers of the Authority;
- national performance requirements including the need to improve performance;
- inspection implications including service based assessments.

8.20 Given the anticipated significantly reduced settlements for the next three years, it is likely that there will be no scope to address spending priorities.

Indeed, the factors identified in 8.17 above may need to be employed to identify areas for further efficiencies.

Efficiency Savings

8.21 Reference has been made above to a number of areas where efficiency savings are forecast to be realised. The MTFS Financial Summary, set out at Appendix D, illustrates the impact of the efficiency savings forecast to date, although it should be noted that the position will not be confirmed until the detailed budget estimates are prepared later in the year.

9. SPECIFIC GRANTS

Fire Revenue Grant

9.1 The Department for Communities and Local Government introduced a Fire Revenue Grant from 2011/2012 that covers funding for Firelink and New Dimension.

9.2 The allocation for Tyne and Wear Fire and Rescue Authority for 2012/2013 is £1,122,744; made up of £131,547 for Firelink and £991,197 for New Dimension. As yet no information is available on the grant allocation for 2013/2014; the position will be updated once this information is made available.

10. PARTNERSHIPS

10.1 The Authority works in partnership with a number of organisations to deliver its strategic priorities. There are currently thirteen partnerships in place and within these arrangements four major partnerships have been identified, which include ‘Sainsbury’s Ltd’, ‘The Princes Trust’, ‘The Phoenix Project’ and ‘Safetyworks!’.

10.2 The financial performance of significant partnerships is reported on as part of regular budget monitoring.

11. FINANCIAL RISK ANALYSIS

A comprehensive financial risk assessment is undertaken for the Revenue and Capital Budget setting process to ensure that all risks and uncertainties affecting the Authority’s financial position are identified. These are reviewed each year as part of the MTFS. The key strategic financial risks to be considered in developing the MTFS are set out in Appendix C.

12. MEDIUM TERM FINANCIAL STRATEGY

12.1 A financial summary of the Medium Term Financial Strategy is set out at Appendix D. This takes into account the impact of those issues identified above at paragraphs 3 to 10.

12.2 Over the next three months the MTFS will be shared with stakeholders, including the Trade Unions and business ratepayers, for consideration and comment.

Medium Term Financial Planning Scenarios

12.3 As grant funding for 2013/2014 and 2014/2015, and beyond is yet to be confirmed, the Authority will have to plan on a prudent basis. With this in mind, a number of scenarios have been modelled to consider varying degrees of potential grant reductions.

12.4 The following assumptions have been made:

- There will be no collection fund surplus or deficit after 2012/2013;
- The one off council tax freeze grant of 1% in 2013/2014 will be accepted;
- The efficiencies proposed will be achieved or an alternative action taken.

12.5 Formula grant allocations have been prepared for two scenarios:

(i) **Best Case Scenario:** Based on the latest figures from the Business Rates technical consultation document assuming a flat rate reduction. A total reduction in grant allocation of 14.5% from 2013 to 2015, 9% in 2013/2014 and 5.4% in 2014/2015, then a reduction of 8% and 6% in 2015/2016 and 2016/2017 respectively.

(ii) **Worst Case Scenario:** Based on the premise that the Fire Authority could potentially face double the cuts as in previous years. A total reduction in grant allocation of 29% from 2013 to 2015, 18% in 2013/2014 and 11% in 2014/2015, then a reduction of 16% and 12% in 2015/2016 and 2016/2017 respectively.

12.6 The options will be updated as government announcements are received and the budget is set for 2013/2014.

13. BUDGET PLANNING FRAMEWORK 2013/2014

13.1 It is proposed that the Chief Fire Officer and the Finance Officer take forward the preparation of the Revenue Budget for 2013/2014 on the following basis:

- that all Spending Commitments be kept under review and amended figures used to update the MTFS over the coming months;
- that the Spending Pressures be reviewed to identify those which can make the greatest contribution to the Strategic Community Safety Plan 2010-2013;
- that the scope for maximising efficiency savings be reviewed as follows:
    - through the implementation of modernisation strategies as part of the IRMP;
    - through adopting best practice in relation to procurement of goods and services;
    - through generating efficiency savings arising from policy and service reviews;
    - through a base budget review to be commissioned by the Chief Fire Officer with the objective of generating efficiency savings on delegated budgets.
- that medium to long-term efficiency plans are updated, drawing on the IRMP and other potential opportunities, to meet the anticipated budget deficit in future years in light of the likely significant reduced level of public expenditure funding settlements.

13.2 Consideration of the budget is at an early stage and there are a number of uncertainties, as previously detailed, that will have a major impact on the budget in future years. The proposed Budget Planning Framework for the preparation of the 2013/2014 Revenue Budget is designed to give some flexibility for the Authority in addressing the final financial position which emerges.

Appendix A

Statement of General Fund Balances

	£'000
Balance as at 1st April 2012	**3,188**
Comprising:	
General Reserve	2,476
Delegated Surplus	560
DSO Surplus	115
Emergency Planning Unit Surplus	37
Second Review Savings	400
Anticipated Balance as at 31st March 2013	**3,588**

Anticipated Minimum Balance as at 31st March 2013 **3,000**

Appendix B

Statement of Earmarked Reserves

Title and Purpose of Earmarked Reserve	Opening Balance (01.4.12)	Estimated Movement in 2012/2013	Estimated Balance (31.3.13)
	£'000	£'000	£'000
Insurance Reserve Reserve held to protect the Authority from unexpected volatility from changes in legislation that could be retrospective, unknown exposures that may arise in the future, and to cover a possible shortfall in the eventual settlement against MMI.	1,090	0	1,090
Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	14,703	-4,000	12,703
Early Retirements Reserve Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.	38	-3	35
PFI Smoothing Reserve Reserve established to smooth the impact of the PFI scheme on the Authority's revenue budget over the 25 year life-span of the scheme.	5,677	248	5,925
Contingency Planning Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,450	0	2,450
Budget Carry Forward Reserve Established to fund the slippage of specific items of revenue expenditure.	1,814	-1,228	586
New Dimensions Reserve Reserve to be used in future years to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.	474	0	474
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	250	0	250
Civil Emergency Reserve Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.	200	0	200
Regional Control Centre (RCC) Reserve Reserve to provide a means of offsetting any costs	350	-350	0

Title and Purpose of Earmarked Reserve	Opening Balance (01.4.12)	Estimated Movement in 2012/2013	Estimated Balance (31.3.13)
	£'000	£'000	£'000
associated with the RCC Project on the basis that the CLG position does not provide an absolute assurance to the Authority that all additional costs will be funded by CLG.			
Carbon Management Plan Reserve Reserve established to implement Carbon Reduction Plan developed in partnership with the Carbon Trust and Fire and Rescue Authorities. This investment will make future savings in both carbon emissions and energy bills.	523	-523	0
Equality and Diversity Reserve Reserve established to enable the evaluation of a number of capital schemes to support the Authorities commitment to achieve required higher quality and diversity ethnic recruitment targets.	101	0	101
Organisational Change Reserve Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.	1,100	0	1,100
Medium Term Planning Reserve Reserve established to plan for future grant reductions and the effects of localisation of business rates retention.	700	0	700
Vehicle Replacement Programme Reserve Reserve set up to plan for the replacement of specialist fire service vehicles that will need to be replaced and upgraded.	0	2,000	2,000

Appendix C

Medium Term Financial Strategy – Financial Risk Analysis

Impact of the outcome of SR10

Risk is that the impact of the funding cuts as a result of SR10 has a significantly greater impact on the authority's financial position than currently envisaged as a result of the unknown factors.

This is unknown at this stage, but very prudent assumptions have been made in respect of the impact. The effects on the Authority's financial position will be kept under constant review so that remedial action can be taken at the earliest opportunity.

Inflation

Risk is that pay and price increases may exceed the levels provided for within the MTFS.

This is very unlikely to occur due to the realistic provisions made:

- Prudent provision has been made for all employees' pay awards;
- The government's previous guidance is that they expect public sector pay to be restricted in light of the latest economic downturn;
- Average forecasts for CPI and RPI are 2.6% and 3.70% respectively;
- Expenditure in respect of most of the budget heads can be either influenced or controlled;

Debt Charges

Risk is that Debt Charges will be greater than budgeted.

This is very unlikely to arise due to:

- the current level of variable rate debt is low in comparison to the fixed-rate level of debt;
- the impact of any interest rate changes is negligible in context of the overall financial position of the Authority;
- the economic outlook is that base rates are likely to remain low over the course of the coming year, although the PWLB have increased their rate by

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-
-
- 1%, and the Treasury Management Strategy can be adjusted to minimise the impact of any significant increases;
- no new borrowing is currently programmed to be required.

Investment Interest

Risk is that income generated will not match budget provision

This is unlikely to arise in relation to investment income as a prudent rate of return has been included in the budget which reflects the investments made to date, the prevailing market conditions and the economic forecasts for the year ahead.

Other sources of income are small in the context of the overall budget.

Contingencies

Risk is that the contingency provision will be insufficient to meet the needs identified.

This is unlikely to occur due to:

- prudent estimates included for each category of contingency provision;
- specific contingencies are created for all known spending pressures;
- the total contingency provision is deemed sufficient in the context of the net revenue budget;
- past experience suggests an underspending against the contingency provision.

Risk Management

Risk is that all risks have not been identified and that major financial consequences may result.

This is very unlikely to occur due to:

- existence of the Bellwin Scheme;
- a corporate risk profile in place, which is regularly and formally reviewed, and action is taken to mitigate and manage risks;
- Authority risk management action plans developed;
- comprehensive self and external insurance arrangements in place;
- an adequate self insurance fund.

Financial Planning

Risk is that a major liability or commitment currently exists but has not been taken into account in the financial planning of the Authority.

This is unlikely to arise due to:

- the existence of a comprehensive Medium Term Financial Strategy process with regular updates during the year;
- benchmarking and networking with other senior finance staff in other Authorities who are likely to identify similar liabilities.

Revenue Budget - Budgetary Control

Risk is that the budget will be overspent in the year.

This is very unlikely to occur due to:

- monthly budget monitoring procedures;
- quarterly Revenue Budget Budgetary Control reviews undertaken, reported to the Authority and corrective action agreed or set in train;
- Financial Procedure Rules relating to delegated budgets provide for virements and carry forward of under / over spending to be used / met in the following financial year;
- clear budget management responsibilities in place;
- demonstrable track record.

Capital Programme Implications

Risk is that funding will not be available as planned or that over spending may occur.

This is unlikely to happen due to:

- prudent level of capital receipts retained;
- quarterly Capital Programme Budgetary Control reviews undertaken through the Asset Management Group, reported to the Authority and corrective action agreed or set in train;
- Revenue Contribution to Capital, Fire Capital Grant and prudential regime gives added flexibility in terms of financing the Capital Programme.

Reductions to the Revenue Budget

Risk is that planned reductions to the Revenue Budget will not occur or are unachievable.

This is unlikely to occur due to:

- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;
- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non-realisation of some of the efficiency reductions.

Availability of Other Funds

Risk is that the Authority could not call on any other funds to meet unforeseen liabilities.

This is very unlikely as the Authority has a range of other funds which, whilst earmarked, are not wholly committed, including the Development Reserve which could be used in an emergency.

MEDIUM TERM FINANCIAL STRATEGY 2013/2014 TO 2016/2017 **Appendix D**

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Base Budget	52,224.26	52,224.26	52,224.26	52,224.26
One-off Council Tax Freeze Grant (1%)	(239.85)	0.00	0.00	0.00
Cost Pressures	3,318.41	4,213.81	5,130.31	6,068.31
Base Budget including cost pressures	**55,302.82**	**56,438.07**	**57,354.57**	**58,292.57**
Deduct Projected Resources				
Model 1 - Best Case				
Formula Grant	28,297.38	26,769.32	24,627.78	23,150.11
Council Tax	23,956.46	23,956.46	23,956.46	23,956.46
Council Tax Freeze Grant (2011/2012)	597.58	597.58	0.00	0.00
Collection Fund Deficit	0.00	0.00	0.00	0.00
Total projected resources	**52,851.42**	**51,323.36**	**48,584.24**	**47,106.57**
Budget Reduction Target	**2,451.40**	**5,114.71**	**8,770.33**	**11,186.00**
Model 2 - Worst Case				
Formula Grant	25,498.74	22,693.88	19,062.86	16,775.31
Council Tax	23,956.46	23,956.46	23,956.46	23,956.46
Council Tax Freeze Grant (2011/2012)	597.58	597.58	0.00	0.00
Collection Fund Deficit	0.00	0.00	0.00	0.00
Total projected resources	**50,052.78**	**47,247.92**	**43,019.32**	**40,731.77**
Budget Reduction Target	**5,250.04**	**9,190.15**	**14,335.25**	**17,560.80**

The funding gap will have to be met from IRMP actions and further planned efficiencies

Projected Indicative Net budget - Best Case	**52,851.42**	**51,323.36**	**48,584.24**	**47,106.57**
Projected Indicative Net budget - Worst Case	**50,052.78**	**47,247.92**	**43,019.32**	**40,731.77**