

**TYNE AND WEAR FIRE AND RESCUE AUTHORITY**

**MEETING: 24<sup>TH</sup> JANUARY 2011**

**Item 7**

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**SUBJECT: DRAFT REVENUE BUDGET 2011/2012**

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

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**1. INTRODUCTION**

1.1 This report outlines the financial position facing the Authority for 2011/2012 and 2012/2013, in light of the recent Provisional Revenue Support Grant Settlement for 2011/2012, 2012/2013 and related matters.

**2. BACKGROUND**

2.1 In order to maintain the requisite service levels in 2010/2011, the Authority had a budgetary requirement of £59.36m. The impact of this was to require a Band D Council Tax precept to be set of £73.16.

2.2 In recent years, the Authority has set comparatively low increases in its Council Tax precept, with increases in 2008/2009 of 2.4%, an increase of 1.24% in 2009/2010 and an increase of 0.91% in 2010/2011. These represent the lowest increases nationally for any Fire Authority over the last 3 years. In order to minimise the burden on the council tax payer, a number of efficiency savings have already been realised. Principal amongst these are the implementation of the Public Private Partnership Scheme, and the identification of efficiency savings through the Integrated Risk Management Plan to both fund additional community fire safety initiatives and fund the financial implications of the national pay agreement.

2.3 The Authority has a comparatively high level of expenditure per head of population compared to other Fire and Rescue Authorities. However, this needs to be considered in the context of levels of deprivation, the socio economic position of the area as a whole and specific areas within the sub – region, with the Audit Commission commenting previously that service costs were “consistent with incident levels and demographic factors”. Whilst the Authority can justify these levels, the underlying objective in light of the Spending Review 2010 (SR10), will be to reduce expenditure significantly.

### **3. DRAFT REVENUE BUDGET 2011/2012**

#### **Provisional Local Government Finance Settlement 2011/2012**

- 3.1 As reported elsewhere on the agenda, a detailed report on the Provisional Revenue Support Grant Settlement for 2011/2012 and 2012/2012 is presented to the Authority and the main points are noted below, for information.
- 3.2 On 13th December 2010, the Parliamentary Under Secretary of State for Local Government issued the provisional report for the 2011/2012 and 2012/2013 Revenue Support Grant Settlement.
- 3.3 The announcement provides provisional funding allocations for the next two financial years only. A second two year settlement is expected to follow, for which the Government intends to adopt a new distributional system.
- 3.4 The overall funding for the Fire Service nationally has 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, this Authority's grant allocation for 2011/2012 has reduced by £3.379m or 9.5% and by £1.094m or 3.4% in 2012/2013 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 percentage grant reductions represent the largest reductions of any Fire and Rescue Authority.

The Authority is facing further significant grant reductions in 2013/2014 and 2014/2015, equating to a core reduction of at least 18.5% (making up the overall 25% decrease set out in SR10). However, depending upon the new formula grant distribution mechanism this reduction could be greater.

- 3.5 On 15th December 2008, CLG announced its proposals for distributing Fire Capital Grant, totalling £78 million nationally. The Authority received a capital grant allocation of £745,323 in 2009/2010 and £959,579 in 2010/2011. With the proviso that the capital grant can only be used for capital expenditure, the grant is not ringfenced. It is not yet known if any Capital Grant will be received in future years but Members will be notified when further information becomes available. Section 7 of this report provides further analysis of the Capital Programme for 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 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 November report on the MTFS to the Authority.

The above items are all explained further in this report.

#### **Efficiency Targets for Delegated Budgets**

4.2 As identified in the MTFS 2011/2012 to 2014/2015, reported to Authority on 22nd November 2010, 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 to address key strategic priorities, in terms of developing and improving the service as informed by the Strategic Plan, this review has identified efficiency savings on delegated budgets 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 2011/2012 has been increased to £956,730 reflecting inflationary adjustments.

## **Integrated Risk Management Plan**

- 4.4 Members will be aware that the Integrated Risk Management Plan for the period April 2011 to March 2015 was approved at the Authority meeting held on 22<sup>nd</sup> November 2010. It was considered appropriate to bring the IRMP in line with the Medium Term Financial Strategy to cover the whole of the spending review period.
- 4.5 The IRMP 2011/2012 includes a series of reviews which, if implemented, could generate efficiencies and the potential impact of these reviews has been built into the Medium Term Financial Strategy. These efficiencies will need to be substantial to address the significant funding reductions announced in the Provisional Revenue Support Grant Settlement, 2011/12 and 2012/13.

## **Firefighter Pensions**

### **Ill Health Early Retirements**

- 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. Investment in health awareness and intervention measures through the Occupational Health Unit has brought about a reduction in the number of ill health early retirements, with no such retirements occurring in 2008/2009, 2009/2010 and in 2010/2011 to date. Prudent assumptions have been included in the updated MTFS for ill health retirements.

## **Known Service Pressures**

- 4.7 A number of spending pressures were identified within the MTFS 2011/2012 to 2014/2015, as reported to Authority on 22<sup>nd</sup> November 2010, including:
- Pay – taking into account the current economic position, prudent provision for salary costs has been made within the MTFS for all employee groups, which will be subject to the outcome of national pay agreements. SR10 assumes a two year pay freeze for 2011/12 and 2012/13;
  - General price increases – provision has been provided for general price inflation at 2% within the MTFS at this stage;
  - Energy prices – whilst some of the significant volatility in the energy and fuel markets over recent years has receded, prudent provision for energy and fuel increases has been included in the MTFS;

- 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. Recommendations arising from the Triennial Review undertaken at 31<sup>st</sup> March 2010 are awaited from the Actuary and Pensions Authority. As discussed at Authority meetings previously, consideration will be given to the option of making a lump-sum contribution to the Pension Fund at some point in the future to reduce the annual revenue payments;
- Fire Control – the Fire Minister has called a halt to the project as the requirements cannot be delivered to an acceptable timeframe. Although the project was fully funded by CLG, there may be additional pressures due to seconded staff returning to their substantive posts in the Authority (please see also paragraph 4.11);
- Firelink – detailed information is beginning to emerge in relation to this project and it appears, at this stage, that the position will be cost neutral to the Authority (please see also paragraph 4.12 and 4.13).

### **Interest on Investments**

- 4.8 Given the significant, sustained, reduction in the Bank Base Rate, the budget will be kept under review until the final budget proposals are made to the Authority in February 2011.

### **National and Regional Initiatives**

#### Regional Control Centre (Fire Control)

- 4.9 On 20<sup>th</sup> December 2010 the Fire Minister called a halt to the Regional Control Centre (RCC) project as the project requirements cannot be delivered to an acceptable timeframe.
- 4.10 CLG have stated they will consult with the fire and rescue community on the future of control room services in England. This will be based on the principles of localism and will feedback on the best use of FiReControl assets.
- 4.11 At this stage the known implications for Tyne and Wear FRA are that permanent staff who were seconded and funded by the RCC project will return to their substantive posts within the Authority. As yet the impact of this has not been quantified but will be reported to Members as soon as this information becomes available and the MTFS will be revised accordingly.

## Firelink Project

- 4.12 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, although this has not been quantified at this stage, as the final stage of the project is yet to be completed.
- 4.13 Ongoing discussions are being carried out at a local level to identify the most appropriate method for apportioning shared regional costs, and the position will continue to be monitored to ensure that there is no adverse impact for this Authority.

## New Dimensions Assets

- 4.14 An announcement is expected towards the end of January 2011 whether grant will be received to support the New Dimensions capabilities and to support the Assurance function.

## Regional Collaborative PFI Scheme - NEFRA

- 4.15 Members will be aware that this project is now complete and the new Tynemouth Community Fire Station opened in June 2010. The Medium Term Financial Strategy has been adjusted accordingly, taking account of this Authority's share of the costs, as well as efficiencies previously identified and captured in relation to the new facility and the supporting staffing arrangements.

## Human Resources

- 4.16 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 operational staffing profile.

## Review of Operational Staffing Profile

- 4.17 In setting the 2010/2011 Revenue Budget, the Chief Fire Officer has continued to undertake a full review of the Authority's operational staffing profile and associated salary structure. Included within this review were 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%). The impact of this review is reflected in the Medium Term Financial Strategy, and will be incorporated into the Revenue Budget for 2011/2012, as this is finalised.

## **5. Tyne and Wear Emergency Planning Unit (TWEPU)**

- 5.1 In 2005, the Tyne and Wear local authorities agreed that each authority would allocate 60% of its government grant allocation for civil protection work to the Tyne and Wear Emergency Planning Unit (TWEPU). The budget for 2011/2012 has been prepared on the basis of a 10% reduction from the 2010/2011 position equating to a budget of £462,490, followed by a standstill position for 2012/2013 to 2014/2015.
- 5.2 When agreeing the revised TWEPU staffing structure in September 2008, the Chief Emergency Planning Officer introduced a degree of flexibility into the budget through a number of fixed term posts, and it is intended that this flexibility will be utilised in delivering the required efficiency savings.

## **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 Strategy;
  - the uncertainty regarding price and pay inflation, including specifically energy prices, and the impact of potential changes in Bank Base Rates;
  - uncertainty regarding the future funding for national and regional projects;
  - the risk analysis included in the MTFS reported to the Authority in November 2010.
- 6.3 The Revenue Budget 2010/2011 Third Review, reported elsewhere on this agenda, reports that uncommitted general balances were estimated to be approximately £3.07 million by 31st March 2011. This report also highlighted a number of specific service pressures, and work is underway to identify the potential impact that these might have on the level of uncommitted general balances. These pressures include:

- Firelink –the latest position, as outlined at paragraph 4.12 and 4.13, suggests that there will be no additional cost to this Authority, the position will be kept under review;
- LGPS – as referred to at paragraph 4.17, consideration is being given to making a contribution to the Pension Fund at some point in the future in order to reduce the annual revenue payments;
- Estates Development Strategy – Members were presented with a report in December 2009 outlining progress in relation to identifying sites for the relocation of Fulwell and Rainton Bridge Fire Stations. Funding is held in the Development Reserve towards meeting the cost of the Estates Development Strategy, although additional funds may be required, as individual schemes are developed, and the costs become more certain.

6.4 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 2011. 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, 2011.

6.5 The asset management requirements of the Authority will also be reviewed, together with the capital needs over the medium term.

## **7. Capital Programme 2011/2012**

7.1 Members will be aware that Government support for capital expenditure has previously been 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.



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

### **Capital Financing – Debt Charges, Capital Grant and Revenue Contribution to Capital Outlay**

- 7.4 The Revenue Budget for 2010/2011 includes a Revenue Contribution to Capital Outlay (RCCO), 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 external borrowing, and the MTFS takes account of this funding approach.
- 7.5 In 2009/2010 and 2010/2011, the Authority received Fire Capital Grant of £0.745 million and £0.960 million, respectively. Consideration will be given to how best to utilise this grant as part of the preparation of the Capital Programme 2011/2012. It is not yet known if any Capital Grant will be received in future years but Members will be notified when further information becomes available.
- 7.6 The Capital Programme for 2011/2012 is still under consideration, and will be reported to Members in February 2011. Given the financial pressures facing the Authority over at least the medium term, 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 objectives of setting a sustainable budget.
- 7.7 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are presented to Members in February 2011, 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);
  - Leasing;
  - Use of Fire Capital Grant (as referred to at paragraph 3.5).

### **Revenue Implications Arising from the Capital Programme**

- 7.8 The Estates Development Strategy outlines a number of proposals for future development of the Authority's estate portfolio, and was updated in December 2009 in a report to Members outlining latest developments in respect of potential land purchases for 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. 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.

## **8. Efficiency Savings**

8.1 Paragraph 3.3 refers to the Provisional Revenue Support Grant Settlement for 2011/2012 representing a decrease of 9.5% for 2011/2012 and a decrease of 3.4% for 2012/2013. This reflects a tightening of the national funding position, with the expectation of a far tighter position beyond that due to the back loading of Formula Grant reductions, announced in SR10. Clearly, this brings a significant pressure on the Authority's medium-term financial position.

8.2 An Integrated Risk Management Plan was approved by the Authority on 22<sup>nd</sup> November 2010 covering the period April 2010 to March 2015. A number of proposed actions were approved to carry out the following:

- Review of Management Structure;
- Review of Protection and Technical Activities;
- Review of Staffing Profiles;
- Review of Aerial Ladder Platform Provision and Crewing;
- Review of mobilising.

8.3 It was agreed that the IRMP Action Plan 2011-15 would also include implementation of the four IRMP actions carried out in 2010/2011:

- Review of Prevention and Education (community safety) activity;
- Review of the Retained Appliance at Station 13 (Gateshead East) Community Fire Station
- Review of the potential for a low activity staffing model at some less busy stations;
- Review of Back Office functions (2 year programme completing 2011/12)

Individual reports were brought to the Authority on the findings of those reviews.

## **9. Detailed Budget 2011/2012**

- 9.1 The detailed Revenue Budget for 2011/2012 will be reported to a meeting of the Authority on 21st February 2011. Presently, the draft budget is approximately £56.53 million.

## **10. Guideline Council Tax Increase**

- 10.1 The Government has retained capping and reserve powers but plans to introduce powers for residents to veto 'excessive' council tax increases through a local referendum which is included in its proposed Localism Bill.
- 10.2 The government has also emphasised that it will use capping powers if necessary and it is to issue its capping principles as part of the final Revenue Support Grant Settlement for next year.
- 10.3 The settlement also confirms that the government is to provide £650m nationally to fund the implementation of a Council Tax freeze in 2011/2012 (equivalent to a council tax increase of 2.5%). This funding will be provided over the next 4 years to compensate councils for not increasing their council tax in 2011/12 but there is no funding for further Council Tax freezes beyond 2011/2012.
- 10.4 Indications are that any increase above 2.5% would be deemed 'excessive' as the minister said in his announcement "I will publish details of the figures that will be used to compare authorities budgets between years, should capping be necessary. The previous government had planned to cap police authorities of Greater Manchester and Nottinghamshire after they set excessive increases in 2010/2011. Subject to challenge, we will ensure that, should they decide not to freeze the council tax, neither can impose an increase of over 2.5% in 2011/2012"
- 10.5 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 2011.

These outstanding issues are as follows:

- final preparation of the budget requirement for 2011/12 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 a number of national and regional projects;
- the Authority's decision to accept or reject a Council Tax freeze for 2011/2012.

## **11. RECOMMENDATIONS**

11.1 The Authority is requested to:

- a) Note the contents of the report and the draft Revenue Budget position for 2011/2012 and 2012/2013;
- b) Note the draft revised MTFs attached at Appendix A;
- c) Note that the provisional budget proposals will be reported to a meeting of the Authority on 24th January 2011.