

Tyne and Wear Fire and Rescue Authority

Review of arrangements for securing value for money

June 2015



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01 Executive Summary

Background

Section 5 of the Audit Commission Act 1998 gives us a statutory duty to confirm that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources. The Code of Audit Practice 2010 requires us to adopt a risk-based approach to this work, focusing on criteria set annually by the Audit Commission. The Audit Commission issued guidance in October 2014 that defined sector specific risk areas for 2014/15. The criteria for fire authorities are:

- proper arrangements in place for securing financial resilience; and
- proper arrangements for challenging how they secure economy, efficiency and effectiveness.

Approach

We meet regularly with the Assistant Chief Officer (Strategy and Performance) and with the Finance Officer to keep our risk awareness up to date. We discuss the challenges the Authority faces in delivering and maintaining services with significantly reduced funding and the progress of plans to meet these challenges.

We used the Audit Commission's guidance to carry out a risk assessment and we also reviewed the Audit Commission's VFM Profile and Financial Ratios Tool to benchmark Tyne and Wear against other fire authorities. The data in the VFM profile is based on 2013/14 revenue outturn forms. Comparative data referred to from the Financial Ratios Tool is from 2012/13.

In setting the 2015/16 Budget the Section 151 Officer (the Authority's Finance Officer) undertook a risk analysis of the Authority's budget estimates and reserves and we have taken this into account in conducting our assessment. We have also considered the Authority's 2013/14 Performance Report and 2014/15 performance reporting.

In carrying out our initial risk assessment of your arrangements we have used a red / amber / green (RAG) rating with the following definitions.

Adequate arrangements identified. Indicators compare favourably with other authorities.



Arrangements are mostly adequate but there are some risks or weaknesses, with remedial action in place. Indicators compare unfavourably with other authorities, but can be explained.



Arrangements are generally inadequate or have a high risk of not succeeding. Indicators compare unfavourably with other authorities, without adequate explanations.



Conclusion

The Authority has a strong track record of delivering savings and keeping within budget. The Authority identified a budget shortfall of £6.1m over the three years 2014/15 to 2016/17, and has in place a clear Integrated Risk Management Plan to address this. This includes the rollout of a fundamental review of operational response over the three years 2014-17; the introduction of a Trading Company; the implementation of reviews of Control, Cleaning and Catering; and the commencement of a Management review, a full organisational review and the development of greater collaboration with partner organisations. Some of the Authority's reserves have been allocated to support the implementation of these changes, and 2014/15 budget reporting explains that the allocated reserves are not required for the 2014/15 position.

We have recorded a significant risk in respect of the Value for Money Conclusion in our Audit Strategy Memorandum, namely that the Authority faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Authority's financial resilience and service performance could deteriorate. A programme of work is in place to address our risk before we give our 2014/15 Value for Money Conclusion in September 2015. This work involves reviewing:

- budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on service delivery; and
- plans that are developed to deliver savings. In particular, we will review the implementation of changes arising from the review of the Response Model.

We applied the RAG rating to the five categories of characteristics of proper arrangements as set out in the Audit Commission guidance and six financial indicators and the results are summarised below:

Characteristics of proper arrangements:

These assessments are based on our evaluation of the arrangements put in place by the Authority.

- Financial Governance
- Financial Planning
- Financial Control
- Prioritising Resources
- Improving efficiency and productivity

Key financial indicators:

These assessments draw on data comparisons and represent a selection of possible financial indicators. . As with any data comparison, there can be anomalies due to the comparability or otherwise of the data, and there can be differences between the characteristics of an Authority that are not accounted for in the data comparison.

- Working Capital Ratio
- Long-term Borrowing to Long-term Assets
- Long-term borrowing to tax revenue
- Useable reserves to gross revenue expenditure

- Net spend per 1,000 population
- Spend on supplies and services as a proportion of total spend

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02 Background and context

National Context

The Government's 2010 Spending Review, covering the period from 1 April 2011 to 31 March 2015, has led to significant cuts in public spending.

Such reductions in the level of central government funding mean that services may no longer be affordable, or may have to be delivered in different ways. The coalition government made reducing the budget deficit its most urgent priority. The Spending Review framework 2010 also clearly set out the expectation that resources will be prioritised within tighter budgets to achieve more targeted services at lower cost.

Subsequent spending reviews, financial settlements and budget declarations indicate that austerity is likely to continue for several years. If re-elected, the Government intends to remove revenue support grant entirely by 2020/21 and all of the main parties are committed to further cuts in public spending.

Fire and rescue authorities continue to have to meet their statutory responsibilities within significantly reduced budgets. Increases in the demand for services linked to significant demographic changes, such as the ageing population and rising birth rate, are also contributing to financial pressures for public sector bodies. To meet these significant challenges, authorities must improve their efficiency and productivity, reduce their costs, and have sustainable financial plans to ensure they are financially resilient.

All public bodies have to make difficult decisions about priorities, and find more efficient and innovative ways of delivering their responsibilities. Organisations which have proper arrangements for challenging how they secure economy, efficiency and effectiveness are also more likely to be financially resilient and fit for the future.

We have found that authorities have generally responded well to this challenge and made adequate arrangements to ensure financial resilience, economy, efficiency and effectiveness. However, authorities are making tough budget decisions and finding it increasingly difficult to protect front-line services.

Local context

Tyne and Wear Fire and Rescue Authority has experienced a £10m reduction in central government revenue spending power between 2011 and 2015, which represents 19% of the 2014/15 revenue budget. The Authority has faced a disproportionately greater reduction in central funding compared to most other Fire Authorities and the more deprived areas, mainly the Metropolitan Fire Authorities, continue to see the highest level of overall cuts to their funding.

During this time, the Authority has consistently delivered its service within budget. However, as part of the budget setting process for 2014/15, the Authority set aside a total of £6.1m of reserves to fill the identified budget gap over the three years 2014/15 to 2016/17. This was a temporary shortfall until Integrated Risk Management Plan (IRMP) actions were fully implemented. The latest 2014/15 budget report showed that the in-year £2m planned use of reserves was no longer required, arising from lower employee related costs linked to the continuing impact of changes arising from IRMP actions.

The 2015/16 budget includes a precept increase of 1.99% to reduce the funding gap and the resultant cost pressures faced by the Authority.

Based on Quarter 3 2014/15 performance data, the Authority is maintaining its overall trajectory of improvement and is set to meet the majority of the targets set for the current financial year.

Further, difficult decisions lie ahead. Whilst Tyne and Wear is not alone in facing significant challenges maintaining services in the face of further funding cuts, the scale of the challenge is immense. The rest of this report assesses the risks associated with this challenge in respect of:

- financial resilience; and
- economy, efficiency and effectiveness.

This report does not consider further the issue of fire injury pensions, which is subject to discussion with the Department for Communities and Local Government (DCLG). Members have been apprised of the potential financial impact of this issue but the position has not yet been clarified with Government, and so is excluded from this report.

03 Financial resilience




Characteristics of proper arrangements

The financial resilience criteria are:




- financial governance;
- financial planning; and
- financial control.

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Authority's arrangements:



Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
Financial Governance		
The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position	The financial management challenges are clearly articulated in the February 2015 Budget Report. The leadership team has taken action to resolve the budget gap identified.	●
The chief financial officer is a key member of the leadership team (in accordance with the CIPFA Statement), being actively involved in all business decisions, and promoting and delivering good financial management. If the organisation's arrangements do not comply with the CIPFA Statement, this is disclosed in the AGS with an explanation of how the arrangements deliver the same impact.	The Fire Authority has a lead authority arrangement with Sunderland City Council. The Council's s151 officer (the Council's Director of Finance) is the Finance Officer of the Fire Authority. The s151 Officer is not on the Fire leadership team, but arrangements are in place so that there are good communications with the Brigade leadership team.	●
The leadership team fosters an environment where there is good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position. The leadership team considers the financial skills required for different tiers of management and staff throughout the organisation and actively develops financial literacy and skills.	The leadership team does promote good financial management. This is demonstrated through results, with recent significant budget reductions being delivered effectively. The Brigade's own financial arrangements are supplemented and complemented effectively by the lead authority support of Sunderland City Council.	●

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The leadership team provides constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit-for-purpose. Members scrutinise and challenge financial performance effectively, holding officers to account.</p>	<p>The Brigade leadership team, led by the Chief Fire Officer, has shown a good understanding of the current financial position. The Fire Authority has already delivered significant cuts in recent years. There is a recognition that further funding cuts lie ahead and the leadership team is planning accordingly.</p>	
<p>The organisation has an objective, knowledgeable and effective audit committee. It provides effective challenge across the organisation and assurance on the arrangements for risk management, maintaining effective internal control, and reporting on financial and other performance</p>	<p>The Governance Committee fulfils the role of the Audit Committee. We attend all meetings and our view is that it does provide effective challenge.</p> <p>It benefits from two independent members, including a very experienced and effective Chair.</p> <p>It also benefits from a thorough and effective Internal Audit service, provided by Sunderland City Council.</p>	
<p>Financial Planning</p>		
<p>Medium-term financial planning and annual budgeting reflects the organisation's strategic objectives and priorities for the year, and over the longer term. The organisation has reviewed and updated its longer-term strategy and MTFS in light of the current economic climate. This review includes, for example: the impact of changes in priorities, inflation, funding, changing demand for some services; the implications of self-financing the HRA and greater local control over business rates; the impact of the local council tax support scheme on council's tax collection rates; and the impact of other legislative and policy changes.</p>	<p>The Authority is managing its financial position well in the difficult economic climate and despite cuts in Government Funding. Budget setting is robust and close monitoring ensures delivery of revenue and capital budgets. The Authority is financially resilient.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges to ensure it achieves VFM value for money.</p>	<p>This is not currently a significant issue for a Fire Authority, with most income coming from Government grant and Council Tax precept.</p> <p>However, the Authority is establishing a trading company with the aim of generating additional income.</p>	
<p>Financial and corporate planning processes are integrated, link to risk management arrangements, and incorporate strategic planning for other resources including the capital programme and workforce planning. The organisation's treasury management arrangements ensure it has sufficient cash to meet its needs - achieving a balance between security, liquidity and yield.</p>	<p>Financial and corporate planning processes are very closely aligned. This has been particularly evident in the current difficult economic environment. The Authority also benefits from the input of the lead authority arrangement with Sunderland City Council.</p> <p>Risk management arrangements are robust and workforce planning has dealt with significant reductions in the overall workforce over the last 10 years.</p> <p>Cash management and treasury management arrangements are led by Sunderland City Council. The Council has strong and effective arrangements for treasury management and the Authority benefits from this.</p>	
<p>The organisation uses financial modelling to assess likely impacts on financial plans and required savings for different scenarios, and to help ensure short-term fixes are not achieved at the expense of long-term sustainability.</p>	<p>The Authority clearly takes a longer term view in its financial planning.</p> <p>The Authority has a robust MTFS that is helping it to manage the difficult economic climate and the cuts in Government funding.</p> <p>The Authority has focused on delivering savings that reduce the overall budget requirement and deliver year-on-year savings. The Authority is prepared to invest to save when this is appropriate.</p> <p>As the future financial settlements are uncertain, financial modelling is a key element of the MTFS.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation models key expenditure drivers (for example population changes and demand for services), sources of income (for example income and government grant forecasts), revenue consequences of capital and resource requirements and balances. The organisation uses different planning assumptions (for example sensitivity analysis and scenario planning using realistic best, worst and most likely cases) and considers the impact on financial plans.</p>	<p>The budget report comprehensively sets out the factors and assumptions impacting on the budget, including service pressures. A risk analysis and mitigating factors are clearly set out, which provide assurance that the budget is prudent and achievable.</p>	
<p>The organisation operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces. If the organisation is not at its target level for balances, there is planned action in place to achieve this, taking account of any associated risks to the council's financial position and delivery of its priorities.</p>	<p>The Finance Officer annually assesses the level of reserves and prepares a statement on their adequacy for the Authority. The General Fund balance is in line with a level considered reasonable. Earmarked reserves are also assessed by the Finance Officer and are considered appropriate to meet the Authority's financial risks.</p>	
<p>The organisation gives due regard to its ability to deliver its statutory responsibilities when considering its short-, medium- and long-term financial plans.</p>	<p>The Authority views its statutory responsibilities as being at the heart of what it does. This is not compromised in its financial planning.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
Financial Control		
<p>Financial monitoring and forecasting is fit-for-purpose and accruals based, helping to ensure a clear link between the budget, in-year forecasts and year-end position. The organisation analyses and extrapolates relevant trends and considers their impact on the projected final out-turn. Forecasts are subject to risk and sensitivity analysis and management takes timely action to address any budget pressures, for example by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.</p>	<p>The Authority is managing its financial position well in the difficult economic climate, and despite cuts in Government Funding. Budget setting is robust and close monitoring ensures delivery of revenue and capital budgets. The Authority is financially resilient.</p> <p>The Authority monitors its revenue and capital budgets closely during the year. Corrective action is taken when necessary.</p>	●
<p>The organisation has a good recent record of operating within its budget with no significant overspends.</p>	<p>The Authority has a strong track record of delivering its services within the budget. There have been no significant overspends in recent years.</p>	●
<p>The organisation's cash flow management arrangements ensure it has access to the required amount of cash at the right time, while achieving VFM value for money. These include actively managing investments and cashflows, banking arrangements, money market and capital market transactions, and the effective management of risks associated with these activities.</p>	<p>Treasury and cash flow management are delivered by Sunderland City Council, the lead authority. Treasury management at the Council is robust, and reported benchmarking shows a good return relative to others, with risks well managed.</p>	●
<p>The organisation keeps under consideration the security, liquidity and yield of investments in line with the CIPFA The Chartered Institute of Public Finance and Accountancy Code on Treasury Management. In particular organisations consider current market conditions to manage actively counterparty and interest rate risks in line with their approved Treasury Management strategy.</p>	<p>The Treasury Management Strategy is reported annually to Members. The Strategy is in line with the CIPFA Treasury Management Code and provides the basis for prudent and effective management.</p>	●

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation sets and monitors challenging targets for the collection of material categories of income and arrears based on age profile of debt. Where targets are not being met, the organisation takes appropriate corrective action during the year to achieve the targets.</p>	<p>This is not currently a significant issue for the Fire Authority, with most income coming from Government grant and Council Tax.</p> <p>However, the Authority is establishing a trading company with the aim of generating additional income.</p>	
<p>The organisation monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.</p>	<p>Management are aware of benchmarking data such as that in the local government Value for Money profiles. Comparative performance is monitored to highlight potential efficiencies.</p>	

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Financial indicators

The charts below show the Authority's key financial ratios over the last five financial years.

Working Capital Ratio

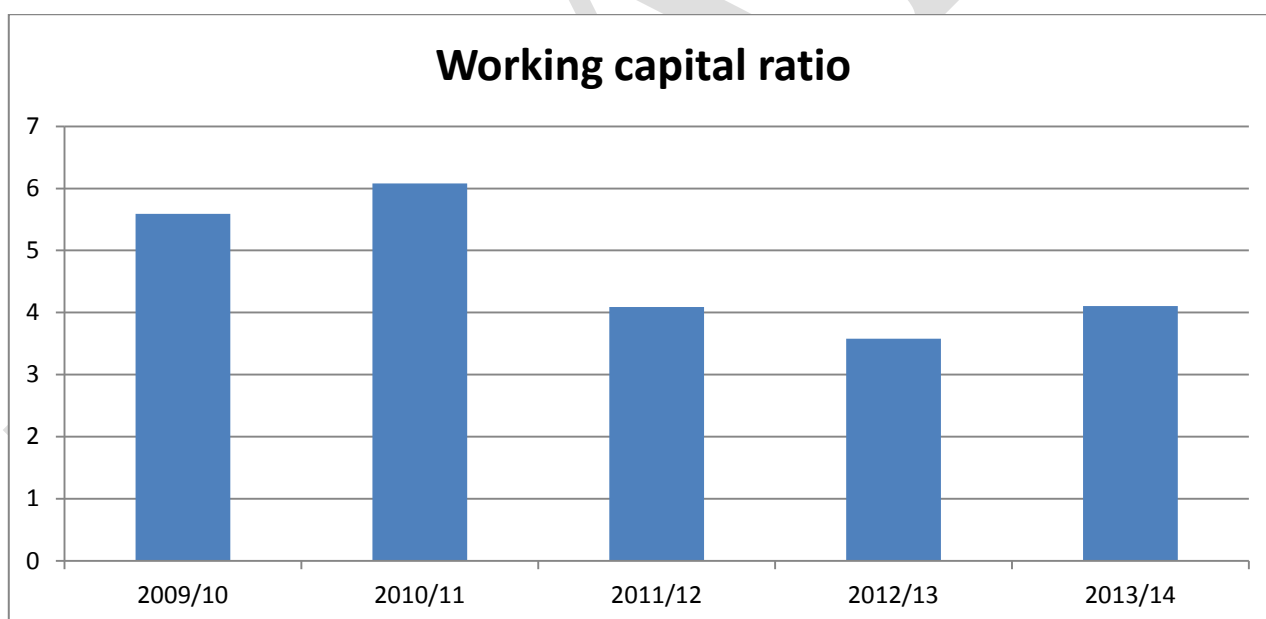
RAG rating ●

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities – i.e. those liabilities to be met over the next twelve month period. A ratio of less than one – i.e. current liabilities exceed current assets – indicates potential liquidity problems. It should be noted that a very high working capital ratio isn't always good. It could indicate that an authority is not effectively investing its excess cash.

Findings

The Authority's 2013/14 working capital ratio is 4.1, which supports financial resilience. This is due to the Authority holding £27.5m of cash as short-term investments, which reflects mainly earmarked reserves held for specific purposes. 2012/13 comparative data shows the average ratio for fire authorities at 3.4 compared to Tyne and Wear's 3.6 for the same period.



Ratio of long term borrowing to long term assets

RAG rating ●

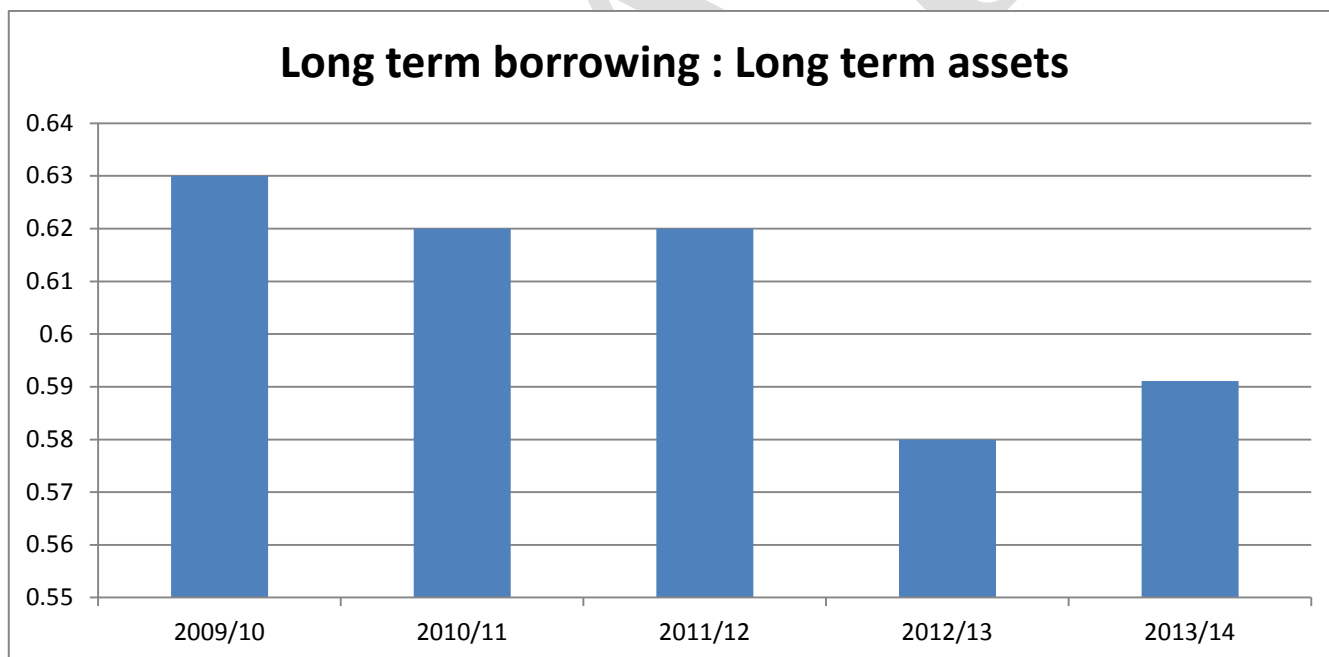
Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Authority's 2013/14 long term borrowing to long term assets ratio is 0.59. Of the £36,974k long term borrowing figure used in the calculation, £22,630 (61%) relates to PFI schemes, which not all fire authorities have. The ratio is comfortably below one, meaning that the Authority could have enough long term assets to cover its long term liabilities. 2012/13 comparative data shows an average ratio for fire authorities at 0.35 compared to Tyne and Wear's 0.58 for the same period.

PFI schemes have enabled the Authority to rationalise assets and reduce costs over a number of years. The scheme does have legacy implications in terms of the current budget, and this has been recognised by Government in supporting authorities to seek to drive out efficiencies from existing PFI arrangements. We are aware that the Authority is carrying out such work, although the options available to the Authority are limited.



Ratio of long term borrowing to tax revenue

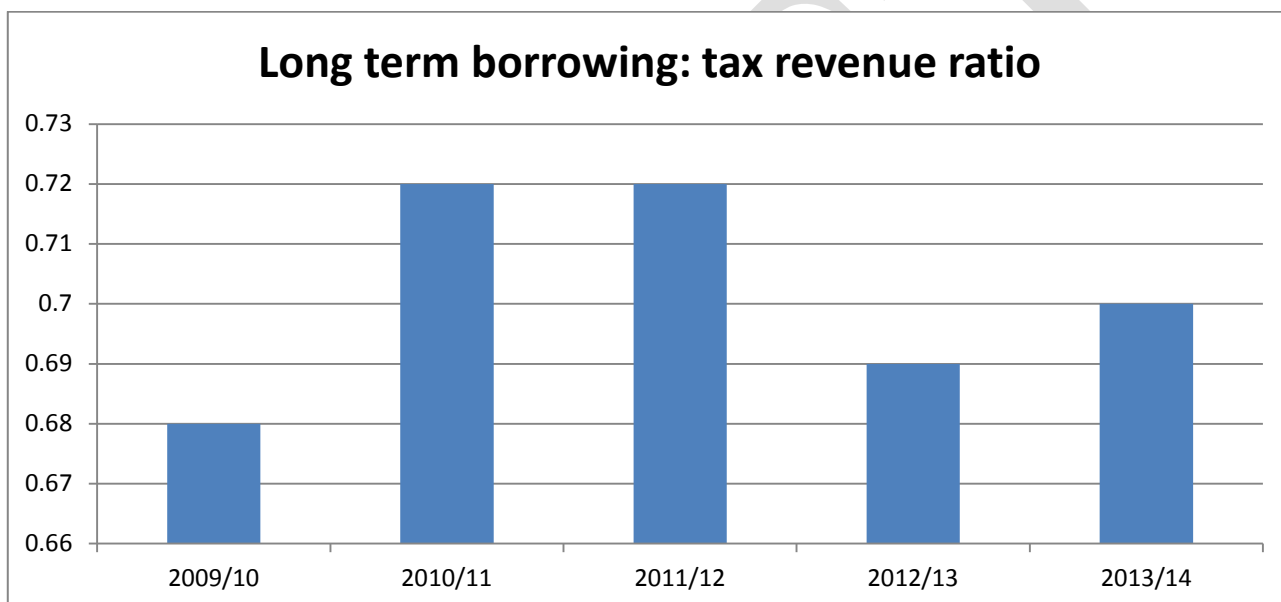
RAG rating ●

Definition

This ratio shows long term borrowing as a share of tax revenue (that is non-ring fenced government grants, Council Tax income and Non-Domestic Rate income). A ratio of more than one means that long term borrowing exceeds tax revenue.

Findings

The Authority's 2013/14 ratio is 0.7. 2012/13 comparative data shows an average ratio for fire authorities of 0.41 compared to Tyne and Wear's 2012/13 figure of 0.69. The calculations of long-term borrowing include a significant sum for PFI schemes, which not all authorities have.



Ratio of useable reserves to gross revenue expenditure

RAG rating ●

Definition

This ratio shows useable capital and revenue reserves as a share of expenditure. A ratio of more than one means that useable reserves are higher than the gross revenue expenditure for the year.

Authorities need to consider whether the level of their reserves is adequate to meet potential future expenditure variations. Those with high levels of reserves should consider why their levels are so high and if that level of reserves is still required.

Findings

The Authority's ratio for 2013/14 is 0.76. 2012/13 comparative data shows the average ratio for fire authorities at 0.33 compared to Tyne and Wear's 2012/13 ratio of 0.81. This indicator demonstrates the Authority's high level of financial resilience.



Net spend on fire and rescue services per 1,000 population

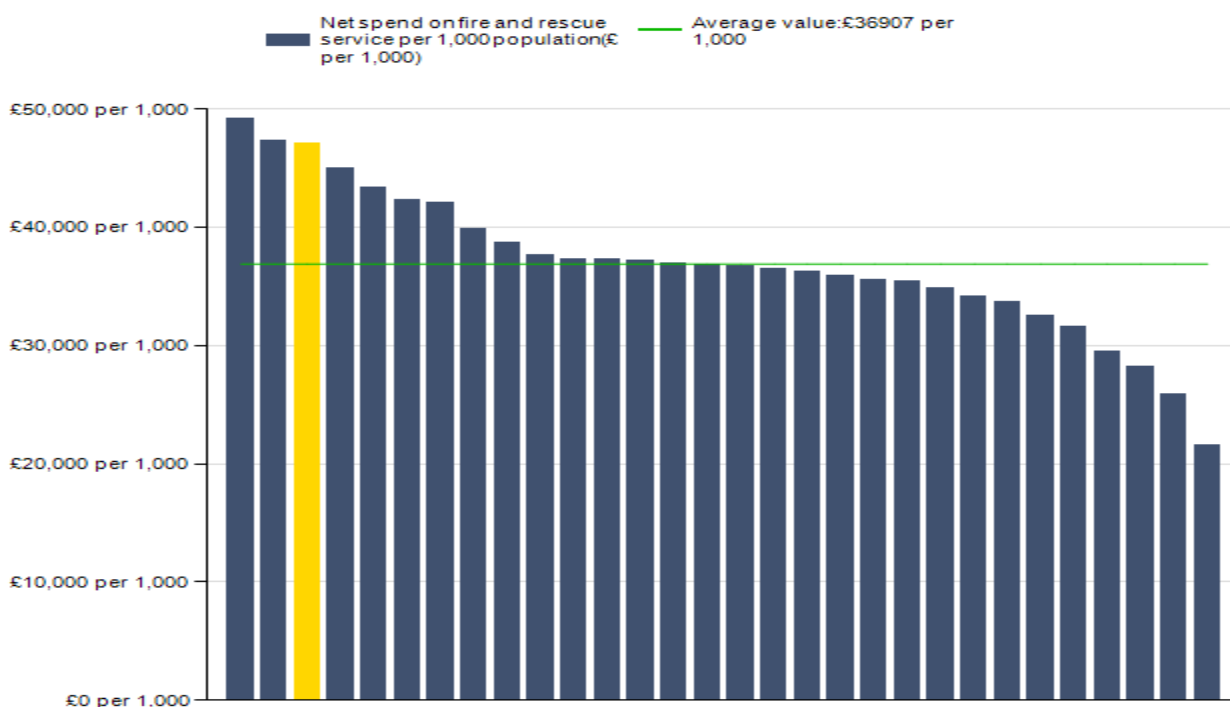
RAG rating ●

Definition

The net spend per 1,000 head of population is primarily a value for money indicator, but it does need to be considered carefully against other measures of cost and performance, such as those considered by the Authority and referred to on page 28 of this report. It is also important to view this measure in context. There is a correlation between cost per 1,000 population, community risk and deprivation. The data includes authorities of all types and characteristics including those that are much less deprived than Tyne & Wear and that do not face the same levels of risk as a metropolitan area. Tyne and Wear is a relatively highly deprived area and is also a smaller authority compared to the other metropolitan authorities. This position disadvantages Tyne and Wear on this comparative measure.

Findings

Despite making significant savings in recent years with the Authority experiencing above average funding cuts, the Authority's net spend per 1,000 population is 27.7% above average (25.7% above the metropolitan authority average).

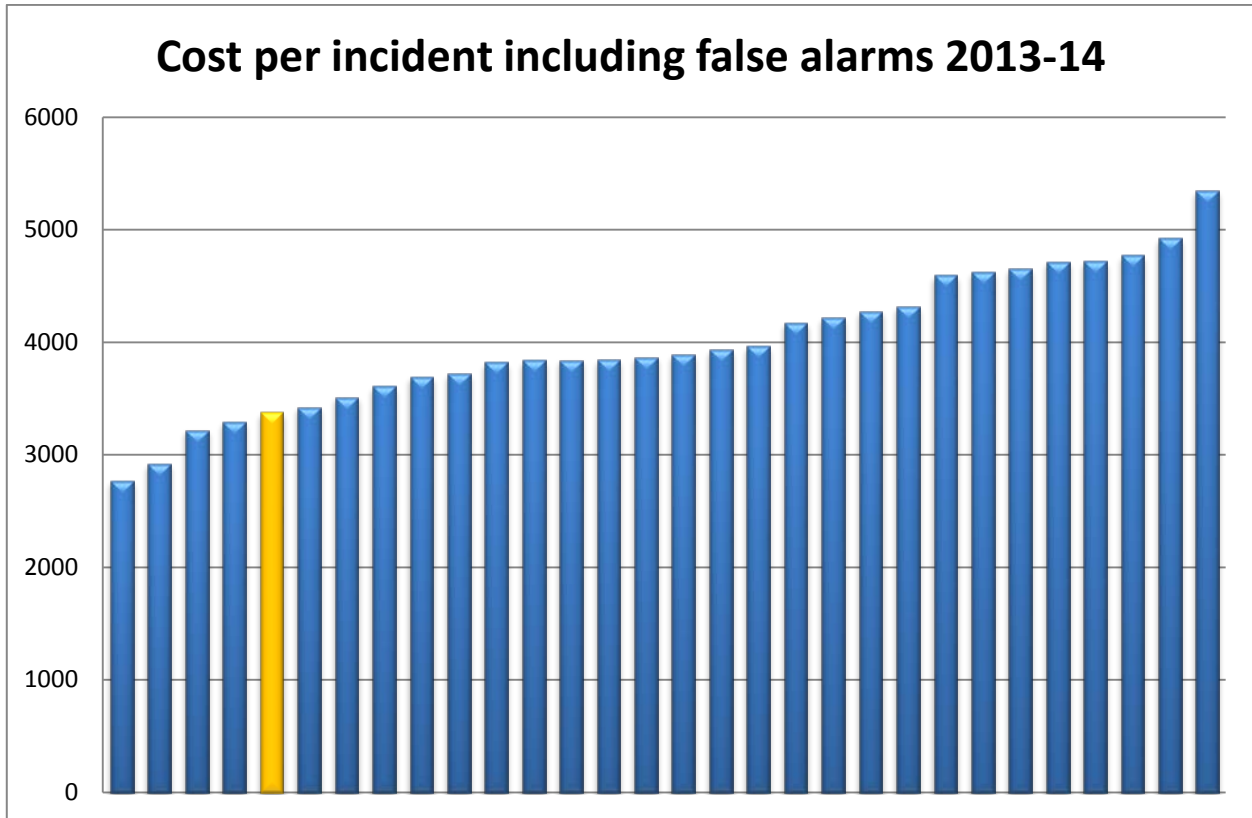


Taking into account the risk and deprivation factors outlined above, and following discussion with officers, the view that we have reached is that the Authority has taken, and continues to take reasonable actions to balance expenditure and risk, and that this measure needs to be considered in the following context:

- when considering the Authority's position against the average of all fire authorities, its position is disadvantaged because of its nature as the smallest metropolitan area and the risks it faces in terms of deprivation; and,

- when considering the Authority’s position against the average for all metropolitan authorities, the Authority is disadvantaged by diseconomies of scale as it is the smallest metropolitan area in terms of geography and population by some distance.

Despite being one of the best performers nationally in reducing fires, Tyne and Wear still has a relatively high number of fires and other incidents within its densely populated geographical area. If costs are considered per incident, the Authority compares favourably with other parts of the country in terms of value for money.



Moreover, we know that officers make active use of VFM profiles, including a whole range of cost and performance data, when understanding and challenging their relative performance with other authorities. We also note that the Authority has now reviewed all of its areas of activity to extract any cost savings that can be identified, that its approach to this is robust and comprehensive, that it has delivered real savings and results from this process, and that it plans to continue to do so as the budget pressures increase.

Another factor impacting on this indicator is the Authority’s income from sales, fees and charges. The Authority’s income from these areas has reduced from 3.5% of total spend in 2010/11 to 0.5% in 2013/14. The Authority has taken action to improve this by the setting up of a trading company.

Spend on supplies and services as a proportion of total spend

RAG rating ●

Definition

This is the spending on supplies and services as a percentage of the Authority's total spending. Supplies and services include operational and equipment costs, catering, the maintenance of hydrants, laundry, boot repairs, printing, stationery, advertising, subsistence allowances and other establishment costs. All employee costs are excluded. These costs support front-line services and are a source of potential savings that may not impact on service users.

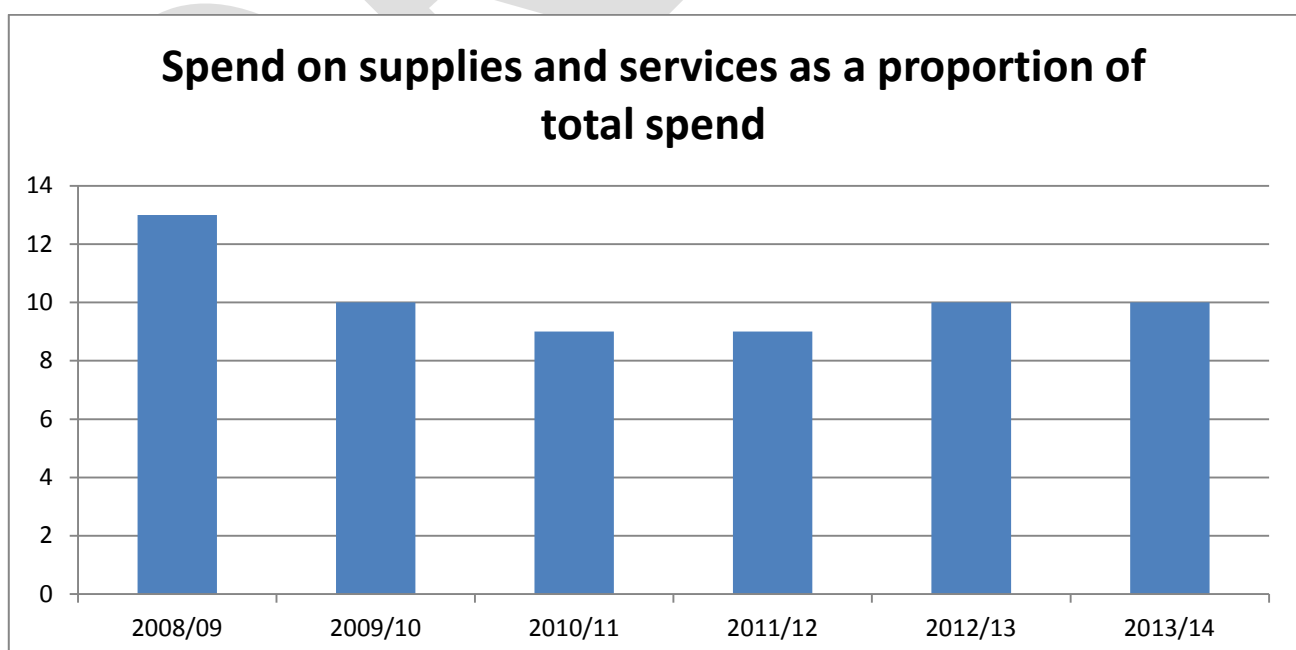
Findings

The Authority's supplies and services costs have reduced from 13% in 2008/09 to 10% in 2013/14, although a figure of 9% was achieved in the two years 2010/11 and 2011/12. This compares to a 2013/14 average for all fire authorities of 9%.

When comparing to metropolitan authorities, the position is different. Performance outturns range from the highest of 11% (London) to the lowest of 2% (West Midlands), and an average of 7%; whereas Tyne and Wear's outturn is 10%.

The Authority's comparative position appears relatively high, and this is because supplies and services costs include PFI costs, which not all comparative authorities will have. Almost 60% of supplies and services costs in Tyne and Wear relate to PFI, which we believe provides an adequate explanation of the Authority's position on this comparative measure.

In terms of non staffing revenue spend, we note that in 2014/15 the Authority reviewed all of its areas of activity to extract any cost savings that can be identified, that its approach to this is robust and comprehensive, that it has delivered real savings and results from this process, and that it plans to continue to do so as the budget pressures increase.



Section 151 Officer's Assessment

The Local Government Act 2003 requires the Authority's Section 151 Officer (the Finance Officer) to report annually on the:

- robustness of estimates used in setting the budget; and
- adequacy of reserves.

This self-assessment informs our assessment of financial resilience.

The Finance Officer reported to the Authority on 16 February 2015 that the 2015/16 budget position had improved recently due to:

- implementing planned IRMP actions;
- making further budget efficiency savings; and
- both Council Tax income and business rate share income seeing increases above those projected by the government in their Revenue Spending Power estimates.

The net budget requirement for 2015/2016 was established at £49.8m following the decision to increase Council Tax by 1.99%.

The budget process included a base budget review of all delegated budgets, with the intention of identifying efficiency savings and ensuring that resources are aligned with key strategic priorities.

All actions arising from the 2010-2013 Integrated Risk Management Plan (IRMP) have been completed, with savings of £0.5m delivered in 2014/15 and reflected in the base budget for 2015/16.

Progress against the IRMP 2013-2016 continued during 2014/15. Phase one of the Response Review is complete, delivering a £1.0m saving in 2014/15 with a further £0.3m in 2015/16. Full implementation of the Response Model Review is anticipated to ultimately deliver £5.1m savings in total.

Further IRMP 2013-2016 reviews are still to be implemented by the Authority which will help to address the continuing reductions in government funding. However, additional IRMP actions may need to be developed if government funding reductions continue at the same, or at an increased, pace.

The Section 151 Officer's report to the Authority on 16 February 2015 clearly highlights that the projected budgets in future years are based on a series of assumptions and that there is a large degree of uncertainty regarding a number of factors, including:

- the level of government funding / grant support beyond 2015/16;
- any changes to specific grants, e.g. transfer to general grant funding or cessation;
- the level of pay awards;
- the level of inflation;
- the impact of the national economy;
- the impact of national projects;
- the level of the Council Tax Base in each district which will continue to be affected by the current economic position and the localisation of council tax benefit arrangements introduced from 2013/14;
- the level of Council Tax Collection Fund deficits that create a budget pressure to the Fire Authority;

- the impact of the business rates retention scheme and the level of business rates income receivable from each district, and
- the level of Business Rates Collection Fund deficits that create a budget pressure to the Fire Authority.

The Finance Officer's report sets out the Authority's financial risk analysis relating to the budget setting process.

The estimated balance of the General Fund is expected to remain at its current level of £3.9m to 31 March 2016. This is considered reasonable in light of the Authority's financial risk analysis. The value equates to 7.8% of the 2015/16 revenue budget.

It is estimated that £25.0m earmarked reserves will be available at 31 March 2016. Significant balances within this relate to:

- £1.1m insurance reserve;
- £5.4m development reserve;
- £6.8m PFI smoothing reserve;
- £2.0m contingency planning reserve; and
- £7.4m organisational change reserve.

The Finance Officer concluded that the Revenue Budget 'is considered robust and the level of reserves is considered to be sufficient for 2015/16 after an assessment of the financial risks faced by the Authority has been taken into account'.

04 Securing Economy, Efficiency and Effectiveness




Characteristics of proper arrangements




The economy, efficiency and effectiveness criteria are:



- prioritising resources; and
- improving efficiency and productivity.

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Authority's arrangements:


Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
Prioritising Resources		
<p>The organisation has in place strong leadership and the capacity to deliver the scale of the spending reductions required of it. It is reviewing its strategic priorities and the cost-effectiveness of its activities. It is adopting a strategic approach to identifying cost reductions and challenging spending and investment decisions. It is taking a rational view of its priorities and of the short- medium- and longer-term opportunities for savings.</p>	<p>The leadership team does have a good grasp of key issues and is taking the action needed to secure the financial position. All service areas have been subject to efficiency reviews.</p> <p>In 2014/15 the Authority began the implementation of the response review, concluded its review of diversionary activities, secured funding to facilitate colocation opportunities with Northumbria Police, and has made progress in setting up a trading company with the aim of generating additional income.</p>	<p style="text-align: center;">●</p>

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>Where appropriate, there is input from or consultation with a wide range of local people. This includes those who use or are likely to use services provided by the authority, and those appearing to the authority to have an interest in any area within which the authority carries out functions. These people include front-line staff, local residents, the voluntary and community sector and representatives from small business to identify local priorities for spending.</p>	<p>Changes are delivered through Integrated Risk Management Plans, which are subject to consultation.</p> <p>The key decision on the operational response model was subject to a process designed in accordance with Government guidance notes on the conduct of consultation by public bodies.</p> <p>Further representations from stakeholders were factors in the decision to close fire stations being reversed. The impacts of this are being carefully managed, and the financial impact has been taken into account in current budget projections.</p>	
<p>There is a willingness to challenge the existing approach to managing the organisation and delivering its services, including consideration of whether delivery of these services is best through in-house, outsourced or shared service arrangements.</p>	<p>The recent significant funding reduction has driven the Authority to review all aspects of its service delivery.</p> <p>The recent review of the Authority's catering provision included all potential options available.</p>	
<p>The organisation bases decisions on cost reductions and prioritising resources on robust information on needs and on the costs it incurs in delivering its services and activities, including back-office functions, and the drivers that influence or change these costs. Options appraisal and scenario analysis or similar techniques, are used effectively to evaluate proposals for, and the impact of, spending reductions, setting out risks, external factors and whole-life costs or benefits. The organisation is able to justify any areas of spending which are higher than at comparable bodies.</p>	<p>The Authority takes a structured approach to cost reductions and prioritising resources, looking at options and delivering change on a business case approach.</p> <p>Our review of minutes continues to provide assurance that due consideration is given to all options in Authority reviews.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation uses cost and performance information to assess the impact of spending decisions and monitor the delivery of savings plans, for example to ensure spending cuts are not having a damaging impact on service quality and performance in priority areas.</p>	<p>Performance is good overall and the Authority is still driving improvement despite the spending cuts.</p> <p>The Authority does proactively monitor itself against the performance of others, although this is increasingly difficult as comparative data becomes more scarce.</p>	
<p>The resources at the disposal of relevant partnerships are clearly understood, and the organisation considers the impact of proposed cost reductions in one area on other internal services and departments, and on external bodies. The organisation is actively managing the potential impact of resource changes and reductions on its ability to continue to operate effectively, for example where there are losses of key staff.</p>	<p>The Authority works well in partnership with others.</p> <p>Collaborative arrangements for service delivery remain in place, including PFI schemes, shared service arrangements with Sunderland Council (client), Northumberland FRS (provider) and North East Ambulance Service.</p> <p>Other partnerships are about improving the overall provision of public services and intelligence sharing with local authorities and the police.</p> <p>Funding has recently been obtained to help secure colocation opportunities with Northumbria Police.</p>	
<p>A good track record exists of identifying and challenging areas of high spending, and of effective action to deliver cost reductions. There are proven arrangements in place to monitor the implementation and impact of action to reduce spending.</p>	<p>The Authority takes a structured approach to cost reductions and prioritising resources, looking at options and delivering change on a business case approach. The Authority has a proven track record of implementing IRMP actions to deliver savings and efficiencies.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
Improving efficiency and productivity		
<p>The organisation has access to good quality and timely comparative information on costs and performance, which it uses to evaluate options and plans for efficiency savings. The organisation has a record of producing and using robust information and data on unit, transaction and whole-life costs.</p>	<p>The Authority does proactively monitor itself against the performance of others, although this is increasingly difficult as comparative data becomes more scarce.</p> <p>Our review of VFM Profile data shows that the Authority compares well in terms of overall value for money.</p> <p>Recent budget reductions been delivered effectively.</p> <p>The Authority has taken a medium / long term view, and has a track record in delivering efficiencies.</p>	
<p>Costs and productivity of key services are consistent with or better than other organisations providing similar levels and standards of services, allowing for relevant local factors and priorities. The organisation makes use of comparative and benchmarking information to increase self-awareness and improve efficiency and productivity. It is working with partners, other service providers and external sources of support to improve its processes, costs and outcomes. There is evidence of improved productivity in recent years, for example through a gradual reduction in unit costs and increased service levels.</p>	<p>Significant savings have been realised in recent years, with almost £10m reduction in government funding in the years 2011-15. Performance in tackling community risk and reducing incidents continues to be strong.</p> <p>Our review of VFM Profile data shows that the Authority compares well in terms of overall value for money, and makes regular use of comparative data; the Authority does not compare well against other authorities for indicators based on cost per head of population.</p>	

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation considers alternative and innovative approaches to delivering services to achieve efficiencies while keeping services at a level that will satisfy local people. It also considers the potential to manage the demand for services, and is seeking and evaluating new ways of delivering services and of improving efficiency, for example:</p> <ul style="list-style-type: none"> use of business process re-engineering techniques, to improve processes and structures; use of shared services; increased use of collaborative procurement; rationalisation of asset use; or working in partnership with bodies in other sectors, including the voluntary sector. 	<p>The Authority has carried out efficiency reviews of all areas of its business. Through its IRMP, savings have been consistently identified and realised and the Authority has demonstrated a wide variety of approaches in delivering outcomes.</p> <p>In 2013/14 the Authority carried out a full review of operational cover and more recently has identified efficiencies in the catering function and its participation in diversionary activities.</p> <p>The Authority has also looked at ways to improve income generation and is in the process of establishing a trading company with this aim.</p>	●
<p>The organisation has a robust approach to evaluating options for making efficiencies, including considering the short-, medium- and long-term impact, and is ensuring input from front-line staff. There are strong monitoring arrangements to ensure planned efficiencies are achieved, and to understand the impact on services and on performance.</p>	<p>Over the last 4 years the Authority has delivered £10m of savings in its base budgets.</p> <p>IRMP actions are robustly monitored to ensure the delivery of potential identified savings.</p> <p>Performance is good overall and the Authority is still driving improvement despite the spending cuts.</p>	●

Typical characteristics of proper arrangements	The arrangements for Tyne and Wear Fire and Rescue Authority	RAG rating
<p>The organisation is setting itself challenging targets, and is working with others to achieve its priorities. Achievement of priorities is monitored and the risk and impact on the organisation's financial position of non-achievement is actively managed.</p>	<p>The financial pressures reflected in budget cuts set their own very challenging targets for the Authority. Nevertheless, the Authority has consistently delivered within its budget.</p> <p>Financial and non-financial performance is reported regularly to the Authority.</p> <p>The Authority has recognised the budget gap from 2014-17 until IRMP actions are fully implemented and initially set aside £6.1m of reserves.</p> <p>The Authority has obtained grant funding to further enable co-location opportunities with Northumbria Police.</p>	<p style="text-align: center;"></p>

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Performance Indicators

The 2013/14 Performance Outturn report was presented to the Policy and Performance Committee on 7 July 2014. The report included the following:

- an executive summary;
- performance against the 2013/14 community outcome key performance indicators, with:
 - the previous four years' performance;
 - the 2013/14 target; and
 - other metropolitan fire authorities' data (between two and five years);
- an appendix with all 2013/14 local performance indicator outturns showing:
 - the previous five years' data;
 - the 2013/14 target;
 - whether performance had improved from 2012/13; and
 - the percentage difference between actual performance and the 2013/14 target; and
 - a red/ amber/ green rating depending on performance against the target; and
- an analysis of deliberate secondary fires – the indicator that had deteriorated the most in 2013/14.

Overall, the performance indicators show noticeable improvement in recent years, which is impressive given the significant cuts in funding.

Of the 18 indicators where 2013/14 performance was reported, 11 showed an improvement from 2012/13 performance with 7 deteriorating. Also, 9 were assessed as green (target met) and 9 as red (target missed by more than 2.5%).

The biggest deterioration in 2013/14 performance data was a 33% increase in deliberate secondary fires, which also accounts for a significant deterioration in two of the other performance indicators (number of deliberate fires and all fire calls attended). The report contains a comprehensive analysis of the number of deliberate secondary fires by month and by district and also a comparison with other metropolitan fire services. It is noted that 2012/13 showed a significant improvement in the indicator, which was deemed to be due to higher than average rainfall in Spring and Summer 2012. Despite the 2013/14 increase, performance is still better than in 2011/12. We also note that the 2014/15 Quarter 3 performance report shows that deliberate secondary fires are forecast to return to the 2012/13 level.

The 2013/14 performance report highlighted that data on Human Resources indicators and mobilising data was not available. We note that this has also been the case for 2014/15 Quarter 2 and Quarter 3 reports to the Policy and Performance Committee. There appears to be scope to improve performance reporting for these areas.