

MEETING: 23rd JANUARY 2012

SUBJECT: DRAFT REVENUE BUDGET 2012/2013

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

1. PURPOSE OF THE REPORT

- 1.1 To present to Members the draft Revenue Budget for 2012/2013, along with the revised Medium Term Financial Strategy (MTFS) following recent information on the Provisional Local Government Finance Settlement.

2. DESCRIPTION OF DECISION

- 2.1 The Authority is requested to:
- a) Note the contents of the report and the draft Revenue Budget position for 2012/2013;
 - b) Note the revised MTFS attached at Appendix 1A;
 - c) Note that the final Revenue Budget and Precept will be presented to the Authority at its meeting in February.

**3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT
2012/2013**

- 3.1 The Revenue Budget for 2012/2013 has been set taking full account of the detail in the Provisional Local Government Finance Settlement. This could change in the final settlement but is not expected to.
- 3.2 A base budget review of all delegated budgets has been undertaken with the intention of ensuring resources are directed at key strategic priorities in terms of developing and improving the service, as set out in the Integrated Risk Management Plan (IRMP). The review has also identified efficiency savings on delegated budgets which have been built into the MTFS and the 2012/2013 budget position.

4 MEDIUM TERM FINANCIAL STRATEGY 2011/2012 to 2014/2015

- 4.1 An updated MTFS is set out at Appendix 1A. This has been prepared taking account of all updated supporting Strategies and

Plans and sets out the strategic financial position and financial direction of the Authority over the next two years.

4.2 The following have been considered in developing the strategy:

- The national economic context and the Local Government Finance Settlement;
- The local income position – budget decisions made in finalising the 2012/2013 Revenue Budget and the position and policies regarding the Authority's Reserves;
- Spending pressures and commitments;
- Spending Priorities

4.3 The projected financial position in 2013/2014 and future years are based on a series of assumptions. The Authority has a range of options to explore in a bid to generate the significant savings required to meet the anticipated funding gap over the next three years.

5. RECOMMENDATIONS

The Fire Authority is requested to:

- Consider the draft Revenue Budget for 2012/2013 and note that the final Revenue Budget will be presented to the meeting in February;
- Note the revised updated MTFS.

DRAFT REVENUE BUDGET 2012/2013

1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2012/2013

- 1.1 A detailed report on the Provisional Local Government Finance Settlement for 2012/2013 was presented to the Authority at the December meeting, the main points of this are noted below.
- 1.2 On 8th December 2011, the Parliamentary Under Secretary of State for Communities and Local Government, Bob Neill MP, provided details of the provisional local government finance settlement for 2012/2013. This set out the proposed allocation of formula grant and other revenue grants for 2012/2013. A second two year settlement (2013/14 to 2014/15) is expected to follow shortly, for which the Government intends to adopt a new distributional system based on the retention of local business rates. The Fire Authority will be included in this.
- 1.3 There were no major changes to the details set out in the Indicative Settlement. The overall funding for the Fire Service nationally is to fall by an average of 0.7% for 2012/2013, this is in keeping with the government's intention to back load most of the 25% funding cuts for the two later years of the Spending Review.
- 1.4 The Government has transferred the separate core revenue ongoing Council Tax Freeze Grant into Formula Grant and has issued its capping criteria for 2012/2013. This has been set at 4% for Fire and Rescue Authorities. Any increase in Council Tax for 2012/2013 in excess of 4% will be subject to a local referendum.

Impact on Tyne and Wear Fire and Rescue Authority

- 1.5 The Authority's 'revenue spending power' will reduce by £1.095m or 1.94% in 2012/2013 to £55.441m compared to the 2011/2012 position of £56.536m. The Authority's formula grant reduction makes up most of this figure, which was to reduce by £1.095m or 3.4% in 2012/2013 from £32.191m to £31.096m on a comparable basis. The position has been blurred with the inclusion of the council tax freeze core grant in the formula grant figures, but, in essence, the total overall grant allocations are as they were set out in the Indicative Settlement.
- 1.6 The 3.4% formula grant loss of £1.095m is after floor damping of £2.763m has been taken into account. Without the floor, the grant reduction would have been greater at £28.332m, a reduction of £3.859m or 12.0%, which

is the largest percentage grant reduction of all of the Fire Authorities in the country.

- 1.7 The comments made by the Chief Fire Officer and Finance Officer on the Provisional Settlement are set out in Appendix 2 (which is to follow).
- 1.8 The Fire Minister announced that in 2012/2013 the capital grant would be distributed according to the formula used for 2011/2012 and there would be no bidding process. For the 2013/2015 period a proportion of the grant will be distributed according to population and Authorities will be invited to bid for the remaining proportion. Section 4 of this report provides further analysis of the Capital Programme for 2012/2013.

2. MEDIUM TERM FINANCIAL STRATEGY

- 2.1 The Medium Term Financial Strategy (MTFS) sets out the strategic financial position and direction of the Authority over the next two years, taking into account strategic objectives, significant government funding reductions, other resources and service pressures. An updated summary of the MTFS is set out at Appendix 1A, this takes account of the following main areas:

- the mainstream fire and rescue budget is prepared on the basis that the Authority continues to provide the currently approved levels of service;
- spending priorities including revenue implications associated with implementation of the Strategic Review of Fire and Rescue Cover and the IRMP, and national and regional initiatives;
- service pressures identified in detail in the November MTFS report.

Efficiency Targets for Delegated Budgets

- 2.2 As identified in the MTFS 2011/2012 to 2014/2015 reported to Authority on 21st November 2011, 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 as informed by the Strategic Plan, this review has identified efficiency savings on delegated budgets which have been built into the MTFS.

Spending Priorities

Integrated Risk Management Plan 2011-2015

- 2.3 The IRMP has been brought in line with the MTFS to cover the extent of the spending period. The Plan includes a series of reviews which, if implemented, will generate significant savings. 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 anticipated budget deficit in future years.

Strategic Review of Fire and Rescue Cover

- 2.4 As previously reported, the Public Private Partnership Scheme is now fully operational and the significant savings envisaged at the inception of the Scheme are being realised. The planned reduction of Fire Fighters by natural wastage enabled an annualised saving of £933,395 in 2010/2011. The saving in 2011/2012 will include inflationary adjustments. Future savings have been built into the base budget.

National and Regional Initiatives

- 2.5 The Medium Term Financial Strategy has been adjusted accordingly for the completed NEFRA project, taking account of the 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.
- 2.6 The Government will continue to meet the capital costs of the new system for the Firelink Project but following installation of the Firelink radio system, it is expected that the ongoing revenue costs will place an additional net overall burden on all Fire and Rescue Authorities. This has not been quantified at this stage, as the final stage of the project is yet to be completed.

Review of Operational Staffing Profile

- 2.7 In setting the 2012/2013 Revenue Budget, the Chief Fire Officer will continued 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 in to the MTFs and will be incorporated into the Revenue Budget for 2012/2013 as this is finalised.

Service Pressures

- 2.8 A number of spending pressures were identified within the MTFs and have been used in the budget planning framework for 2012/2013. These include:
- Pay – following a two year pay freeze, prudent provision for salary costs has been made for all employee groups, which will be subject to the outcome of national pay agreements;

Creating the Safest Community

- General price increases – provision has been provided for general price inflation of 2%;
- Energy prices – prudent provision has been included for continued annual increases of 9% in charges for gas, electricity and vehicle fuel;
- 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 to reflect the latest known position. The Authority will continue to review the position with regard to the option of making a lump-sum contribution to the Pension Fund to reduce the annual revenue payments;
- Ill health pension awards – provision has been made for limited future ill health retirements;
- Interest on Balances - the MTFs has been prepared on the basis that the comparatively low interest rate will continue into the foreseeable future.

3. GENERAL FUND BALANCES, EARMARKED RESERVES AND PROVISIONS

3.1 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.

3.2 Taking account of the level of risk within this Authority, the retention of a minimum level of general fund balances of approximately £3.3 million is considered, at this stage, to be appropriate. This is after taking the following into consideration:

- a significant modernisation programme which brings with it both financial and change management risks;
- 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 the Authority;
- the risk analysis included in the MTFs reported to the Authority in November 2011.

3.3 The Revenue Budget 2011/2012 Third Review, reported elsewhere on this agenda, estimates uncommitted general balances to be approximately £3.336 million by 31st March 2012.

3.4 As in previous years, 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. 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.

4. CAPITAL PROGRAMME

4.1 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.

4.2 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.

4.3 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

4.4 The Revenue Budget for 2012/2013 includes a proposed 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; the MTFS takes account of this funding approach.

4.5 In 2011/2012, the Authority received Fire Capital Grant of £0.960 million. The Spending Review included static position in terms of Fire Capital Grant issued by central government for the whole of the SR period. For the 2013/2015 period a proportion of the grant will be distributed according to population then Fire and Rescue Authorities will be invited to bid for the remainder. There is no indication of the split between allocation and bidding

pot at this moment in time. Bidding criteria is expected to be issued by June 2012.

- 4.6 The Medium Term Financial Strategy 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.
- 4.7 The Capital Programme for 2012/2013 is still under consideration, and will be reported to Members in February. 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 revenue budget position for the Authority and achieving, as far as possible, the agreed objectives of setting a sustainable budget.
- 4.8 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are finalised to ensure that the optimum use is made of the available resources. These options include:
 - Revenue Contribution to Capital Outlay;
 - Use of Fire Capital Grant;
 - Use of General Fund Balances / Reserves (including Development Reserve);
 - External Borrowing;
 - Leasing.

Revenue Implications Arising from the Capital Programme

- 4.9 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 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 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.

5. DETAILED BUDGET 2012/2013

- 5.1 The detailed Revenue Budget for 2012/2013 will be reported to the meeting of the Authority on 20th February 2012. Presently, the draft budget is approximately £56.31 million.

6. GUIDELINE LEVEL OF COUNCIL TAX

- 6.1 The Government has retained capping and reserve powers but has recently introduced additional local powers for residents to veto 'excessive' council tax increases through a local referendum, which will apply for 2012/2013.
- 6.2 The Localism Act provides for the provision of referendums to veto excessive council tax increases i.e. excessive council tax increases can only occur where there is a clear mandate from local people. 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.
- 6.3 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.
- 6.4 Included within SR10, the government has provided £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 four years and has been built in to the MTFs. The Government including this funding into Formula Grant from 2012/2013 may indicate it being consolidated in to future revenue grant settlements.
- 6.5 The Government has also announced they will offer an additional one-off grant of 3% in 2012/2013 if Authorities continue to freeze their council tax. Should the Fire Authority decide to accept this grant, the additional funding will need to be used for one-off expenditure in 2012/2013.

7. OUTSTANDING ISSUES

- 7.1 It must be stressed that the figures presented are indicative only at this stage and there are a number of outstanding issues that will need to be clarified prior to the submission of the final budget proposals to the meeting of the Authority in February 2012.
- 7.2 The outstanding issues are as follows:
 - final preparation of the budget requirement for 2012/2013 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;
 - any surplus/deficit on the collection fund of each of the Billing Authorities;

- the Authority's decision to accept or reject a Council Tax freeze for 2012/2013.