

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 21ST SEPTEMBER 2009

SUBJECT: MEDIUM TERM FINANCIAL STRATEGY 2010/2011 TO 2014/2015

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

1. INTRODUCTION

- 1.1 This report outlines the Medium Term Financial Strategy (MTFS) 2010/2011 to 2014/2015 and seeks approval to the Budget Planning Framework for the preparation of the 2010/2011 Revenue Budget.

2. PURPOSE OF THE MEDIUM TERM FINANCIAL STRATEGY 2010/2011 TO 2014/2015

- 2.1 The two main purposes of the MTFS are:

- to provide an analysis of the financial position likely to face the Authority over the medium term and establish approaches which direct resources to address the Strategic Priorities of the Authority as set out in the Strategic Community Safety Plan 2009 - 2012 and achieve value for money in the use of those resources;
- in light of the medium term financial position which the Authority is likely to face, to establish the Budget Planning Framework for the preparation of the Revenue Budget and Capital Programme for 2010/2011.

- 2.2 Within those overall purposes there are subsidiary objectives:

- to identify in macro terms the level of financial implications facing the Authority;
- to highlight the future financial impact of pay and price increases, policy commitments, demand changes, and proposed service developments which need to be considered for specific inclusion in future years' revenue and capital budgets;
- to identify the indicative resources available to the Authority taking account of Spending Reviews and the outcome of any changes to government grant regimes;

- to advise on policies concerning use and levels of General Fund Balances and Major Reserves over the medium term;
- to maximise the achievement of efficiency gains over the medium term.

3. BACKGROUND

MTFS Preparation

- 3.1 The Authority continues to face a period of considerable change, and in the context of the ongoing national economic position, a robust approach is being taken in establishing, and regularly updating, the medium term financial position facing the Authority. Securing, demonstrating and improving value for money has always been an integral underlying objective of the MTFS, and is so within this Strategy, also, in light of the much tighter medium term financial position facing the Authority.
- 3.2 Meetings have been held with Senior Officers within the Authority to ensure that the impact of all supporting Strategies and Plans have been taken into account in updating the MTFS for 2010/2011 to 2014/2015 and that budget managers understand the need to continue to identify and develop options for delivering efficiency savings. Full account has also been taken of Member deliberations and comment regarding the impact of these Strategies and Plans.
- 3.3 Following these discussions, it is possible to outline the medium term financial position facing the Authority, taking account of the:
- National Context - announcements regarding future funding, settlements, precept expectations and national projects;
 - Local Funding Position:
 - the budget decisions made in finalising the 2009/2010 revenue budget;
 - the revenue outturn for 2008/2009;
 - the position and policies in relation to General Fund Balances and Major Reserves;
 - Spending Commitments;
 - Spending Pressures – including the impact of Modernisation Strategies and Plans.

- 3.4 This report summarises the position in order to provide the context for the Budget Planning Framework for 2010/2011 and beyond. The Strategy will be reviewed and amended as new information comes to light, and will be formally updated in February and September each year.

Scope of MTFS

- 3.5 The MTFS covers:
- mainstream revenue funding;
 - mainstream capital funding;
 - external funding streams used to address the Authority's Strategic Priorities, as set out in the Strategic Community Safety Plan 2009 - 2012, and to recognise the impact which may arise from the cessation or variance of external funding streams.
- 3.6 Whilst the MTFS necessarily concentrates on mainstream funding, opportunities to utilise other funding sources available are considered as part of the medium term financial strategy and the annual budget setting process.

Strategic Context

- 3.7 The Authority operates a robust strategic planning process, whereby all decisions are firmly policy led and focused on the agreed strategic priorities. The strategic planning process is continually being refined to reflect the Government's modernisation agenda and has been streamlined with other key processes within the Authority, such as budget planning, integrated risk management planning, and the Authority's performance management framework generally. Consequently, the Medium Term Financial Strategy 2010/2011 to 2014/2015 has had regard to the following other Plans and Strategies of the Authority as follows:
- Strategic Community Safety Plan 2009 – 2012;
 - Integrated Risk Management Plan 2009 - 2012;
 - Capital Strategy and Asset Management Plan;
 - Estates Development Plan 2007 – 2012;
 - Improvement Plan;
 - Summary Financial Budget (including the approved Revenue Budget and Capital Programme);
 - Workforce Development / Human Resource Strategy;
 - ICT Strategy;
 - Race Equality and Diversity Strategy;
 - Best Value Performance Plan;
 - Performance Targets;

Creating the Safest Community

- Corporate Procurement Strategy.

Strategic Priorities

- 3.8 The Authority's Revenue Budget and Capital Programme are directed at addressing the four corporate goals that comprise the overall framework for service delivery and are listed below:
- to prevent loss of life and injury from fires and other emergencies and promote wellbeing;
 - to respond appropriately to risk;
 - to plan and prepare for exceptional events; and,
 - to deliver a modern, effective Service, delivering value for money with staff who reflect the communities that we serve.

4. NATIONAL CONTEXT

Comprehensive Spending Review 2007

- 4.1 The Comprehensive Spending Review 2007 (CSR07) was the government's first three-year settlement for local government, covering the period 2008/2009 to 2010/2011. This new approach was to provide local government with a predictable and stable environment for the sensible planning of services.
- 4.2 CSR07 saw a tightening of the national funding position in the three years of the review (2008/2009, 2009/2010 and 2010/2011), with this Authority receiving grant increases of 2.40%, 1.26% and 1.10% respectively. In spite of the difficult economic position at a national level, the government has confirmed that the grant increase for 2010/2011 will still be met, although expectations are for a far tighter position beyond that.
- 4.3 There is an expectation from government that Fire and Rescue Authorities will continue to identify and realise efficiency savings over this three-year period, with a target for the fire and rescue service nationally to achieve total efficiency savings of £110m (approximately 1.6% per annum). This equates to an efficiency saving of approximately £0.912m per annum for this Authority.
- 4.4 In relation to the global financial crisis, the prospects are for a prolonged period of economic downturn at a national and global level. In the public sector, there is likely to be a sustained period of reduced public expenditure and settlements which will certainly involve real terms decreases.

- 4.5 Whilst paragraph 4.2 notes that the government has confirmed that the grant settlements already notified for 2010/2011 will remain in place, it is likely that there will be no increase in cash resources beyond 2010/2011 in the short to medium term, and indeed there is a clear prospect for cash decreases.

Local Government Funding Changes

- 4.6 In July 2007, the government published a consultation paper on their proposed changes to the formula grant distribution system covering the period from 2008/2009 to 2010/2011, including a proposal to update the expenditure base used to determine the coefficients applied when calculating each Authority's grant settlement. This would have brought about a movement of resource from Metropolitan FRAs to other Fire Authorities and, in conjunction with the other six Metropolitan FRAs, this Authority led a successful lobbying campaign against this proposal.
- 4.7 Whilst the government did not introduce this proposal, it is in the process of reviewing the formula grant distribution for the fire and rescue service. A working group has been established that includes representatives from all types of FRA, the Local Government Association and Communities and Local Government (CLG) officials, although no conclusions have been made at this time.
- 4.8 At the end of the review period, in 2010, CLG will consult on options before decisions are taken on the final formula to be used in the three-year settlement commencing 2011/2012.

Council Tax Levels

- 4.9 The government has retained 'Capping and Reserve powers', with an expectation that average council tax increases during the CSR07 period will be substantially below 5%, and has stated that local government should be under no illusions that they are prepared to use their capping powers.

5. LOCAL CONTEXT

Revenue Budget 2009/2010

- 5.1 Tyne and Wear Fire and Rescue Authority (TWFA) received formula grant of £34.746m in 2008/2009, and will receive £35.184m in 2009/2010 and £35.570m in 2010/2011. These increases represent 2.40%, 1.26% and 1.10% respectively. The settlements include a contribution from the TWFA to bring other Authorities up to the floor of £0.831m in 2008/2009, £0.530m in 2009/2010 and £0.340m in 2010/2011.

- 5.2 In order to maintain the requisite service levels in 2009/2010, the Authority had a budgetary requirement of £58.714m. The impact of that net expenditure level was to require a Band D Council Tax precept to be set of £72.50.
- 5.3 In recent years, the Authority has set comparatively low increases in its precept, with increases in both 2007/2008 and 2008/2009 of 2.4% and an increase of only 1.24% in 2009/2010. These increases represent the second lowest (2007/2008) and lowest increases (2008/2009 and 2009/2010) nationally. In order to minimise the burden on the council tax payer, a number of efficiency savings have been realised. Principal amongst these are the implementation of the Public Private Partnership Scheme, and the inherent identification of efficiency savings within the Integrated Risk Management Plan to both fund additional community fire safety initiatives and fund the financial implications of the national pay agreement.
- 5.4 The Authority has a comparatively high level of expenditure per head of population compared to other 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 will be to restrict or minimise increases in expenditure and precept levels, where possible.

Revenue Outturn 2008/2009

- 5.5 The outturn position has been reviewed to identify the impact of variations experienced in 2008/2009. Whilst these are not yet fully reflected in the MTFS, further work will be undertaken over the next two to three months, as part of normal budget preparation work, to determine the impact of these variations on the medium term position of the Authority.

General Fund Balances, Earmarked Reserves and Provisions

General Fund Balances

- 5.6 A risk-based approach is adopted to maintaining the Authority’s general fund balances. General fund balances must be considered in the context of the fact that the Authority prudently maintains earmarked reserves and provisions where necessary, which are regularly reviewed to take account of any emerging or changing liabilities. The latest general fund balances position is set out at Appendix A.

Earmarked Reserves

- 5.7 Earmarked reserves are funds that are set aside for specific purposes to meet anticipated costs in future financial years. Such reserves ensure that the Authority can adopt and operate a more flexible approach to financial management and provide resources to meet cost pressures of committed and known future service costs.

Provisions

- 5.8 Provisions are maintained for all material items where a liability in future years is known and certain to be incurred, but where the amount and timing is uncertain.
- 5.9 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 also 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.

6. SPENDING COMMITMENTS

The following spending commitments have been taken into account in the MTFS for 2010/2011 to 2014/2015 and considered in framing the budget planning framework for 2010/2011.

Pay

- 6.1 The pay award for firefighters has been settled for 2009/2010 at 1.25%, effective from 1st July 2009. Prudent provision has been made for 2010/2011, and future years, for pay increases for all employee groups, which will be subject to the outcome of national pay negotiations.

Pensions

Local Government Pension Scheme

- 6.2 The latest actuarial review of the Local Government Pension Fund for the Tyne and Wear area, undertaken as at 31st March 2007, provided for stepped increases in the deficiency contribution as follows:
- 2009/2010 - £23,000;
 - 2010/2011 - £23,000.

- 6.3 Actuarial reviews are carried out every three years, and a prudent approach has been adopted within the MTFs, with provision made for further stepped increases in the deficiency contribution beyond 2010/2011.
- 6.4 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 in order to reduce the annual revenue payments.

Financial Arrangements for Firefighter Pensions

- 6.5 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 at the end of the year, or recover any surplus, as appropriate.
- 6.6 Under these arrangements, authorities retain responsibility for meeting the cost of ill health pension awards, and prudent provision has been made within the MTFs for these awards. This provision takes account of the Authority's investment in its health awareness and intervention measures through the Occupational Health Unit, which has brought about a reduction in the number of ill health early retirements, with no such retirements in 2008/2009.
- 6.7 With the assistance of the Government Actuary's Department, CLG is undertaking a review of the Firefighters' Pension Scheme. This followed concerns that some of their initial assumptions were incorrect and that the increasing longevity of firefighters' would create a strain on the Pension Fund that would need to be met, at least in part, from increased employer contributions. This review is not yet complete, and whilst there does appear to be additional pressure arising from longevity, initial findings suggest that these are offset by the benefits of national reductions in ill health retirements. This position will continue to be kept under review and appropriate adjustments made to the MTFs as necessary.

General Price Rises

- 6.8 The government's target for the Customer Price Index is 2% with a 1% tolerance. The actual rate of inflation as measured through the Consumer Price Index (as at July 2009) was 1.8%. The previously used measure of inflation, the Retail Price Index, stood at -1.4% in July. Comparative figures with the position last year are shown below:

	July 2008	July 2009
Consumer Price Index	4.4%	1.8%
Retail Price Index	5.0%	-1.4%

- 6.9 Provision has been provided for general price inflation at 1% within the MTFS at this stage.

Energy Prices

- 6.10 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.
- 6.11 The Authority is aware of its responsibility in relation to Environmental Sustainability, and is in the process of establishing a Sustainability Steering Group to consider potential schemes to make progress in this area. The replacement Fire Station at Tynemouth is an example of this commitment, with the design and construction meeting the standards required by the Building Research Establishment Environmental Assessment Method (BREEAM).

Other Prices

- 6.12 Prudent provision has been made within the MTFS for known, specific price rises e.g. PFI contractor costs.

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

- 6.13 The Revenue Budget for 2009/2010 includes a Revenue Contribution to Capital Outlay (RCCO) within the budget, 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.

- 6.14 In 2009/2010 and 2010/2011, the Authority will receive Fire Capital Grant of £0.745 million and £0.960 million, respectively. The Medium Term Financial Strategy 2010/2011 to 2014/2015 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.
- 6.15 In setting and revising the Capital Programme, capital financing decisions are taken in light of available capital financing resources. In this regard, the Authority will consider all options for capital financing, in addition to supported borrowing, capital grant and RCCO. The position will be kept under review as the MTFS is reviewed and the budget for 2010/2011 is developed.

Interest on Balances

- 6.16 Given the significant reductions in the base rate, the revenue budget for interest on balances in 2009/2010 was reduced, and is being kept under review throughout the year. At this stage, it appears that there will be a shortfall of income against budget in the current financial year, and this position will be updated when reporting the 2009/2010 Revenue Budget Second Review in November. At that stage, the implications on the Medium Term Financial Strategy will be considered also, although the expectation is for interest rates to begin to increase gradually from 2010 onwards.

7. SPENDING PRESSURES AND EFFICIENCY SAVINGS

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

Improvement Plan

- 7.1 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, therefore, clearly linking to the Authority's strategic planning process. Monitoring of these priorities is frequent and rigorous.
- 7.2 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 be kept under review and provision included where appropriate.

Integrated Risk Management Action Plan 2009 - 2012

- 7.3 Members will be aware that this Authority produces a fully costed Integrated Risk Management Plan (IRMP) reflecting local needs and which sets out plans to effectively tackle existing and potential risks to communities.
- 7.4 The IRMP 2009 – 2012 includes a review of crewing levels on, and location of, Special Emergency Response Vehicles, and the impact has been built into the Medium Term Financial Strategy. In managing the implementation of this review, the Authority is experiencing a turnover level higher than that provided for in the 2009/2010 Revenue Budget, and an update on this position will be presented to Members as part of the 2009/2010 Revenue Budget Second Review in November.
- 7.5 The efficiency savings arising from the IRMP 2009 – 2012 have been built into the MTFS, and are reflected in the MTFS Financial Summary at Appendix E.

Strategic Review of Fire Cover

- 7.6 The Public Private Partnership Scheme is 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 has enabled an annualised saving of £910,629 to be realised in 2009/2010.
- 7.7 The annualised saving for 2010/2011 will be adjusted further to reflect inflationary adjustments.

Review of Operational Staffing Profile

- 7.8 In setting the 2009/2010 Revenue Budget, the Chief Fire Officer undertook 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 profile is currently being reviewed and, at this stage, it appears likely that there will be an underspend arising in this area in 2009/2010.
- 7.9 An update on this position will be presented to Members as part of the 2009/2010 Revenue Budget Second Review. The Medium Term Financial Strategy has been updated to reflect the savings identified at this stage, and this is reflected in the MTFS Financial Summary at Appendix E. The MTFS will be updated further, as necessary.

Efficiency Targets for Delegated Budgets

- 7.10 The Authority has embraced and responded very positively to the requirements presented through the government's national efficiency review. The Authority achieved cumulative cashable efficiency savings of £5.1m (9.94%) for the three years to March 2008, exceeding the government's national target for the fire and rescue service of 5.67%. In 2008/2009, the Authority achieved ongoing efficiency savings of £1.3 million (2.27%), exceeding the Government target of 1.6%. The Authority's target for cumulative ongoing efficiency savings to the end of 2009/2010 is £2.6 million (4.63%), which exceeds the Government target of 3.2%.
- 7.11 Members will also be aware that, in December 2008, the Audit Commission published "Rising to the Challenge – Improving Fire Service Efficiency", a review of the fire service which identified that the service, nationally, could achieve efficiency savings of £200 million a year through adopting "good practice from pioneering fire services".
- 7.12 The Authority is committed to delivering further efficiency savings 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.
- 7.13 As part of the Budget Planning Framework for 2010/2011, budget managers have been requested to identify efficiency savings of 3.5%, and this has been reflected in the MTFS Financial Summary at Appendix E. This issue is also addressed further at please see paragraph 13, below.

National and Regional Initiatives

Regional Management Board

- 7.14 Members are aware of the arrangements underpinning the work of the North East Fire and Rescue Regional Management Board (RMB), and provision has been included within the MTFS for approved initiatives. The following specific initiatives are drawn to Members attention:

Regional Collaborative PFI Scheme - NEFRA

- 7.15 Members will be aware that this project has now progressed to the build phase, and completion is scheduled for 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.

Fire Control - Regional Control Centre

- 7.16 A report is presented elsewhere on today's agenda that provides an update on the introduction of the Regional Control Centre (RCC), the highlight of which is that the proposed 'go-live' date for this Authority to migrate to the RCC has been rescheduled and is currently planned to take place during May 2011.
- 7.17 Members will be aware that the government's preferred option for apportioning the shared costs for running the RCC network is to apportion costs on council tax base, and that this gives rise to a significant potential funding gap for the North East.
- 7.18 The government continues to provide assurance that the costs of the RCC will be fully funded, although, to date, this only relates to a three-year time period. All of the additional costs arising from the extended cutover date will continue to be underwritten by them.
- 7.19 Due to the ongoing uncertainty regarding the funding arrangements for the Fire Control project, the potential impact of this will continue to be reviewed by Officers and reported to Members. The MTFS will be revisited as necessary.

Firelink Project

- 7.20 The government will 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.
- 7.21 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.

Firebuy

- 7.22 The National Procurement Strategy for the Fire and Rescue Service 2009 - 2012 has been updated and now provides greater flexibility for Fire and Rescue Services in their procurement arrangements, whilst still retaining the requirement to deliver value for money. An analysis of this is provided in a separate report elsewhere on today's agenda.

Human Resources

- 7.23 The MTFS takes full account of the wide range of Human Resources developments, 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

- 7.24 An Estates Development Plan 2007 - 2012 was reported to Members in July 2007 that presented a number of proposals for future development of the Authority's estate portfolio. It is proposed to fund this building programme from the Development Reserve on a phased basis. It is likely that there will be revenue implications arising from these developments, 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.
- 7.25 The Capital Programme 2008/2009 included a scheme to develop an Incident Management Training Facility at the Brigade Training Centre, incorporating USAR training facilities. As this facility becomes fully operational, it is anticipated that there will be a net saving on the revenue budget, as there will be a reduced requirement for external training and opportunities for income generation as other FRAs will look to take advantage of the enhanced training facilities.

Spending Priorities

7.26 Factors which the Authority takes into account in determining 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.

7.27 Given the tight settlements confirmed in the CSR07, and the likelihood of even lower settlements into the future, the scope to address Spending Priorities will be severely limited in 2010/2011, indeed there may be no scope.

Efficiency Savings

7.28 Reference has been made in section 7, above, to a number of areas where efficiency savings are forecast to be realised from 2010/2011 onwards. The MTFS Financial Summary, set out at Appendix E, 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.

8. SPECIFIC GRANTS**New Dimensions**

- 8.1 CLG continues to recognise that FRAs need continued funding to support the New Dimensions capabilities and to support the Assurance function. The following grants are planned to continue for the CSR07 period at the levels shown below.

	2009/10	2010/11
	£	£
USAR Crewing grant	795,000	811,000
USAR Local Training Facility	20,000	20,000
USAR PPE Maintenance	18,800	18,800
USAR Timber replenishment	10,000	10,000
USAR Canines	6,600	6,600
Mass Decontamination – training funding	36,414	37,142
Oxygen	555	555

- 8.2 CLG intends that FRAs take full and direct responsibility for the management of the New Dimensions assets that they host, and the Chief Fire Officer has been liaising with CLG to seek appropriate assurances in relation to the certainty of funding for this moving on. The MTFS will be adjusted accordingly as further information becomes available.

Regional Control Room Grant

- 8.3 Grant is received by individual FRAs and then pooled as a regional project resource. A grant allocation of £133,871 has been announced at this stage, although further notifications are issued by CLG on a regular basis, and this position will continue to be reviewed.

9. GENERAL FUND BALANCES AND MAJOR RESERVES**General Fund Balances Policy**

- 9.1 In considering a prudent minimum level of general fund balances, the Authority considers:
- known commitments against general fund 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.

- 9.2 The Authority's position is regularly risk assessed, taking account of all reserves and provisions, in order to inform the minimum level of general fund balances which the Authority should keep to meet other unforeseen eventualities.

The risks analysed over the medium term include reference to:

- inflation;
- debt charges;
- investment interest on balances;
- contingencies;
- risk management arrangements;
- financial planning;
- revenue budget – budgetary control;
- capital programme – budgetary control;
- the realisation of any reductions made to the revenue budget;
- availability of other funds;
- the medium term financial position;
- known spending pressures;
- industrial relations uncertainties;
- funding for nationally led projects such as Regional Control Centres and the FireLink project;
- any future changes to pension funding arrangements.

- 9.3 The Authority will maintain a level of balances that is adequate to meet medium term shortfalls between projected resources available to the Authority and planned levels of expenditure.

- 9.4 The appropriate level of reserves is informed by the Authority's MTFS, which will be updated throughout the year.

Minimum Level of General Fund Balances

- 9.5 Taking account of the level of risk within this Authority, the retention of a minimum level of general fund balances of the order of £3 million is appropriate after taking into consideration the following:

- a significant modernisation programme which brings with it both financial and change management risks;
- uncertainty regarding the future funding for national projects;
- the risk analysis included in the MTFS.

- 9.6 The Authority currently has uncommitted general fund balances of £3.04 million, which is appropriate given the issues referred to above. The position will be kept under review and a formal risk assessment regarding levels of general fund balances and reserves will be undertaken and reported as part of the preparation of next year's Revenue Budget.

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 those arrangements four major partnerships have been identified. The details of the major partnerships are included at Appendix C, including reference to:
- name and purpose;
 - members;
 - objectives and outcomes;
 - governance arrangements;
 - financial performance.
- 10.2 In addition to reporting on financial performance of significant partnerships as part of regular budget monitoring, a report is prepared on all partnerships annually.

11. TYNE AND WEAR EMERGENCY PLANNING UNIT

- 11.1 In 2005, the Tyne and Wear Local Authorities agreed that each authority would allocate 60% of its government allocation for civil protection work to the Tyne and Wear Emergency Planning Unit (TWEPU), providing TWEPU with a full-year budget for both 2005/2006 and 2006/2007 of £535,289. In October 2006, a standstill budget of £535,289 was agreed up to the end of the 2009/2010 financial year, and this position is reflected in the 2009/2010 Revenue Budget reported at Appendix D.
- 11.2 A review of all Joint Service arrangements is currently ongoing, and this will inform the Revenue Budget for TWEPU for 2010/2011. At this stage, the Medium Term Financial Strategy assumes no change in arrangements, however, this position will be reviewed and updated as necessary.

12. MEDIUM TERM FINANCIAL STRATEGY

- 12.1 A financial summary of the Medium Term Financial Strategy is set out at Appendix E. This takes into account the impact of those issues identified above at paragraphs 5, 6, 7 and 8 above.
- 12.2 In accordance with best practice, an analysis of the major financial risks has been undertaken in order to inform the MTFS and the level of balances deemed necessary. This is detailed at Appendix F.
- 12.3 Over the next three months, the MTFS will be shared amongst stakeholders including the Trade Unions and business ratepayers for consideration and comment.

13. BUDGET PLANNING FRAMEWORK 2010/2011

- 13.1 In recognition of the known budget pressures, strategic priorities and level of grant funding, it is proposed that the Chief Fire Officer, Chief Emergency Planning Officer and the Finance Officer take forward the preparation of the Revenue Budget for 2010/2011 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 2009 - 2012;
 - that the scope for maximising efficiency savings be reviewed as follows:
 - through the implementation of modernisation strategies as part of the IRMP;
 - through service reviews;
 - 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 of 3.5% on delegated budgets.
 - building on existing working relationships, preparation of medium to long-term efficiency plans commence, drawing on the IRMP and other potential opportunities to modernise the service in light of the much tighter level of public expenditure settlements in prospect from 2011/2012 onwards.

- 13.2 Clearly, consideration of the budget is at an early stage and there are a number of major uncertainties, including the financial implications which arise from the Regional Control Centre and Firelink projects, which may have a major impact on the budget in future years. The proposed Budget Planning Framework for the preparation of the 2010/2011 Revenue Budget is designed to give some flexibility for the Authority in addressing the final financial position which emerges.

14. RECOMMENDATIONS

- 14.1 The Authority is requested to:
- a) Approve the Budget Planning Framework for the preparation of the 2010/2011 Revenue Budget, and;
 - b) Note the Medium Term Financial Strategy for 2010/2011 to 2014/2015 and that it will be updated to reflect the reviews outlined in this report.

Appendix A**Statement of General Fund Balances**

	£'000
Balances as at 1st April 2009	3,045
First Review 2009/2010	
- Underspend on Leasing Budget	50
Estimated Balance as at 31st March 2010	3,095

Statement of Earmarked Reserves and Provisions

Title and Purpose of Earmarked Reserve / Provision	Opening Balance (1.4.09)	Estimated Movement in 2009/2010	Estimated Balance (31.3.10)
	£'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.	686	0	686
Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	14,703	0	14,703
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.	47	(3)	44
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.	5,084	165	5,249

PREVENTING PROTECTING RESPONDING

Title and Purpose of Earmarked Reserve / Provision	Opening Balance (1.4.09)	Estimated Movement in 2009/2010	Estimated Balance (31.3.10)
	£'000	£'000	£'000
Contingency Planning Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,250	0	2,250
Budget Carry Forward Reserve Established to fund the slippage of specific items of revenue expenditure.	2,548	(2,548)	0
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.	452	(452)	0
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	250	(250)	0
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 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.	350	0	350
Insurance Provision The provision covers certain insurance risks up to agreed limits.	278	0	278

Partnership Arrangements

NAME OF PARTNERSHIP
Sainsbury's
PARTNERS
Sainsbury's Ltd (Patrick Heaney) Fire Policy Manager 33 Holborn London, EC1N 2HT
PURPOSE
To form links with a nationally recognised company to further partnership opportunities in the field of community safety.
AIMS / OBJECTIVES
<ul style="list-style-type: none">• To gain access to retail forums to promote fire safety issues;• To gain a better understanding of how safety systems work in a large retail company to inform how compliance and enforcement activities can best be undertaken;• To understand and influence the risk assessment methodology in the retail world to improve fire safety issues;• To develop our personnel by exposing them to a largely unfamiliar area, thus enhancing the professionalism of our organisation;• To examine and benchmark ourselves against a large and highly performing company to seek continuous improvement of our organisation.• To develop support for service prevention and education programmes. <p>All of these benefits fit well with our strategic goals and objectives.</p> <p>Key linkages with the Strategic Community Safety Plan 2008 – 2013 are:</p> <p>1.1, 1.2 of the Level 1 plan and organisational Goal 4.</p>
LEAD OFFICER
Group Manager Paul Anderson, SHQ

GOVERNANCE ARRANGEMENTS

Attendance by nominated officers as a partnership team at quarterly joint meetings either in-house or at Sainsbury's premises in another area of the country.

EXPECTED OUTPUTS AND OUTCOMES

No rejection of Sainsbury's Building Regulation submissions due to a fire safety issue.

Improved advice and guidance to other businesses in the sub-region.

METHODS OF MONITORING / EVALUATION

Information is exchanged on a regular basis between partnership representatives. The Partnership is evaluated on a 12 monthly basis in line with TWFRS Partnership Policy.

FINANCIAL PERFORMANCE

The main expense involved is officer time which can be accommodated within the Protection and Technical department resources.

MAJOR RISKS

Risk Assessments and Evaluation of this Partnership are available on the Service Intranet.

The risk of giving incorrect advice to Sainsbury's which is either misinterpreted or leads to conflict with other Fire and Rescue Services who do not agree with the advice, thus showing this Authority in a poor light or being linked with poor practice.

There is a remote risk of litigation if a loss occurred in terms of profit or property which could directly be attributed to be a consequence of advice provided by this Authority. This is very unlikely however because our advice is based on available guidance at the time of the enquiry.

NAME OF PARTNERSHIP
The Princes Trust
PARTNERS
The Princes Trust North East – Regional Office 5 th Floor, Aidans House Sunderland Rd, Gateshead, NE8 3HU
PURPOSE
<p>The principal strategic aim of the Fire and Rescue Authority is to make prevention the primary focus. The Authority places a significant emphasis on the prevention of fires and incidents (including arson and hoax calls) by means of community involvement and improved fire safety education. This enables the Service to tackle related issues such as increasing the employability of disadvantaged young people, reducing vandalism and youth disorder.</p> <p>Preventing deaths and injuries from fires and other emergencies.</p> <p>Key Linkages with the Strategic Community Safety Plan 2008 - 2013 are: 2.1.1 and 2.1.2 of the level 2 plan.</p>
AIMS / OBJECTIVES
<ul style="list-style-type: none">• Reaching out to young people, encouraging them to become educators and advocates for the Fire Service;• Spreading values of citizenship and safety ethics;• Raising awareness of road safety and reducing risk;• Accessing hard to reach target groups;• Helping young people to gain new skills and qualifications and enhancing recruitment opportunities.
LEAD OFFICER
Group Manager Ian Robertson, SHQ
GOVERNANCE ARRANGEMENTS
The Partnership is in regular contact throughout the period of the partnership via meetings, e-mail and telephone conversation.

EXPECTED OUTPUTS AND OUTCOMES

Six courses per year with up to 15 students on each course

METHODS OF MONITORING / EVALUATION

The Prince's Trust and the regional teams hold regular Delivery Managers meetings. The meetings are structured to allow the dissemination of two way information. The students' progress is monitored through personal achievement records on a weekly basis.

Tyne and Wear Fire and Rescue Service are also members of the Fire Service Support Association for the Prince's Trust.

FINANCIAL PERFORMANCE

The cost is neutral to the Authority, with the cost of accommodation and Officer time being met from a direct contribution from each student.

MAJOR RISKS

Risk Assessment which is in place has identified:

- Litigation from accidents or inappropriate behaviour within the team/community;
- The reputation of the organisation (team member actions whilst in TWFRS control);
- Failure to meet the contractual agreement of the partnership;
- Trained staff members unavailable to deliver the programme;
- Injuries to young people by Fire and Rescue Service related activities;
- Injuries to staff from team member (unable to assess the individual fully on the team selection).

NAME OF PARTNERSHIP

The Phoenix Project – Sunderland

PARTNERS

Sunderland Youth Offending Service / Tyne and Wear Fire and Rescue Service.

PURPOSE

In supporting the strategic aims of TWFRS, this partnership assists in delivering the prevention of deaths and injuries from fire and other emergencies.

The partnership also supports the delivery of a range of responsive measures aimed at reducing the incidence of deliberate and unwanted fire calls by supporting Crime and Disorder Reduction Partnership objectives.

By working in partnership the provision of advice and guidance to individuals and organisations will enable the delivery of an environment safe from fire and other emergencies.

Work is being undertaken with partners to explore the potential of introducing Phoenix across the 5 constituent local authorities in Tyne and Wear.

AIMS / OBJECTIVES

The Phoenix Project is a partnership between TWFRS and Sunderland Youth Offending Service that provides an intensive work experience opportunity for young people between 11 - 17 years of age who are known to be offending or are at risk of offending.

The programme is committed to improving the life chances of every young person who attends by using the neutral status of the fire service and positive role model of firefighters within society.

In an effort to establish the TWFRS Vision of 'Creating the Safest Community' one of the main aims is to try and influence the behaviour and attitudes of young people by teaching life skills, increasing confidence and self esteem to enable them to become more responsible in their approach to citizenship and their own role in the community .

Key linkages to the Strategic Community Safety Plan 2008 – 2013 are:
1.1 and 1.2 of the Level 1 plan and 2.1.1 and 2.1.2 of the Level 2 plan.
Phoenix also supports the Safer Sunderland Partnership (CDRP) objectives:

- Tackling crime, disorder and the misuse of drugs.

LEAD OFFICER

Watch Manager B John Ord

GOVERNANCE ARRANGEMENTS

Information is exchanged on a regular basis between partnership representatives. Regular contact in relation to programme nominations for individual attendees, ongoing individual performance and final presentations is made at appropriate levels between all partnership representatives.

EXPECTED OUTPUTS AND OUTCOMES

Over a 12 month period the service level agreement provides 120 places for referrals from the Sunderland YOS. In 2008 135 referrals attended 15 courses with 126 completing the full course. A completion rate of 93%.

The introduction of two follow up courses at 3 months (Respect course) and 9 months (Advanced course) for students who have maintained behaviour levels and not reoffended for those periods have proved to be successful in increasing the numbers of students who desist from offending by creating incentive and motivation.

Evaluation of Phoenix has shown that 48% of students completing the course do not offend up to 12 months following. Evaluation of the Respect course has shown a significant increase in this figure to 85% when students have been given the incentive of follow up courses.

METHODS OF MONITORING / EVALUATION

The partnership is evaluated on a 12 monthly basis in line with the service's partnership policy. Station plans, strategic plans and local fire incidence are also monitored in order to inform the content and structure of the course.

FINANCIAL PERFORMANCE

Support funding for Phoenix is provided via the Sunderland Youth Offending Service of not less than £30,000 per annum and a further salary contribution of £24,000 per annum for a permanent YOS worker attached to Phoenix. Further funding for Respect and Advanced courses is sought on an ad hoc basis from district funding sources.

This is match funded by TWFRS in respect of personnel, facilities and resources. Equipment, which becomes damaged or worn, is replaced and funded from within the existing base budget.

The SLA is to be reviewed in Autumn 2009.

NAME OF PARTNERSHIP Safetyworks!
PARTNERS Northumbria Police – working together to deliver mutual goals to help reduce fires and crime and disorder. Nexus – working together to deliver transport safety. Local Authorities – working together to deliver community safety to help improve the quality of life of those living and working in Tyne and Wear. St Johns Ambulance – working together to deliver accident prevention and basic first aid training.
PURPOSE The principal strategic aim of the Fire and Rescue Authority is to make community safety the primary focus. The Authority places a significant emphasis on educating children and adults to change their behaviour to safeguard themselves and others in their community. Key linkages with the Strategic Community Safety Plan 2008-2013 are: 1.1 and 1.2 of the level 1 plan and 2.1.1 and 2.1.2 of the level 2 plan.
AIMS / OBJECTIVES <ul style="list-style-type: none">• Act as a focal point for community safety and crime prevention education in Tyne and Wear• Improve the quality of life and community safety of those living and working in Tyne and Wear• Provide realistic and interactive scenarios which enable practical learning in a safe, controlled environment• Promote good citizenship by encouraging people to consider the consequences of their actions on themselves and others• Accommodate within the centre the needs of all groups who wish to use it• Encourage the development of wide-ranging community safety education and training for statutory, voluntary and private sectors
LEAD OFFICER Group Manager Ian Robertson, SHQ

GOVERNANCE ARRANGEMENTS

All Partners are in regular contact throughout the period of the partnership via meetings, e-mail and telephone conversation. All partners will be able to comment and influence the strategy of Safetyworks! and both parties strategic objectives.

EXPECTED OUTPUTS AND OUTCOMES

The approximate number of visitors per year will be 10,000. The outcomes from Safetyworks! will contribute towards the overall targets of TWFRS Community Safety targets.

METHODS OF MONITORING / EVALUATION

Project Startups and Evaluations are carried out for all programmes.

FINANCIAL PERFORMANCE

It is the intention for the provision of the centre and its facilities to be cost neutral to the Fire Authority. A substantial financial contribution has been made by Northumbria Police Authority. Other partners have made important contributions in the form of redeveloping their scenarios. A cost of 3.5 posts is funded by the Fire Authority; however, all other posts are funded by partner agencies.

MAJOR RISKS

Risk assessments which are in place have identified:

- Litigation from accidents or inappropriate behaviour within the Centre
- The reputation of the Organisation (team member actions whilst in TWFRS control)
- Failure to meet the contractual agreement of the partnerships:
- Trained staff members/partner agency facilitators unavailable to deliver programmes
- Injuries to visitors
- Injuries to staff

Appendix D**Emergency Planning Unit – Revenue Budget 2009/2010**

	£
Total Expenditure	535,289
Funded by:-	
- Newcastle City Council	141,190
- Sunderland City Council	136,555
- Gateshead Council	92,406
- North Tyneside Council	87,933
- South Tyneside MBC	77,205
	535,289

Medium Term Financial Strategy – Financial Risk Analysis**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;
- Currently, RPI is -1.4% and the Consumer Price Index (CPI) is 1.8%;
- 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 reduce further in overall terms over the course of the coming year 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 in respect of 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 have been developed;
- comprehensive self and external insurance arrangements are in place;
- there is an adequate self insurance fund;
- risk management practices are assessed as part of the CPA / CAA process and have been found to be robust.

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.

Creating the Safest Community

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

Impact of the Economic Downturn

Risk is that the impact of the economic downturn is so severe and so deep as to have a significantly greater impact on the authority's financial position than currently envisaged.

This is unknown at this stage, but very prudent assumptions have been made in respect of the impact, particularly on future public sector expenditure settlements. 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.

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.