

**MEETING: 21st NOVEMBER 2011**

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**SUBJECT: MEDIUM TERM FINANCIAL STRATEGY 2011/2012 TO 2014/2015**

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

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**1. PURPOSE OF THE REPORT**

1.1 The purpose is to consider:

- The draft Medium Term Financial Strategy (MTFS) 2011/2012 to 2014/2015 and the approach to meeting the funding gap as currently forecast.
- The Budget Planning Framework for preparation of the 2012/2013 Revenue Budget.

**2. DRAFT MTFS 2011/2012 to 2014/2015**

2.1 Strategy Document

The draft MTFS 2011/2012 to 2014/2015 is set out in Appendix 1. This provides an analysis of the estimated financial position and the direction of the Authority over the next four years taking in to account government funding, other resources, service pressures and priorities.

It is divided into the following sections:

- Benefits and Principles underpinning the MTFS for 2011/2012 to 2014/2015
- The National Economic Context
- Government Policy and Impact
- Local Government Finance Settlement 2011/2012 and 2012/2013
- Local Income Position
- Spending Pressures and Commitments
- Spending Priorities
- Specific Grants
- Partnerships
- Financial Risk Analysis
- Medium Term Financial Strategy
- Budget Planning Framework 2012/2013

2.2 The key Issues for Budget Planning 2012/2013 and in the Medium Term are that:

- All savings proposals currently identified are considered to be achievable. Should this not be the case, appropriate alternative actions will be considered.
- There remains considerable uncertainty around the projected position in 2013/2014 and beyond as a result of the Local Government Resource Review. As information emerges plans will be refined and the MTFS updated.

2.3 Actions to meet the Funding Gap

The indicative budget forecasts (Appendix D) show that a range of options will need to be considered to deliver a balanced budget in 2012/2013 and also for future years. These options will be driven by a range of initiatives designed to deliver significant savings, as set out in the Integrated Risk Management Plan (IRMP). Additional plans and actions will also be considered alongside this to meet the estimated gap in funding in future years.

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

### **3. BUDGET PLANNING FRAMEWORK FOR 2012/2013 REVENUE BUDGET**

3.1 It is proposed that the Chief Fire Officer and the Finance Officer take forward the preparation of the Revenue Budget for 2012/2013. The Budget Planning Framework is designed to give some flexibility for the Authority in addressing the final financial position which emerges.

### **4. RECOMMENDATIONS**

The Fire Authority is requested to:

- Consider the Medium Term Financial Strategy for 2011/2012 to 2014/2015 at this stage and understand that it will be updated to reflect the reviews outlined in this report (Appendix 1);
- Note the Budget Planning Framework for preparation of the 2012/2013 Revenue Budget (Appendix 1 – Section 13).

**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2011/2012 TO 2014/2015**

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**1. PURPOSE OF THE MEDIUM TERM FINANCIAL STRATEGY 2012/2013 TO 2014/2015**

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

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

**2. BENEFITS AND PRINCIPLES UNDERPINNING THE MTFS FOR 2011/2012 TO 2014/2015**

2.1 The MTFS assists with:

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

2.2 The principles underlying the MTFs 2011/2012 to 2014/2015 are detailed below:

- The overall financial strategy will be to ensure that the Authority's resources are directed to address the Strategic Priorities set out in the Integrated Risk Management Plan (IRMP).
- The Authority's improvement planning process and associated activities will inform the review of the MTFs on an annual basis. The annual review will include an update of the four year budget forecast, expected developments within the Fire Service, and changes to legislation.
- Opportunities for working in collaboration and partnership will be identified and developed where this will support the Authority's priorities and improve service efficiency and delivery.
- The Authority recognises that it will not be able to continue to resource current levels of service without transforming services. It will continue to improve its approach to productivity and ensure that budget savings are identified to minimise the impact on frontline service delivery.
- The Fire Authority spend will be contained within original estimates. If, following monthly revenue monitoring, budgets are projected to exceed original estimates, plans will be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.
- The Authority will maintain its general reserve at an adequate level to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFs without reliance on the use of the general reserve.
- The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFs and will be reviewed annually.
- The Authority will balance the need for council tax increases against the delivery of its priorities, taking into account the economic challenges facing its community.
- The Authority will consider the use of prudential borrowing to support capital investment and will ensure that an agreed revenue

income stream is identified to meet the borrowing costs when investment decisions are taken.

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

### **3. NATIONAL ECONOMIC CONTEXT**

#### **Deficit Reduction Plan**

- 3.1 There is considerable uncertainty as to the impact that the Government's policy to eliminate public sector debt over the next few years will have on the economic recovery, especially in areas with greater reliance on public sector jobs and higher grant cuts, such as those experienced in the North East. The fiscal outlook, therefore, is likely to remain very challenging in the medium term.

#### **Inflation**

- 3.2 The Consumer Price Index (CPI) has been above the Government's target level of 2% since December 2009, placing additional pressures on the Authority's finances.
- 3.3 The CPI rate was 5.2% for all items in September 2011 with the largest increases being for gas (13.0%) and electricity (7.5%). This is the highest rate of CPI since it became the official measure of inflation in December 2003. Latest Bank of England forecasts suggest that CPI rates are now at their peak and will begin to fall. This is due to a combination of lower economic growth forecasts and previous VAT increases and high commodity price increases falling out of the annual inflation figures. The average rate of inflation (CPI) is forecast to be 2.6% in 2012/2013. The position will continue to be regularly monitored.

#### **Bank Base Rate**

- 3.4 The Bank Base Rate has remained at an all time low of 0.5% since March 2009 although inflation is expected to remain above the government's target. Recent weak UK data releases, coupled with poorer global economic recovery, especially in the Euro-zone and the United States, are now seeing markets push back their expectations for interest rate increases. As a result, the prospect of a base rate of 0.5% continuing in to 2012/2013 remains high. The position will continue to be regularly monitored and revised.

#### **4. GOVERNMENT POLICY AND IMPACT**

##### **Spending Review 2010 (SR10)**

- 4.1 The previous Local Government Finance Settlement saw a three year grant settlement for the first time covering the period 2008/2009 to 2010/2011. This provided stability for budget setting and allowed the Authority to plan its spending priorities over the medium term.
- 4.2 The Spending Review 2010 (SR10) was published on 20 October 2010. This set out more detailed spending plans at a national level for Government departments for the period 2011/2012 to 2014/2015. The main emphasis to tackle the budget deficit would be to impose significant reductions to public sector spending of 19% on average across all government departments. Together with announced tax rises, this is aimed at reducing the borrowing deficit by £81 billion by the end of 2014/2015.
- 4.3 The SR10 will see Fire and Rescue Authorities receiving 25% less formula grant funding over the spending review period. However, this reduction will be 'back loaded' with the greatest reductions falling in 2013/2014 and 2014/2015. This is to give Fire and Rescue Authorities time to make the necessary changes whilst limiting the impact on the quality and breadth of service offered to communities. In addition, there will be uncertainty over future specific grant funding.

#### **5. LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/2012 AND 2012/2013**

- 5.1 The Government's final proposals were announced on 31 January 2011 prior to a debate in the House of Commons on 9 February 2011. The settlement covers the two year period 2011/2012 and 2012/2013. The government is consulting on changes to the local government finance system from 2013/2014.
- 5.2 The headlines of the settlement include:
  - National Formula Grant funding for all authorities in England fell by 9.9% in 2011/12 and by a further 7.3% in 2012/13.
  - The Fire Service funding, in comparison, reduced by 5.8% for 2011/12 and by 0.7% in 2012/13.
  - A transitional grant of £85m was made available in 2011/12 that benefitted 37 authorities whose revenue spending power would fall by 8.9%. This was to help minimize reductions for authorities facing exceptional decreases in their overall revenue funding position.

Alongside this, floor damping continued to be applied to bring authorities in line with the floor (the maximum grant decrease).

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

#### **Settlements 2013/2014 Onwards**

- 5.4 A second two year settlement to cover financial years 2013/2014 and 2014/2015 is due to follow. Although the government has indicated, at a national level, the overall grant reductions in their Spending Review 2010 for local government, it is not possible to accurately estimate the impact on each individual authority's grant allocations.
- 5.5 Using indicative totals from the Spending Review, the reduction in grant at that stage was estimated to be a national core reduction of at least 18% (making up the overall 25% decrease as set out in the SR10). However, if the Authority was to receive a funding reduction at the level received for 2011/2012 to 2012/2013, the reduction could be in the region of 36% as the worst case.
- 5.6 This position has become even more uncertain as the outcome of the government's Local Government Resource Review will not be known for some time and this will inevitably impact on all authorities government funding levels from 2013/2014 onwards.
- 5.7 Scenarios have been considered in section 12 and plans will need to be revisited when the position is clarified.

#### **Further Issues**

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

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

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

## **6. LOCAL INCOME POSITION**

### **Council Tax**

- 6.1 The Localism Bill currently before Parliament 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. Once it becomes law, this effectively places a limit on council tax increases and if authorities exceed the government limits, the public will be able to vote to agree or veto any considered 'excessive' increase.
- 6.2 The potential additional costs of a referendum and rebilling would be significant, particularly in a year when no local government elections take place. Therefore, any proposal to increase council tax above the Government's principles would need careful consideration, as, regardless of the outcome of the vote, there would be costs which could, in effect, negate the benefits from the council tax increase.
- 6.3 In recent years the Authority has set comparatively low increases in its Council Tax precept, with an increase of 1.24% in 2009/2010 and 0.91% in 2010/2011, and no increase in 2011/12. These represent the lowest increases nationally for any Fire Authority over the last three years.
- 6.5 The Government has announced they will offer a grant of 3% in 2012/2013 if Authorities continue to freeze their council tax. This will be a one-off grant and will not increase the council tax base in future years. Should the Fire Authority decide to accept this grant, the additional funding will therefore need to be used for one-off expenditure in 2012/2013.



- 6.6 The MTFFS will be updated taking into consideration decisions around Council Tax levels for 2012/2013 in the context of the economic circumstances.

### **Capital and Prudential Borrowing**

- 6.7 The revenue implications of the Authority's Capital Programme are considered as part of the process for setting the Capital Programme. The revenue impact of the Capital Programme is reflected in the MTFFS, in particular the costs associated with the level of prudential borrowing required to deliver the Capital Programme.
- 6.8 Prudential borrowing allows local authorities to borrow to fund capital expenditure provided it can be demonstrated that it is affordable. The Authority needs to ensure that an agreed revenue income stream is identified to meet the additional cost of borrowing. Where strategic developments are pursued that do not have a clear income stream, provision will be made within the revenue budget to meet these costs over the medium term.
- 6.9 The three year Capital Programme for 2011/2012 to 2013/2014 was set to take account of the reductions in available external funding and the increased pressure on the Authority's resources. The Capital Strategy is being developed to set out the position regarding the Authority's approach to funding current and future priorities.
- 6.10 A number of proposed capital schemes are currently being considered to ensure that the Authority continues to achieve its key priorities. The reduction in both revenue and capital funding requires the Authority to focus on new and existing opportunities for funding.

### **Borrowing Strategy**

- 6.11 The Authority's borrowing strategy follows a pragmatic approach and responds to changing circumstances to secure benefit for the Authority. A benchmark financing rate of 5.50% for long-term borrowing was set for 2011/2012. Due to high levels of volatility in the financial markets, no new borrowing has been undertaken in 2011/2012.
- 6.12 The Borrowing Strategy for 2011/2012 made provision for debt rescheduling. However, due to the proactive approach taken by the Authority in recent years and the low underlying rate of the Authority's long term debt, it would be difficult to refinance long term loans at interest rates lower than those already in place.

## **Reserves and Balances**

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

## **Reserves Policy**

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

- The Authority will maintain its general reserve at a minimum of £3m to cover any major unforeseen expenditure. The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
- The Authority will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.

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

## **Review of Reserves 2011/2012**

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

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

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

- The reviewed level of reserve following this risk assessment.

6.18 At 31<sup>st</sup> March 2012 the Authority's usable reserves are expected to be £25.449m, further details are shown at Appendix B. The remaining £3.336m is held in a general reserve to provide a level of contingency to meet any unforeseen expenditure and to support the budget as planned.

## **7.0 SPENDING PRESSURES AND COMMITMENTS**

The following matters have been taken into account in the MTFs for 2011/2012 to 2014/2015 and have been used in the budget planning framework for 2012/2013.

### **Pay**

7.1 Following a two year pay freeze, it is still unclear at this point in time what the employer's position is with regard to the 2012/2013 financial year. This issue will be kept under close review in the coming weeks and months.

### **Pensions**

#### **Local Government Pension Scheme (LGPS)**

7.2 The last actuarial review of the Local Government Pension Fund for the Tyne and Wear area was undertaken as at 31<sup>st</sup> March 2010. A prudent approach has been taken with stepped increases in the deficiency contribution for 2011/2012 and beyond.

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

#### **Public Sector Pension Review**

7.4 The Government has agreed to implement the recommendations from the Hutton Review. Negotiations with the relevant public sector unions are currently underway in a bid to agree measures that will help reduce the cost to the tax payer of funding pensions for public sector workers and make them more affordable.

7.5 However, according to the Government, as the local government pension scheme (LGPS) has assets of £140 billion, it is more like a private pension fund and will be treated on a different basis from other public sector pension schemes. The scheme has a unique funding arrangement in place which revolves around the way in which contributions and benefits interact. There is a real danger that if the scheme becomes too expensive for employees they could withdraw from the pension fund. This could

affect the viability of the scheme and increase reliance on state means-tested pensions.

- 7.6 The Authority is currently awaiting details of the proposed revised pension scheme for LGPS members in order to assess the financial impact any changes will have on future year's budgets.

### **Financial Arrangements for Firefighter Pensions**

- 7.7 Members will be aware that employee and employer contributions are paid into a pension account from which pension outgoings (pensions awards and lump sum payments) are met. The government provides additional funding to top up the account, or to recover any surplus, at the end of the year, as appropriate.
- 7.8 Under these arrangements authorities retain responsibility for meeting the cost of ill health pension awards. Prudent provision has been made within the MTFS for these awards, taking into account the Authority's investment in its health awareness and intervention measures through the Occupational Health Unit. This has brought about a reduction in the number of ill health early retirements with one such retirement in the last three years.

### **Energy Prices**

- 7.9 Energy and vehicle fuel prices continue to be particularly volatile. Prudent provision has therefore been included for continued annual increases in charges for gas, electricity and vehicle fuel over the medium term.
- 7.10 The Authority is aware of its responsibility in relation to Environmental Sustainability, and has established an Environmental Steering Group to consider potential schemes to make progress in this area. 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). In 2009/2010 a Carbon Management Plan reserve was established to facilitate implementation of the Carbon Reduction Plan, developed in partnership with the Carbon Trust. The purpose of the Plan is to make future savings in both carbon emissions and energy bills.

### **Other Prices**

- 7.11 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**

- 7.12 The Revenue Budget for 2011/2012 includes a Revenue Contribution to Capital Outlay (RCCO) of £1.44million 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. This is now even more relevant since the government increased the cost of borrowing for the public sector by 1% in the SR10.
- 7.13 In 2011/2012, the Authority will receive Fire Capital Grant of £0.960 million. The Comprehensive Spending Review included static position in terms of Fire Capital Grant issued by central government for the whole of the CSR period. The Medium Term Financial Strategy 2012/2013 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.
- 7.14 In setting and revising the Capital Programme, the Authority will review all options for capital financing in addition to supported borrowing, capital grant and RCCO. The position will be kept under review as the MTFS and the budget for 2012/2013 is developed.

**Interest on Balances**

- 7.15 Given the continued low Bank Base Rate, the revenue budget for interest on balances in 2011/2012 was set at a similar level to that set in 2010/2011 and is being kept under review. At this stage, it appears that the level of budgeted income for 2011/2012 will exceed the budget as the performance of the lead authority has exceeded expectations. The Medium Term Financial Strategy has been prepared on the basis that this comparatively low interest rate will continue into the foreseeable future, although this position will be kept under review.

**8. SPENDING PRIORITIES**

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

**Improvement Plan**

- 8.1 Members will be aware that the Authority maintains an Improvement Plan that has been restructured so that actions are now categorised under one

of seven key organisational priorities. This clearly links to the Authority's strategic planning process and monitoring of these priorities is frequent and rigorous.

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

### **Integrated Risk Management Plan 2011 - 2015**

- 8.3 Members will be aware that the Authority produces a fully costed Integrated Risk Management Plan (IRMP) which reflects local needs and sets out plans to effectively tackle existing and potential risks to communities.
- 8.4 The IRMP has been brought in line with the MTFS to cover the full spending review period. The Plan includes a series of reviews which, if implemented, will generate significant savings. The potential impact of these reviews will be reported to members in the near future and subsequently will be built into the Medium Term Financial Strategy.
- 8.5 The Authority continues to manage staff vacancies in anticipation of the outcome of these reviews.

### **Strategic Review of Fire Cover**

- 8.6 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 enabled a saving of £933,395 to be realised in 2010/2011. The annualised saving for 2011/2012 will reflect inflationary adjustments.

### **Review of Operational Staffing Profile**

- 8.7 In setting the 2012/2013 Revenue Budget, the Chief Fire Officer will continue to undertake a full review of the Authority's operational staffing profile and associated salary structure. Included within this review will be assumptions in relation to the number of firefighters in the new or old firefighter's pension scheme as the employer's pension contributions vary (new scheme 11.0%, old scheme 21.3%). A prudent estimate has been factored into the MTFS.

### **Efficiency Targets**

- 8.8 The Authority has responded very positively to the requirements of the government's national efficiency review. Its approach to securing efficiency and value for money is encapsulated in the Authority's Value for Money Framework. Although formal Annual Efficiency Statements are no longer required, the Authority continues to seek and achieve efficiency savings in its budget and spending plans.
- 8.9 During the three year period 2008/2009 to 2010/2011, the Authority achieved £4.4m (7.8%) in ongoing cashable efficiency savings, exceeding the cumulative Government target of £2.7m (4.8%).
- 8.10 The Authority is committed to delivering further efficiency savings, particularly in light of the SR10, through:
- further development of the IRMP;
  - following best practice in relation to procurement of goods and services;
  - working in collaboration with partners both locally and regionally;
  - generating efficiency savings arising from policy and service reviews.

### **National and Regional Initiatives**

- 8.11 Provision has been included within the MTFs for approved initiatives. The following initiatives are drawn to Members attention:

#### **Regional Collaborative PFI Scheme - NEFRA**

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

#### **Firelink Project**

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

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

### **Human Resources**

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

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

- 8.16 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.

### **Spending Priorities**

- 8.17 Factors which the Authority has taken into consideration in previous years to determine spending priorities are:
- the relative importance of each Strategic Priority in any one year given changing circumstances;
  - the results of corporate and service based consultation with the public and other stakeholders;
  - local priorities identified by elected members and officers of the Authority;
  - national performance requirements including the need to improve performance;
  - inspection implications including service based assessments.
- 8.18 Given the anticipated significantly reduced settlements for the next three years, it is likely that there will be no scope to address spending priorities. Indeed, the factors identified in 8.17 above may need to be employed to identify areas for further efficiencies.



**Efficiency Savings**

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

**9. SPECIFIC GRANTS****Fire Revenue Grant**

- 9.1 The Department for Communities and Local Government has introduced a Fire Revenue Grant for 2011/2012 that covers funding for Firelink, New Dimension, Olympics Security and Future Control Rooms.
- 9.2 The allocation for Tyne and Wear Fire and Rescue Authority for 2011/2012 is £1,117,334 made up of £112,334 for Firelink, £985,000 for New Dimension and £20,000 for Control Rooms. As yet no information is available on the grant allocation for 2012/2013; the position will be updated once this information is made available.
- 9.3 The £20,000 allocation for control rooms is for each FRA to support transitional planning and implementation efforts for future control room arrangements. It is expected that additional funding will be made available in light of the responses to the consultation on control room arrangements. Bids have been submitted and any additional funding will be included in a second grant determination later in the year.

**10. PARTNERSHIPS**

- 10.1 The Authority works in partnership with a number of organisations to deliver its strategic priorities. There are currently thirteen partnerships in place and within these arrangements four major partnerships have been identified, which include 'Sainsbury's Ltd', 'The Princes Trust', 'The Phoenix Project – Sunderland' and 'Safetyworks!'.
- 10.2 The financial performance of significant partnerships is reported on as part of regular budget monitoring.

**11. FINANCIAL RISK ANALYSIS**

A comprehensive financial risk assessment is undertaken for the Revenue and Capital Budget setting process to ensure that all risks and uncertainties affecting the Authority's financial position are identified. These are reviewed each year as part of the MTFs. The key strategic

financial risks to be considered in developing the MTFS are set out in Appendix C.

## **12. MEDIUM TERM FINANCIAL STRATEGY**

- 12.1 A financial summary of the Medium Term Financial Strategy is set out at Appendix D. This takes into account the impact of those issues identified above at paragraphs 3 to 10.
- 12.2 Over the next three months the MTFS will be shared with stakeholders, including the Trade Unions and business ratepayers, for consideration and comment.

### **Medium Term Financial Planning Scenarios**

- 12.3 As grant funding for 2013/2014 and 2014/2015 is yet to be confirmed, the Authority will have to plan on a prudent basis. With this in mind, a number of scenarios have been modelled to consider varying grant reductions and council tax increases.
- 12.4 A number of assumptions have been made:
- There will be no collection fund surplus or deficit after 2011/2012;
  - The council tax base will increase progressively each year based on historic data;
  - The efficiencies proposed will be achieved or an alternative action taken;
  - Grant reductions will be evenly spread across 2013/2014 and 2014/2015.
- 12.5 Formula grant allocations for 2013/2014 and 2014/2015 have been prepared for two scenarios:
- (i) Best Case Scenario: A total reduction of 18% in line with the national core reduction to give a total 25% decrease over the SR10 period.
  - (ii) Worst Case Scenario: A total reduction of almost 36% in line with the local reduction experienced over the 2011/2012 and 2012/2013 period.
- 12.6 These scenarios have been modelled against council tax increase options, with the best case including an increase of 2% for 2013/14 and for 2014/15. The worst case scenario however assumes no council tax increases. These will be developed as government updates are received and the budget is set for 2012/2013, and will be considered against a range of options to deliver a balanced budget.

**13. BUDGET PLANNING FRAMEWORK 2012/2013**

13.1 It is proposed that the Chief Fire Officer and the Finance Officer take forward the preparation of the Revenue Budget for 2012/2013 on the following basis:

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

13.2 Consideration of the budget is at an early stage and there are a number of uncertainties, as previously detailed, that will have a major impact on the budget in future years. The proposed Budget Planning Framework for the preparation of the 2012/2013 Revenue Budget is designed to give some flexibility for the Authority in addressing the final financial position which emerges.

**Statement of General Fund Balances**

	<b>£'000</b>
<b>Balance as at 1<sup>st</sup> April 2011</b>	<b>3,336</b>
First Review 2011/2012	
- Underspend on Leasing Budget	165
Second Review 2011/2012	
- Underspend on Employee Budget	1,170
- Underspend on Premises Budget	19
- Potential use of Surplus	
- Purchase of MFD's	(85)
- Microsoft Licence	(300)
- Regional Control for Mobilising	(100)
- Provision for purchase of vehicles	(869)
<b>Anticipated Balance as at 31<sup>st</sup> March 2012</b>	<b>3,336</b>
<b>Anticipated Minimum Balance as at 31st March 2013</b>	<b>3,000</b>

**Statement of Earmarked Reserves and Provisions**

<b>Title and Purpose of Earmarked Reserve / Provision</b>	<b>Opening Balance (01.4.11)</b>	<b>Estimated Movement in 2011/2012</b>	<b>Estimated Balance (31.3.12)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Insurance Reserve</b> 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.	887	0	887
<b>Development Reserve</b> Reserve created to fund medium term and long term capital and revenue developments.	14,703	-48	14,655
<b>Early Retirements Reserve</b> Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.	41	-3	38
<b>PFI Smoothing Reserve</b> 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.	5,319	337	5,656
<b>Contingency Planning Reserve</b> Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,250	0	2,250
<b>Budget Carry Forward Reserve</b> Established to fund the slippage of specific items of revenue expenditure.	805	-805	0
<b>New Dimensions Reserve</b> 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.	382	-382	0

<b>Title and Purpose of Earmarked Reserve / Provision</b>	<b>Opening Balance (01.4.11)</b>	<b>Estimated Movement in 2011/2012</b>	<b>Estimated Balance (31.3.12)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Community Safety Reserve</b> Reserve to deliver community safety initiatives in future years.	250	0	250
<b>Civil Emergency Reserve</b> Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.	200	0	200
<b>Regional Control Centre (RCC) Reserve</b> 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
<b>Carbon Management Plan Reserve</b> Reserve established to implement Carbon Reduction Plan developed in partnership with the Carbon Trust and Fire and Rescue Authorities. This investment will make future savings in both carbon emissions and energy bills.	555	-267	288
<b>Equality and Diversity Reserve</b> Reserve established to enable the evaluation of a number of capital schemes to support the Authorities commitment to achieve higher quality and diversity ethnic recruitment targets.	101	0	101
<b>Organisational Change Reserve</b> Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.	600	0	600
<b>Insurance Provision</b> The provision covers certain insurance risks up to agreed limits.	174	0	174

**Medium Term Financial Strategy – Financial Risk Analysis**

**Impact of the outcome of SR10**

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

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

**Inflation**

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

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

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

**Debt Charges**

Risk is that Debt Charges will be greater than budgeted.

This is very unlikely to arise due to:

- the current level of variable rate debt is low in comparison to the fixed-rate level of debt;
- the impact of any interest rate changes is negligible in context of the overall financial position of the Authority;
- the economic outlook is that base rates are likely to remain low over the course of the coming year, although the PWLB have increased their rate by 1%, and the Treasury Management Strategy can be adjusted to minimise the impact of any significant increases;
- no new borrowing is currently programmed to be required.

### **Investment Interest**

Risk is that income generated will not match budget provision

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

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

### **Contingencies**

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

This is unlikely to occur due to:

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

### **Risk Management**

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

This is very unlikely to occur due to:

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

### **Financial Planning**

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



This is unlikely to arise due to:

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

### **Revenue Budget - Budgetary Control**

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

This is very unlikely to occur due to:

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

### **Capital Programme Implications**

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

This is unlikely to happen due to:

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

### **Reductions to the Revenue Budget**

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

This is unlikely to occur due to:

- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;

### ***Creating the Safest Community***

- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non-realisation of some of the efficiency reductions.

### **Availability of Other Funds**

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

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