Tyne and Wear Fire and Rescue Authority
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TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 21st JANUARY 2013 **Item No 07**

SUBJECT: PROVISIONAL GRANT SETTLEMENT 2013/2014 AND DRAFT REVENUE BUDGET AND MTFS UPDATE

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. PURPOSE OF THE REPORT

1.1 To update Members on the draft Revenue Budget for 2013/2014 which takes into account the implications of the Provisional Grant settlement for 2013/14 announced on 19th December 2012, the main details of which are set out in Appendix 1 of this report; and for Members to note that a further updated Medium Term Financial Strategy (MTFS) will be presented in February when the finalised Revenue Budget 2013/2014 is to be approved. This is due to both the lateness and complexity of the Settlement and recognises that an updated MTFS was presented to the November meeting.

1.2 To note the comments made on the Authority's behalf by the Chief Fire Officer and Finance Officer in respect of the Government's consultation on to the Provisional Grant settlement for 2013/14 as the deadline for responses to the CLG were required by the 15th January 2013.

2. DESCRIPTION OF DECISION

2.1 The Authority is requested to note:

a) the contents of the report which includes the updated draft Revenue Budget position for 2013/2014 taking into account the implications of the provisional local government finance settlement for 2013/2014 and 2014/2015;

b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2013/14, which is further detailed in Appendix 1 paragraph 1.21;

c) that the final Revenue Budget and Precept for 2013/2014 will be presented to the Authority at its meeting in February together with a an updated MTFS.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2013/2014

3.1 The draft Revenue Budget for 2013/2014 now takes full account of the detail in the Provisional Local Government Finance Settlement for 2013/14. The main changes and implications to the authority resulting from the Government introducing its new Business Rates Retention system and Council Tax support scheme are explained in more detail in Appendix 1 to this report. Summary key headline figures are also set out in Appendix 2.

3.2 The main conclusion from the settlement in overall terms is that the implications for 2013/2014 and 2014/2015 are close to the best case scenarios that were included in the amended MTFS reported in November.

This means that government reductions in funding will be in the order of £5.3m over the next 2 years and this figure excludes spending pressures. In summary, it will be necessary to move forward with the proposed IRMP planning proposals as the Authority seeks to address the funding shortfalls and this will also help to lay the foundations to help manage further cuts to be set out by the Government for the next Spending Review 2013 covering the period 2015/2016 to 2018/2019 to be released later in the year.

3.3 A base budget review of all areas has been undertaken with the intention of ensuring resources are directed at key strategic priorities in terms of developing and improving the service, as set out in the updated Integrated Risk Management Plan (IRMP) approved on 19th November 2012. The review has identified efficiency savings that have been built into the 2013/2014 budget position and MTFS to 2016/2017.

4. MEDIUM TERM FINANCIAL STRATEGY 2013/2014 to 2016/2017

4.1 Due to the late announcement of the provisional finance settlement, an updated MTFS will be presented to Members in February when the final Revenue Budget for 2013/14 is approved.

4.2 As notified in November, the MTFS was updated before the Settlement and was prepared taking account of all updated supporting Strategies and Plans and also set out the strategic financial position and financial direction of the Authority over the next four years. It is important to note that the MTFS is a working document which is updated on an ongoing basis and is reported regularly to members.

4.3 The following have been considered in developing the strategy:

- The national economic context and the Local Government Finance Settlement;
- The local income position – budget decisions made in finalising the 2013/2014 Revenue Budget and the position and policies regarding the Authority's Reserves;
- Spending pressures and commitments;
- Spending Priorities.

4.4 The projected financial position in future years is based on a series of assumptions and the best indications available particularly in respect of Government funding projections. The Authority has a range of options to explore in a bid to generate the significant savings required over the next four years of the current MTFS. However the Authority has to be mindful that the Chancellor confirmed in the Autumn Statement (5th December 2012) that public sector funding cuts will now extend into a further year (to include 2017/18) from the position he indicated in his March 2012 Budget speech due to the poor performance of the economy in the last year.

5. RECOMMENDATIONS

5.1 The Fire Authority is requested to note :

a) the contents of the report which includes the updated draft Revenue Budget position for 2013/2014 taking into account the implications of the provisional local government finance settlement for 2013/2014 and 2014/2015;

b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2013/14, which is further detailed in Appendix 1 paragraph 1.21;

c) that the final Revenue Budget and Precept for 2013/2014 will be presented to the Authority at its meeting in February together with a an updated MTFS.

Appendix 1

DRAFT REVENUE BUDGET 2013/2014

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1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2013/2014

1.1 On 19th December 2012, the Parliamentary Under Secretary of State for Communities and Local Government announced a two year settlement covering 2013/2014 and 2014/2015, and launched a consultation on the proposed settlement ending on 15th January 2013.

1.2 The Provisional Settlement sees a fundamental change in distributing funding from the previous Formula Grant system to the new funding arrangement, known as the Business Rate Retention system, which the Government state is based more on self determination and financial independence, and is a move towards authorities, that strive to do better, being rewarded with increased revenue.

1.3 The Government has continued with its Revenue Spending Power measure and for 2013/2014 (a combination of grant and other income) will see a reduction overall nationally of 1.7% with no authority incurring more than an 8.8% reduction using this measure. The issue with this measure generally (which does not in fact apply to the Fire Authority's funding) is that it does not take into account all grant funding and is not fully representative of most authorities funding positions.

1.4 Business Rates nationally are estimated as £22bn of which £11bn will be retained by local authorities, rather than returned to Central Government as in previous arrangements and is in line with the government's policy of retaining 50% of the funding with 50% passing over to local government.

1.5 Within the new settlement the Government has introduced a safety net threshold for each authority which will limit the losses on Business Rates income collected in any one year. For this Authority this has been set at £12.562m based on its local share funding baseline figure of £13.580m (i.e. a funding reduction of 7.5% is equivalent to a cash reduction of £1.018m). It is thought however that activation of the Safety net is unlikely to arise for most top up authorities in 2013/2014.

1.6 The Government has set its capping criteria for Fire and Rescue Authorities at 2% (it was 4% last year). This means any proposed increase in Council Tax for 2013/2014 in excess of 2% will be subject to a local referendum.

Impact on Tyne and Wear Fire and Rescue Authority

1.7 The Government's Revenue Spending Power for Tyne and Wear Fire and Rescue Authority will reduce by £3.135m or 5.02% in 2013/2014 to £59.340m compared to an adjusted 2012/2013 position of £62.476m according to this measure. This is made up of a number of components, the breakdown of which is shown at Appendix 2.

1.8 It should be noted that this measure has double counted the new Council Tax Support Grant funding of £5.005m, but this has no impact on the bottom line funding for the Fire Authority as the same adjustment has been applied in 2012/2013. It does, however, mean that the figures for all years (2012/2013 to 2014/2015) are all inflated by £5.005m from the actual government grant funding figures used in the current year.

Settlement 2014/2015

1.9 The Authority's indicative Revenue Spending Power in 2014/2015 will reduce by a further 3.54% or £2.102m in cash terms to £57.238m.

Changes in Revenue Spending Power in 2013/2014

1.10 From the analysis set out in Appendix 2 there are a number of funding changes which have been included in the draft revenue budget at this point and may have to be reviewed once the final Local Government Settlement has been announced in late January. These include:

- One-off Council Tax Freeze Grant for 2012/2013 of £719,542 has been removed as expected – this was however used for one-off expenditure in 2012/2013 by the Authority;
- Revenue grants have been increased in 2013/2014 by £27,256 to a total of £1,150,000 and is outside of the government's new business rates system – this funding relates to New Dimensions and Fire Link initiatives and will help with transparency of this funding moving forward, which is welcomed;
- Council Tax Freeze Grant for 2013/2014 (based on a 1% increase) of £240,592 is included in the Government's Revenue Spending Power figures and is to be provided for both 2013/2014 and 2014/2015. In addition the minister has indicated this will be put in to the base in the next Spending Review (2013).
- Formula Grant or the equivalent in the new system has been reduced by 8.70%, a cash reduction of £2.705m in 2013/2014. This was damped, otherwise the loss in grant would have been significantly more (£5.147m, a loss of grant of 16%) – see Appendix 3 for details - and by a further £2.121m indicative reduction or 7.47% in 2014/2015.

- These cuts to the equivalent formula grant figures broadly compare to the best case scenario whereby:

    - In 2013/14 a projected cut in grant of 9% compared to an actual cut of 8.7% and,

    - In 2014/15 a projected cut in grant of 7.4% compared to an indicative cut of 7.47%.
      (It should be noted that the best case scenario of 5.4% cut for 2014/2015 originally projected was subsequently increased by 2.0% following the Autumn Statement)

- The proposed cuts in funding over the next 2 years are still significant for the Authority to meet at £5.236m in total, however this figure excludes spending pressures faced by the Authority over this period.

These continue to be refined to update the final position for both 2013/14 and 2014/15.

Key Funding Elements of the new Business Rates Retention System

1.11 From 2013/2014 the key funding elements to support the Revenue Budget will comprise of the following:

- **Start Up Funding Assessment (SUFA)** is made up of 3 elements:

  Retained Business Rates (reliant on a 2% share of each district council's local share)
  Revenue Support Grant (includes new Council Tax Support Grant funding of £5m to compensate for the impact that the new localisation of council tax benefit will have on the level of council tax income in 2013/2014) The level of RSG is determined by central government and any funding reductions will be routed through this allocation in future
  Top Up Grant will be fixed and uprated by RPI until 2020

- **Other Core Revenue Grant Funding** not included in the SUFA

- **Council Tax Income (Precept)**

The impact of the Local Government Resource Review on each of the above elements is set out below:

Start Up Funding Assessment (SUFA) for 2013/14

1.12 The SUFA total of £33.993m is in summary made up by:

Retained Business Rates (Govt assessment)	£3.974m
Revenue Support Grant	£20.413m
Top Up Grant	£9.606m

These are described in more detail below.

To enable a comparison with the previous year however the government has provided an analysis as follows to help show the real formula grant changes, which obviously comes back to the SUFA total for 2013/14.

Council Tax Support Grant	£5.005m

Council Tax Freeze Grant (2011/12)	£0.598m
Formula Grant	£28.390m
Total SUFA	**£33.993m**

Retained Business Rates

1.13 A new Business Rates Retention system replaces formula grant funding from 2013/2014. The system has been consulted upon and the key features are:

- 50% of Business rates will form part of the national 'central' share retained by Central Government to be redistributed; 50% will be retained locally. Of this 50% a billing authority must distribute 2% to the Tyne and Wear Fire and Rescue Authority.
- A safety net arrangement is included to protect Authorities from significant falls in their Business Rates income which has been set at 92.5% of their base line funding limit. This applies to all authorities, both councils and fire authorities.

The forecast income from Business Rates for 2013/2014 for the Fire Authority was £3.974m, according to the government's funding assessment. This represents the amount of business rates we can expect in total from our constituent councils in Tyne and Wear.

The Fire Authority has now received its provisional figures from each constituent council. The total amounts to £4.011m, an increase of £0.037m if these figures remain unchanged. Final allocations must be received before 31st January 2013.

1.14 The risk to the Authority is that each district council may not collect the level of income indicated, which would then filter through in a reduction to the funding level indicated and would become a budget pressure in future years. There is also the risk that although the government has set a safety net level in the new arrangements this is not directly linked to the level of business rates collectable and as such has been set too low. The Authority only receives 2% of each district council's local share of the actual business rates they expect to collect. This means the Authority is totally reliant on each council to collect at least its business rates projections each year, with any increase or any fall in actual collection being shared with the Authority. Income according to the government can fall by £1.018m before they would provide any safety net funding assistance. The projected position for 2013/14 however is suggesting a small surplus of £0.037m over the government's assessment provided the level of business rates notified is actually collected.

Revenue Support Grant

1.15 The Government has confirmed that they are to incorporate a number of Core revenue grant funding allocations into the new Business Rates Retention system including Formula Grant, Council Tax Freeze Grant for 2011/12, Early Years Intervention, Learning Disabilities, Council Tax Support and Preventing Homelessness grant funding. The amount of Revenue Support grant to be received by the Authority announced as part of the Provisional Settlement on 19th December 2012 is £20.413m. The risk is that the Authority may see this level of funding being scaled back to achieve the Government's funding reduction requirements in future years as this element is totally under the control of the Central Government.

Top Up Grant

1.16 'Top up' authorities such as this authority will have their allocations fixed but will be index linked to RPI each year. The amount of Top up grant to be received as part of the Local Government Finance Settlement is £9.606m. As this element of the funding is fixed until 2020 and increases by RPI each year – this is one of the more certain elements within the new funding regime. The level of fixed funding at just under £10m however is very low in comparison to the total funding it will receive.

Other Core Grant and Revenue Funding not in SUFA

1.17 The core and revenue grants which have been confirmed as part of the provisional settlement mostly relate to council funding rather than to Fire Authorities. Those that relate to the Fire Authority for 2013/2014 are set out below:

- New Dimensions Grant - £993,000
- Fire Link Grant - £157,000

At this stage the PFI funding has not been released but the allocation for the Authority is not expected to change from previous year's allocations.

Council Tax Income (Precept)

The Authority will continue to set its precept each year and will still rely on each district council within Tyne and Wear to collect the council tax income on its behalf. The new localisation of council tax benefit arrangements that every billing authority has to implement for 2013/14 will have an impact on the level of council tax income collected each year, mainly because Council Tax Benefit is to be treated as a discount under the new arrangements which has the effect of reducing the amount of council tax collectable. The government has recognized this in their funding settlement and provided Council Tax Support Grant to address the anticipated shortfall for both billing and precept authorities.

The risks to the Fire Authority under this new arrangement are twofold.

Firstly the schemes are determined by each of its district councils and the Fire Authority therefore has very little real influence over these schemes which could then impact differently on the Authority's collectable income – this position will have to be very closely monitored throughout the year so that the Authority can recognize issues and provide for these as possible funding pressures should they arise. The final position for each Authority will however become transparent when the surplus / deficit position on the Collection Fund is reported next January (2014).

Secondly it remains to be seen if the funding provided in the settlement of £5.005m in the form of Council Tax Support Grant (see point 1.19) is sufficient to meet any gap created by the schemes implemented by each of its district councils for 2013/14. Again the Authority will not know this position until late January by which time all council tax base data must be disclosed.

1.18 **Council Tax Freeze Grant**

The settlement also confirms the third year funding for the 2011/2012 Council Tax freeze grant for the Authority of £0.598m. This funding will be provided until 2015/2016 to compensate authorities for not increasing their council tax in 2011/2012. The risk to the Authority is this funding ends and is not continued into the next Spending review.

As expected the one–off Council Tax Freeze Grant of £0.716m for 2012/2013 has dropped out of the funding settlement in 2013/2014. This was prudently used for one-off revenue costs in the 2012/2013.

The Government has also announced grant funding to allow local authorities to freeze council tax for 2013/2014 (based on a 1% council tax increase), with this funding to be provided for both 2013/2014 and 2014/2015. The funding is offered to compensate those Authorities who decide not to increase their Council Tax in 2013/2014. The Minister has indicated that this funding will be put into the base for the next Spending Review (2013). This grant for the Authority is worth approximately £0.241m in each of the next two years.

1.19 **Council Tax Support Grant**

The settlement also includes Council Tax Support Grant of £5.005m within the Revenue Support Grant total. This is to make good the expected reduction in council tax income under the new arrangements introduced by the government in respect of localisation of council tax benefit which comes into force on 1st April 2013.

The Authority has its income collected by each of its billing authorities within Tyne and Wear so their individual schemes will impact on the level of council tax income received each year. The government has recognised this and determined grant funding to compensate for the expected drop in council tax income from 2013/2014 as a result of the way the new council tax benefit system will work. We are awaiting the council tax base information from each council to be able to assess if this has an impact on the revenue budget, but for planning purposes we have assumed a neutral position and have funding in a reserve established for this purpose to draw upon if required of £0.500m.

Summary of Resources Position for 2013/2014

1.20 The table overleaf summaries the 2013/2014 provisional estimated resources position for Tyne and Wear Fire and Rescue Authority.

Summary of resources position 2013/2014	Amount £m
Projected Income from Council Tax Precepts	18.951
Top Up Grant	9.906
Revenue Support Grant	20.413
Business Rates (provisional notification)	4.011
*Other Revenue Grants	1.150
Potential Council Tax Freeze Grant 2013/2014	0.241
Total Estimated Resources	**54.672**
Net Budget Requirement *	**53.522**

**The Net Budget Requirement excludes other revenue grants which are used to meet specific service related revenue expenditure in the budget which effectively produces a net budget cost.*

1.21 **Comments on the Settlement which will form the basis of the Authority's response to government**

In summary the settlement shows a significant financial risk shifting away from central to local authorities which could have an adverse impact on authority budgets and will see a lot of authority's needing to earmarking reserves to help cover off the risks.

Specific comments are as follows:

The lateness of the settlement data which was released just before Christmas, on 19th December 2012 has given very little time to properly analyse the settlement. Information has been drip fed therefore the analysis work is still ongoing. The main points to note at the time of writing this report are set out below.

- **Fairness of the Settlement**
  The primary concern for the Authority is the cumulative impact of some of the formula and system changes which are hitting deprived areas hardest. The fact the Authority would have received an overall funding reduction in excess of 16.5% (£5.148m in cash terms) if damping had not been applied in 2013/14 and which was the highest proportionate grant loss worst of all fire authorities is still a cause for concern. It is difficult to see how this position can be justified when the grant mechanism is

producing unreasonable funding levels for the Authority and that the outcome is also quite far removed from the results of all of the other Metropolitan authorities. From this position it is difficult to see how the Authority has been given a fair starting point in the new arrangements which takes on even greater significance as the basis of the system will not be changed until 2020 at the earliest if not addressed.

- **Resource Equalisation – starting point**
  The government committed to restore the Relative Resource block amount to -£6.550m (an increase of £988.8m) which was part of the formula grant system so that it reflected the 2010/11 level. Whilst this change has happened the way this has been adjusted by the government has not produced the desired outcome and has actually led to the more deprived areas being affected most. This government has adjusted the Relative Needs block by a reduction of £573.2m (which is distributed based on need) and has increased the Central Share block by £871.4m which is distributed on population numbers rather than a needs based approach. It would have been fairer if the government had made an equal proportionate change to both of these blocks of £298.2m (the difference between the two blocks of figures) instead to accommodate the change necessary to the Relative Resources element. Our response will seek to restore the balance between Relative Needs and the Central Share which would help address this area and provide for a much fairer starting point for the Authority as all deprived areas would gain if this was amended.

- **Business Rates – Baseline Funding Assessment and Safety Net Threshold**
  The government's mechanism for calculating the baseline funding assessment uses a national apportionment which takes no account of the billing authorities business rates collection, which results in a baseline funding assessment lower than the business rates collectable. This means that the safety net threshold calculation is too low and increases the risk of income loss before government intervention is made.

- **Business Rate Revaluations**
  The amount of funding of £593m included by the government in the national settlement, for businesses who appeal their rating valuations to the (independent) Valuation Office, may not be sufficient to fully address the implications of these appeals if

successful and means that local government will be carrying a significant risk to the amount of business rates they will be able to collect in future years and are decisions they have no control over. As Fire Authorities are reliant on a share of each billing authorities business rate income this issue also impacts on fire service funding although they have no control over this area of funding. A fair modification to the system will be suggested whereby the government reviews the cost of appeals annually to ensure that the full costs incurred by local government are fully funded by central government and that this risk is effectively transferred back to the government.

- **Council Tax Support Grant**
  An indicative reduction in RSG funding of 7.47% in 2014/15 represents a significant further reduction in funding for this Authority. This will mean that grants rolled into the new start up funding assessment, in particular the Council Tax Support Grant which has not been separately identified and protected is likely to be reduced as RSG funding is reduced year on year. This may not have been intended by the government but will, if left unaddressed, become a significant funding issue in future years. We would request the government addresses this issue as it will hit the more deprived areas of the country the hardest as they have more people out of work and in receipt of benefit.

- **2014/2015 – Potential flaw with the new arrangements**
  A key problem for 2014/15 has been identified in that there will be no separate calculation of relative needs under the new system from 2014/15 onwards. The needs figures, the resources amounts and the council tax support grant are all treated as a single figure in the new arrangements from 2014/15 and will, if not protected, be cut as a result by the standard percentage applicable for the authority when the government scale back Revenue Support Grant. For Tyne and Wear Fire and Rescue Authority this equates to a 7.47% cut in 2014/15 and effectively means that needs (or resource equalisation) will be cut by 7.47%. It will have the impact of further significant funding redistributions from the poorest to the wealthiest authorities each year unless this issue is addressed as the needs based assessment is eroded.

Capital Grant Funding

1.22 As in previous years, capital grant funding for 2013/2014 and 2014/2015 will be allocated to fire authorities on a population basis. In addition, authorities were invited to submit bids for supplementary funding for specific projects that they deemed essential to the service and which would generate a return on the capital invested.

1.23 In total, Government is allocating a supplementary £38 million to 15 fire and rescue authorities across the two financial years. Tyne and Wear Fire and Rescue Authority has been successful in one of their two bids in respect of 'day crewing initiative' and will receive £524,000 in both years towards the cost of this scheme. This is very welcome news for the Authority.

1.24 Of the remaining £102 million capital grant funding based on population, the Authority will receive £1,094,917 in both 2013/2014 and 2014/2015. Section 4 of this report provides further analysis of the Capital Programme for 2013/2014.

1.25 The Authority is also to review its level of debt with the assistance of the lead Authority to assess the potential for reducing debt to achieve longer term revenue savings. The outcome of this exercise will be reported to members in 2013/14.

2. MEDIUM TERM FINANCIAL STRATEGY

2.1 The Medium Term Financial Strategy (MTFS) most recently updated in November 2012 set out the strategic financial position and direction of the Authority over the next four years, taking into account strategic objectives, significant government funding reductions, other resources and service pressures.

2.2 An updated summary of the MTFS will be presented to Members in February when the final Revenue Budget is approved. This is due to the late announcement of the provisional finance settlement. The MTFS takes account of the following main areas:

- the mainstream fire and rescue budget is prepared on the basis that the Authority continues to provide the currently approved levels of service;

- spending priorities including revenue implications associated with implementation of the Strategic Review of Fire and Rescue Cover and the IRMP, and national and regional initiatives;
- service pressures facing the Authority.

Efficiency Targets for Delegated Budgets

2.2 As identified in the MTFS 2013/2014 to 2016/2017 reported to Authority on 19th November 2012, the Chief Fire Officer has undertaken a base budget review of all delegated budgets. Whilst the overall intention is to ensure that resources are directed to address key strategic priorities as informed by the Strategic Plan, this review has identified efficiency savings on delegated budgets which have been built into the MTFS.

Spending Priorities

Integrated Risk Management Plan 2013-2016

2.3 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 has been built into the Medium Term Financial Strategy. These efficiencies will need to be substantial to address the anticipated budget deficit in future years.

2.4 The actions set out in the IRMP are now either complete or progressing according to the agreed timescales. The current IRMP actions ate set out below:

- Review and reduce back office services
- Review Prevention services
- Review Protection services
- Introduce Day Crewing at 2 stations
- Review management
- Review staffing profiles
- Remove one retained appliance
- Review the staffing of Ariel ladder Platforms
- Review Mobilising and Control

2.5 The delivery of these actions has reduced staffing by a significant level including a 29% (75 posts) reduction in back office posts from January 2013. This has enabled the Authority to achieve a balanced budget during

2011 to 2013 and to begin preparation for further budgetary pressures from 2013 onwards.

2.6 In light of the provisional finance settlement, and the prospect of the prolonged funding cuts in the next Spending Review period, it is considered that a review of frontline appliances and diversionary activities is unavoidable. It is proposed that these form a key part of a set of new IRMP actions from 2013-2016, to include:

- Review the fire cover response model
- Review Diversionary activities
- Build on staffing flexibility
- Review cleaning and catering
- Consider business case for setting up a trading company

National and Regional Initiatives

2.7 Provision has been included within the MTFS for approved initiatives. The following initiatives are drawn to Members attention.

Firelink Project

2.8 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.

2.9 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.

Control/Mobilising System

2.10 Following failure of the national FiReControl project, Tyne and Wear Fire and Rescue Authority are working collaboratively with Northumberland Fire and Rescue Authority to procure a replacement Mobilising and Resource Management System. Necessary arrangements have been put in place to ensure that this is procured and implemented before 2014.

2.11 Procurement of the system and the building alterations required to relocate Fire Control from West Denton to Service Headquarters, have both gone to tender and the chosen bidders were approved by Authority in September 2012.

2.12 The Fire Authority has received a central government Command and Control grant of £1.8 million for the project, £1.4 million towards capital costs and £0.4 million towards revenue costs.

2.13 The capital cost of the project is anticipated to be partly financed by the grant, plus the Regional Control Reserve, unapplied fire capital grant and revenue budget identified and carried forward at the end of 2011/2012. The ongoing revenue costs associated with the new system will be met from the revenue grant allocation, plus existing fire control budget. Costs will be controlled and monitored as the project progresses.

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

Review of Operational Staffing Profile

2.15 In setting the 2013/2014 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%). A prudent estimate has been factored into the MTFS.

Service Pressures

2.16 A number of spending pressures were identified within the MTFS and have been used in the budget planning framework for 2013/2014 and have been incorporated into the draft budget for 2013/14. These continue to be refined in order to finalise the revenue budget position.

3. GENERAL FUND BALANCES, EARMARKED RESERVES AND PROVISIONS

3.1 In considering a prudent minimum level of balances, the Authority considers:

- known commitments against balances in future years;
- volatile elements of service delivery, which make accurate prediction of expenditure more difficult;
- financial risks faced by the Authority and the measures in place to mitigate them or meet them financially.

3.2 Taking account of the level of risk within this Authority, the retention of a minimum level of general fund balances of approximately £3.6 million is considered, at this stage, to be appropriate. This is after taking the following into consideration:

- a significant modernisation programme which brings with it both financial and change management risks;
- the uncertainty regarding price and pay inflation, including specifically energy prices, and the impact of potential changes in Bank Base Rates;
- uncertainty regarding the future funding for the Authority;
- the risk analysis included in the MTFS reported to the Authority in November 2012.

3.3 The Revenue Budget 2012/2013 Third Review, reported elsewhere on this agenda, estimates uncommitted general balances to be approximately £3.678 million by 31st March 2013.

3.4 As in previous years, a full financial risk analysis of general balances and major reserves will be undertaken prior to the submission of the final budget proposals to the Authority in February. As part of this analysis, the level of uncommitted general balances will be reviewed in light of the latest Authority decisions and the final budget proposals.

4. CAPITAL PROGRAMME

4.1 Members will be aware that Government support for capital expenditure has previously been provided by supported revenue allocations through Formula Grant that allow authorities to control the amount that they borrow without seeking government approval.

4.2 The basic principle is that authorities are free to borrow as long as their capital plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs, all authorities must follow a prudential code. This involves the setting of various prudential limits that must be decided upon by the Authority as part of the budget process. Prudential indicators must be set covering the following areas:

- Affordability;
- Prudence;
- Capital Expenditure and Capital Commitments;
- External Debt;
- Treasury Management.

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

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

4.3 The Revenue Budget for 2013/2014 includes a proposed Revenue Contribution to Capital Outlay (RCCO), which has introduced additional flexibility into the funding arrangements of the Authority's Capital Programme. Financing all, or part, of the Capital Programme through a RCCO results in a reduced requirement for external borrowing; the MTFS takes account of this funding approach.

4.4 The Medium Term Financial Strategy includes an annualised contribution from the Fire Capital Grant (detailed in section 1) towards financing the Capital Programme. This provides additional flexibility and will help to smooth the effect on the Revenue Budget over the short to medium term.

4.5 The Capital Programme for 2013/2014 is still under consideration, and will be reported to Members in February. Given the financial pressures facing the Authority over, at least the medium term, consideration will be given to the financing arrangements of the Capital Programme in the context of balancing the overall revenue budget position for the Authority and achieving, as far as possible, the agreed objectives of setting a sustainable budget.

4.6 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are finalised to ensure that the optimum use is made of the available resources. These options include:

- Revenue Contribution to Capital Outlay;
- Use of Fire Capital Grant;
- Use of General Fund Balances / Reserves (including Development Reserve);
- External Borrowing;
- Leasing.

Revenue Implications Arising from the Capital Programme

4.7 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 the relocation of Fulwell and Rainton Bridge Fire Stations. It is proposed to fund this building programme from the Development Reserve on a phased basis. It is possible that there will be revenue implications arising from these developments, which will become clearer as individual proposals are developed. At this stage, the planning assumption is that the revenue implications will, in overall terms, be resource neutral.

5. DETAILED BUDGET 2013/2014

5.1 The detailed Revenue Budget for 2013/2014 will be reported to the meeting of the Authority on 18th February 2013.

6. GUIDELINE LEVEL OF COUNCIL TAX

6.1 The Localism Act received royal assent on 15th November 2011 and provides for the provision of referendums to veto excessive council tax increases. 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 The Government has lowered the threshold council tax limit to hold a referendum, from 4% to 2% in 2013/2014. This reduces the flexibility in considering the options available. In addition they have announced that they will provide a one off 1% Council Tax freeze grant for 2013/2014 for those Authorities that freeze Council Tax levels.

7. OUTSTANDING ISSUES

7.1 It must be stressed that the figures presented are indicative only at this stage and there are a number of outstanding issues that will need to be clarified prior to the submission of the final budget proposals to the meeting of the Authority in February 2013.

7.2 The outstanding issues are as follows:

- final preparation of the budget requirement for 2013/2014 is still ongoing at this stage, and may be subject to variation;
- update of the MTFS is ongoing following announcement of the provisional finance settlement;
- awaiting notification of the Council Tax Bases of Billing Authorities, this will impact on the Precept total;
- awaiting notification of any surplus/deficit on the collection fund of the Billing Authorities;
- awaiting final notifications of business rates income from each council and,
- the decision of the Authority to accept or reject a Council Tax freeze for 2013/2014.