

**MEETING: 25<sup>TH</sup> JANUARY 2010**

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**SUBJECT: DRAFT REVENUE BUDGET 2010/2011**

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

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## **1. INTRODUCTION**

- 1.1 This report outlines the financial position facing the Authority for 2010/2011, in light of the recent Provisional Revenue Support Grant Settlement for 2010/2011, and related matters.

## **2. BACKGROUND**

- 2.1 In order to maintain the requisite service levels in 2009/2010, the Authority had a budgetary requirement of £58.71m. The impact of this was to require a Band D Council Tax precept to be set of £72.50.
- 2.2 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 represented 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.

- 2.3 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. The Audit Commission's Use of Resources Assessment 2008/2009 noted that the Authority has achieved "significant improvements in value for money with real costs reducing by 6% since 2004" and the Annual Audit Letter 2008/2009 noting that "costs are not significantly higher than other metropolitan fire authorities given relevant demographic factors and the local priority of good response times". Whilst the Authority can justify these levels, the underlying objective will be to restrict or minimise increases in expenditure and precept levels, where possible.

### **3. DRAFT REVENUE BUDGET 2010/2011**

#### **Provisional Local Government Finance Settlement 2010/2011**

- 3.1 A detailed report on the Provisional Revenue Support Grant Settlement for 2010/2011 was presented at the Authority meeting on 21st December 2009, and the main points are noted below, for information.
- 3.2 On 26th November 2009, the Parliamentary Under Secretary of State for Local Government issued the provisional report for the 2010/2011 Revenue Support Grant Settlement. This follows on from the Minister's first three-year Local Government Finance Settlement covering the period 2008/2009 to 2010/2011, which he issued on 24th January 2008 with further amendments on 21st January 2009.
- 3.3 The government has not made any changes to the formula grant system, and the Authority's grant entitlement for 2010/2011, of £35.57 million, remains unchanged from the figure announced previously. The level of grant entitlement, referred to above, represents an increase of 1.10% for 2010/2011. The Authority's grant increase, although well below the national increase for local government generally of 2.65%, is above the minimum (floor) increase for all fire and rescue services of 0.50%.

- 3.4 The Authority's grant allocation for 2010/2011 has been scaled back in order to help fund the 'floor', which means that all fire authorities will receive at least the minimum grant increase. The table, below, shows the impact on the Authority's allocation for 2010/2011:

<b>Settlement</b>	<b>Adjusted Grant 2009/10</b>	<b>Indicative Grant 2010/11</b>	<b>£ Change</b>	<b>% Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Allocation before 'floor' adjustment		35.874	0.690	1.96
<b>Actual Allocation</b>	<b>35.184</b>	<b>35.570</b>	<b>0.386</b>	<b>1.10</b>
Cost of Floor – grant reduction		0.304	0.304	

- 3.5 On 15th December 2008, CLG announced its proposals for distributing the Fire Capital Grant, totalling £78 million nationally, with this Authority due to receive a capital grant allocation of £745,323 in 2009/2010 and £959,579 in 2010/2011. With the exception of a requirement that the capital grant only be used for capital expenditure, the grant will not be ringfenced. Section 7 of this report provides further analysis of the Capital Programme 2010/2011.

#### **4. MEDIUM TERM FINANCIAL STRATEGY**

- 4.1 An updated Medium Term Financial Strategy (MTFS) has been prepared taking account of all supporting Strategies and Plans, as well as Member deliberations and comment regarding the impact of these Strategies and Plans in terms of shaping the services provided by the Authority. The revised summary MTFS, which is set out at Appendix A, takes account of the following main areas:

- the mainstream fire and rescue budget prepared on the basis of this Authority continuing to provide the currently approved levels of service;
- the revenue implications associated with the implementation of the Strategic Review of Fire and Rescue Cover;
- the revenue implications associated with the ongoing implementation of the IRMP;
- the implications of the financial arrangements for firefighter pensions;
- the implications of national and regional initiatives;
- the revenue implications of the capital programme;
- known service pressures identified in detail in the September report on the MTFS to the Authority;
- the revenue implications of the CPA Improvement Plan.

The above items are all explained further in this report.

### **Efficiency Targets for Delegated Budgets**

- 4.2 As identified in the MTFS 2010/2011 to 2014/2015, reported to Authority on 21st September 2009, 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, in terms of developing and improving the service as informed by the Strategic Plan, this review has identified efficiency savings on delegated budgets equivalent to 3%, which have been built into the MTFS.

### **Strategic Review of Fire and Rescue Cover**

- 4.3 As previously reported, the Public Private Partnership Scheme is now fully operational. The significant savings envisaged at the inception of the Scheme have accrued, and the planned reduction of Fire Fighters by natural wastage has enabled an annualised saving to be built into the base budget. The saving for 2010/2011 has been increased to £933,395 reflecting inflationary adjustments.

### **Integrated Risk Management Action Plan 2009-2012**

- 4.4 Members will be aware that this Authority produces and maintains a fully costed Integrated Risk Management Plan reflecting local needs and which sets out plans to effectively tackle existing and potential risks to communities.
- 4.5 The IRMP 2009-2012 includes a review of crewing levels on, and location of, Special Emergency Response Vehicles, and the impact of this has been built into the Medium Term Financial Strategy.

### **Firefighter Pensions**

#### **Ill Health Early Retirements**

- 4.6 Members will be aware that, under the funding arrangements for the Firefighter Pension Scheme, authorities retain responsibility for meeting the cost of ill health pension awards. Investment in health awareness and intervention measures through the Occupational Health Unit has brought about a reduction in the number of ill health early retirements, with none occurring during 2008/2009, and in 2009/2010, also, up to this point. Prudent assumptions have been included in the updated MTFS for ill health retirements.

## Actuarial Valuation

- 4.7 The latest actuarial valuation of the Firefighters' Pension scheme (as at 31st March 2007), undertaken by the Government Actuary's Department, was published on 23rd October 2009 with the main findings of the review noting that:
- pensioner longevity is increasing;
  - there were fewer ill health retirements than expected;
  - there were more voluntary withdrawals than expected;
  - evidence suggests that the average age of new entrants to the Scheme is increasing and that an increasing proportion of entrants are female.
- 4.8 The average cost of benefits accruing has increased from the previous valuation date of 31st March 2004, increasing from 36.5% of pensionable pay to 37.7% for the Firefighters' Pension Scheme (FPS) and from 22.7% of pensionable pay to 23.7% for the New Firefighters' Pension Scheme (NFPS), which is primarily due to the increased pensioner longevity. After adjusting for the ill health charge (which is met from Authority's operating accounts rather than the Pension Fund), the total contribution (from employer and employee contributions) is 35.4% for the FPS (previously 32.3%) and 20.3% for the NFPS (previously 19.5%).
- 4.9 Whilst no timescales have been notified for the implementation of revised contribution rates, it is envisaged that any increase will apply from 1st April 2011 onwards. At this stage, it is not clear what proportion of the overall increase in contribution will be applied to employers, and this is something that the Authority is keeping under close review, given the potentially significant additional cost that could arise.

## **Known Service Pressures**

4.10 A number of spending pressures were identified within the MTFS 2010/2011 to 2014/2015, as reported to Authority on 21st September 2009, including:

- Pay – taking into account the current economic position, prudent provision for salary costs has been made within the MTFS for all employee groups, which will be subject to the outcome of national pay agreements;
- General price increases – provision has been provided for general price inflation at 1% within the MTFS at this stage;
- Energy prices – 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;
- LGPS deficiency payments – a prudent approach has been adopted within the MTFS for further stepped increases in the deficiency contribution to the Local Government Pension Fund. As discussed at Authority meetings previously, the Authority is also giving consideration to the option of making a lump-sum contribution to the Pension Fund at some point in the future in order to reduce the annual revenue payments;
- Fire Control – as previously reported, given the delays in the project nationally, and in accordance with government statements, any additional costs will be fully funded for next year and for at least the three years following implementation (please see also paragraph 4.14);
- Firelink – detailed information is beginning to emerge in relation to this project and it appears, at this stage, that the position will be cost neutral to the Authority (please see also paragraph 4.17).

## **Interest on Investments**

4.11 Given the significant, sustained, reduction in the base rate, the budget has been revised accordingly and will be kept under review until the final budget proposals are made to the Authority in February 2010.

## **Carbon Reduction**

4.12 As part of the 2009/10 IRMP Action Plan, the Authority is currently working in partnership with the Carbon Trust and other FRAs in the region to develop a Carbon Reduction Plan. It is anticipated that the implementation of this Plan will necessitate some investment in order to make future savings both in carbon emissions and energy bills.

- 4.13 It is hoped that this Plan will be suitably advanced by February 2010 in order to present a detailed update to Members as part of the 2010/2011 Capital Programme. Members will be aware that the 2009/2010 Revenue Budget Second Review highlighted this as a potential area for reinvestment from the forecast underspend for 2009/2010.

## **National and Regional Initiatives**

### **Regional Control Centre (Fire Control)**

- 4.14 Members have received a number of updates recently on the Fire Control project outlining that, despite the project being delayed, the government remains committed to the Regional Control Centre project. An extension in timescales means that the new proposed 'go-live' date for this Authority is June 2011.
- 4.15 Project and transitional costs are fully funded until cutover and there is, therefore, no financial implication in relation to the 2010/2011 Revenue Budget. Whilst uncertainty remains in relation to the allocation of costs at a national and regional level, and in relation to the ongoing support from government to meet these costs, the overarching principle which the North East FRAs continue to pursue is that there should be no net cost to be incurred by any of the Fire and Rescue Services within the region.
- 4.16 Given the above uncertainty, this issue represents a risk to the MTFs over the medium term but not to the draft budget for next year. In view of this uncertainty, Members previously agreed to establish a reserve of £350,000 to provide a means of offsetting any costs associated with the Project on the basis that the CLG position does not currently provide an absolute assurance to the Authority.

### **Firelink Project**

- 4.17 The government will meet the capital costs of the new Firelink radio system, which has already brought about improvements at an operational level within this Authority. Whilst the position in relation to the ongoing revenue costs of the new system require some further clarification, the latest information provided by the contractor indicates that the position will be largely cost neutral for the Authority.

## Transfer of Ownership of New Dimensions Assets

- 4.18 A report was presented to the Authority in December requesting Member approval for the transfer of ownership to this Authority of its New Dimensions assets. This follows an exchange of correspondence with CLG where assurances were provided, as far as possible, in relation to future funding to meet the cost of the 16-year maintenance contract.
- 4.19 On this basis, the both the Medium Term Financial Strategy and the Revenue Budget for 2010/2011 will assume a neutral position arising from this transfer.

## Regional Collaborative PFI Scheme - NEFRA

- 4.20 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 reflects 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

## Human Resources

- 4.21 The MTFS takes full account of the wide range of human resources developments, plans and strategies, succession planning, establishment review and the review of the operation staffing profile.

## Review of Operational Staffing Profile

- 4.22 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 were assumptions in relation to the split of firefighters in either the new or old firefighter's pension scheme, which is necessary as the employer's pension contribution is lower in the new scheme (11.0%) compared with the old scheme (21.3%). The impact of this review is reflected in the Medium Term Financial Strategy, and will be incorporated into the Revenue Budget for 2010/2011, as this is finalised.



## **CPA Improvement Plan**

- 4.23 Members will be aware that a CPA Improvement Plan includes 10 Improvement Outcomes, each Outcome having associated targets within Annual Plans. Members have previously supported investment in the Authority's Establishment Scheme and other initiatives to deliver these Outcomes. All of the remaining CPA Improvement Plan actions can be addressed from existing resources, though this position will be kept under review and provision included where appropriate

## **5. Tyne and Wear Emergency Planning Unit (TWEPU)**

- 5.1 A review of all Joint Service arrangements is currently ongoing, although the review of TWEPU is still at an early stage. In December 2009, the Tyne and Wear Leadership Group agreed Joint Service budgets for 2010/2011, and the position for TWEPU is a reduction in contributions from the District Council's of 4%, resulting in a budget provision of £513,887.
- 5.2 When agreeing the revised TWEPU staffing structure in September 2008, the Chief Emergency Planning Officer introduced a degree of flexibility into the budget through a number of fixed term posts, and it is intended that this flexibility will be utilised in delivering the required efficiency savings.

## **6. General Fund Balances, Earmarked Reserves and Provisions**

- 6.1 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.
- 6.2 Taking account of the level of risk within this Authority, the retention of a minimum level of general fund balances of approximately £3 million is considered, at this stage, to be appropriate after taking into consideration the following:
- a significant modernisation programme which brings with it both financial and change management risks;
  - funding required to support the Estates Development Strategy;
  - the uncertainty regarding price and pay inflation, including specifically energy prices, and the impact of potential changes in base rates;

- uncertainty regarding the future funding for national projects;
- the risk analysis included in the MTFS reported to Authority in September 2009.

6.3 The Revenue Budget 2009/2010 Second Review, reported in November 2009, that uncommitted general balances were estimated to be approximately £3.98 million by 31st March 2010. This report also highlighted a number of specific service pressures, and work is underway to identify the potential impact that these might have on the level of uncommitted general balances. These pressures include:

- Carbon Reduction – a Carbon Reduction Plan is being progressed, as outlined at paragraph 4.12, which will necessitate some investment;
- Equality and Diversity – the Authority is in the process of reviewing and evaluating a number of schemes to support its commitment to achieve higher equality and diversity ethnic recruitment targets;
- Firelink – whilst the latest position, as outlined at paragraph 4.17, suggests that there will be no additional cost to this Authority, the position will need to be kept under review;
- LGPS – as referred to at paragraph 4.10, consideration is being given to making a contribution to the Pension Fund at some point in the future in order to reduce the annual revenue payments;
- Estates Development Strategy – Members were presented with a report in December outlining progress in relation to identifying sites for the relocation of Fulwell and Rainton Bridge Fire Stations. Funding is held in the Development Reserve towards meeting the cost of the Estates Development Strategy, although additional funds may be required, as individual schemes are developed, and the costs become more certain.

6.4 As in the previous year, 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 2010. 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 to be considered by the Authority in February, 2010.

6.5 The asset management requirements of the Authority will also be reviewed, together with the capital needs over the medium term.

## **7. Capital Programme 2010/2011**

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

7.2 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.

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

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

7.4 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.

7.5 In 2009/2010 and 2010/2011, the Authority will receive Fire Capital Grant of £0.745 million and £0.960 million, respectively. Consideration will be given to how best to utilise this grant as part of the preparation of the Capital Programme 2010/2011.

7.6 The Capital Programme for 2010/2011 is still under consideration, and will be reported to Members in February 2010. 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 budget position for the Authority and achieving, as far as possible, the agreed objectives of setting a sustainable budget and so far as possible, restricting precept increases.

7.7 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are presented to Members in February 2010, and beyond that, to ensure that the optimum use is made of the available resources. These options include:

- Revenue Contribution to Capital Outlay;
- External Borrowing;
- Use of General Fund Balances / Reserves (including Development Reserve);
- Leasing;
- Use of Capital Grant (as referred to at paragraph 3.5).

#### Revenue Implications Arising from the Capital Programme

7.8 The Estates Development Strategy outlines a number of proposals for future development of the Authority's estate portfolio, and was updated in December 2009 in a report to Members outlining 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. Whilst these 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.

## **8. Efficiency Savings**

8.1 Paragraph 3.3 refers to the provisional Formula Grant allocation for 2010/2011 representing an increase of 1.10%, reflecting a tightening of the national funding position, with the expectation of a far tighter position beyond that. Clearly, this brings a significant pressure on the Authority's medium-term financial position.

8.2 In addition, the Audit Commission's national review of the Fire and Rescue Service – "Rising to the Challenge, Improving Fire Service Efficiency" outlined a number of findings, including that the service "could save up to £200 million a year if all fire services adopted good practice from pioneering fire services". The government has, naturally, welcomed this review, and it is likely that the next Spending Review will take account of the potential for FRS's to deliver further efficiency savings when deciding on the level of grant settlements available to the Fire and Rescue Service, nationally.

- 8.3 Given the foregoing, there is clearly a need for this Authority to continue to identify and realise efficiency savings over the short and medium term and both the Medium Term Financial Strategy and the Revenue Budget for 2010/2011 are being developed on this basis.

## **9. Detailed Budget**

- 9.1 The detailed Revenue Budget will be reported to a meeting of the Authority on 22nd February 2010. Presently, the draft budget is approximately £59.25 million, however, this is under review and is subject to variation. As there is no government spending guideline, the most important issue for the Authority to consider is the level of precept necessary in order to fund the budget requirement.

## **10. Guideline Council Tax Increase**

- 10.1 With regard to Council Tax levels, the government has retained its 'Capping and Reserve Powers' and expects to see average Council Tax increases fall further from this years (2009/2010) average Council Tax increase of 3%. It has stated that local government should be clear that it is prepared to use its capping powers and that past capping criteria should not be regarded as any guide to future criteria.
- 10.2 Based on the above announcement, and experience in recent years, it is clear that capping is very likely to be applied to the Fire and Rescue Authority's budget if the precept increase is above 3%. The draft budget shows a budget requirement of £59.25 million, which represents an overall increase in spending of 0.91%.
- 10.3 However, this takes no account of potential changes in the Council Tax base of the Districts or any surpluses/deficits in collection fund accounts. In addition, detailed budgets are in the final stages of preparation and the budget requirement may, therefore, be subject to variation. Notwithstanding any variation in budget requirement and receipt of the latest council tax bases and collection fund positions, a precept increase of significantly below 3% will be possible.

10.4 It must be stressed that the figures are indicative only at this stage and there are a number of outstanding issues that will be clarified prior to the submission of the final budget proposals to the meeting of the Authority in February. These outstanding issues are as follows:

- final preparation of budget requirement is still ongoing at this stage, and may be subject to variation;
- the position advised in relation to the Council Tax Bases of Billing Authorities;
- the collection fund position of each of the Billing Authorities;
- ongoing uncertainties with regard to a number of national projects.

## **11. RECOMMENDATIONS**

11.1 The Committee is requested to:

- a) Note the contents of the report and the draft Revenue Budget position for 2010/2011;
- b) Note the draft revised MTFS attached at Appendix A;