

AGENDA ITEM:

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| <b>REPORT TO:</b>          | <b>MERSEYSIDE FIRE AND RESCUE AUTHORITY</b>  |
| <b>DATE:</b>               | <b>29<sup>TH</sup> NOVEMBER 2011</b>   |
| <b>REPORT NO.</b>          | <b>CFO/151/11</b>  |
| <b>REPORTING OFFICER:</b>  | <b>DEPUTY CHIEF EXEC, KIERAN TIMMINS, 4108</b>                                     |
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| <b>OFFICERS CONSULTED:</b> | <b>NICK MERNOCK DIRECTOR OF PEOPLE &amp; O.D<br/>JANET HENSHAW DIRECTOR OF LAW</b> |
| <b>SUBJECT:</b>            | <b>FINANCIAL PLAN UPDATE AND POTENTIAL<br/>EMPLOYEE IMPLICATIONS</b>               |

| <b>APPENDIX</b> | <b>TITLE</b>                                    |
|-----------------|---|
| <b>1</b>        | <b>LGA Letter Dated 25/10/11</b>                |
| <b>1A</b>       | <b>Trade Union NJC Pay Chain</b>                |
| <b>2</b>        | <b>Council Tax Freeze Letter Dated 14/11/11</b> |
| <b>3</b>        | <b>Voluntary Severance Report CFO/019/11</b>    |
| <b>4</b>        | <b>Equality Impact Assessment</b>               |

**ATTACHED – HARD COPY**

Purpose of Report

1. To advise Members of emerging risks and challenges identified in the current financial plan and to highlight to members the very real likelihood that they will have to consider compulsory redundancies as a means by which to achieve the required savings.

Recommendation

2. That Members;
  - Note the good progress on delivering the current financial plan
  - Note the risks that appear to be arising around pay awards assumptions in phase one of the financial plan

- Note the potential for considering a strategy to freeze council tax grant and the associated savings requirement.
- Note that the national average grant cuts for the fire service have been announced for 2013/14 and 2014/15 and that they are twice as high as national average grant cuts applied in 2011/12-2012/13
- Note that , depending on decisions made by the Authority in setting its February budget (and certainly in relation to Phase 2) that it will be increasingly difficult to avoid compulsory redundancies (based on an assumption that the Authority will receive cuts at national average grant cut levels in Phase 2).
- In order to have the flexibility to consider a range of budget and council tax decisions request the Chief Fire Officer, as a matter of urgency, conduct a review of all back office services with a view to identifying savings plan that would allow the Authority to review its phase one strategy and be well prepared for phase two.
- Noting that these reviews may well identify staff at risk of compulsory redundancies should members agree to implement them

Members agree to extend the previously agreed VER/VS scheme, with the Director of People & Organisational Development (POD) to report back on a six weekly basis on take up and costs.

### **Executive Summary**

Progress on the current financial plan is for the most part is strong.

There are significant risks around the assumption that the pay freeze for all staff will continue into 2012/13(a third year). It is considered that members might wish officers to begin planning to deal with that potential risk.

The Chancellor of the Exchequer, George Osborne announced new support for local authorities to help them freeze council tax next year by way of a one-off grant. If members are minded to adopt such a strategy they would need to approve additional savings of £1.1m.

In phase one that national average grant cuts were

- 2011/12                      5.7%
- 2012/13                      0.7%

Merseyside suffered, like most Metropolitan Fire Authorities, grant cuts in excess of double the national average for Phase One.

The government has now announced the national totals for formula grant cuts for phase 2 (but not individual Authority figures). These are

- 2013/14                      8.5%
- 2014/15                      5%

Based on the current financial plan if Merseyside was at the Average of national grant cuts for years 3 and 4 of the spending review it would require further savings of approximately £8.5m.

The Authority has been lobbying extensively around Phase 2 of the cuts but needs to be realistic about the outcomes for Merseyside in light of the announcements of these national totals for Phase 2 and to plan accordingly.

It is considered that the strategy for delivering savings, whilst recognizing all our staff are hardworking and valuable the Authority would, in the first instance, want to focus on back office service areas.

It should be noted that (given the likely scale of potential cuts based on current information) if the Authority is required to deliver savings in excess of £8m this could not be possibly achieved without affecting front line services and cuts in prevention, protection and response would be inevitable.

There will be a very high likelihood of compulsory redundancies as the Authority considers its budget for 2012/13 and future years. The Authority will need to consider a reserves strategy that supports any financial plan involving restructuring and redundancy costs

## Introduction & Background

### **Current Financial Plan**

3. Members will recall that, in line with their aspirations to take a medium term strategic approach to managing their finances, the Authority set a financial plan for 2011/12- 2014/15 alongside its budget and council tax for 2011/12.
4. In setting the financial plan the Fire Authority faced a very difficult financial position with a confirmed deficit for the first two years of £9.0m. The reason for the financial problem was because of cuts in government grant which are the worst for any fire and rescue service in the country – in excess of a 13 % cut over the next two years.
5. More alarming in the longer term was the fact that the government had indicated that only one third of the cuts had been applied to the fire and rescue service nationally so therefore 2/3rds of the cuts were yet to be applied.
6. The budget the Authority agreed adopted a two phase approach to the financial challenge - the biggest ever faced by this service. Phase 1 identified the savings options to balance the budget over the first two years of £9.2m.
7. Phase 2 proposes a lobbying strategy jointly with other fire and rescue services, trade unions and local politicians to seek to minimise the impact of future cuts. Depending on the success of this the resolution assumes that the Authority would work with the local community to make a choice between the right taxation levels and the service being delivered.

8. The plan for Phase 1 set by the Authority was:-
- 1) Assumes a council tax freeze in line with most fire and rescue authorities up and down the country.
  - 2) To deliver the savings required it has planned to :-
    - Assume a three-year pay freeze for all staff
    - A £2.4 million cut in management and back office costs
    - Reduce staffing at our mobilising centre
    - Efficiencies in frontline staffing which will minimise the impact on frontline services including:
      1. Managing more effectively the dynamic reserve
      2. Introducing a new duty system for the marine rescue team
      3. introducing a new duty system at Whiston fire station.
9. The Firefighter reductions, 92 in total, are being achieved over three years through not replacing people when they retire. An enhanced voluntary severance and retirement offer was made available to all non-uniformed staff to try and enable the Authority to avoid compulsory redundancy in non-uniform staff.

### **Budget Progress Update**

10. In overall terms the Authority has made good progress in delivering its financial plan (See latest Financial Review for more details CFO/145/11). However there are some areas of concern and new information which it is important to bring to members attention.

### **Pay Assumptions**

11. The Authority has assumed a three year pay freeze for all staff as part of its budget which saves £3m in total. 2011/12 represents the second year of that pay freeze. At the time of writing the national employers had declined to make a pay offer to staff in 2010/11 or 2011/12. Whilst this has not been accepted by trade unions it appears not unreasonable to assume that the first two years of a pay bill freeze have been delivered. In addition concerns about employers pension contribution increases have been eased by CLG who have indicated that

*“the position is that there are no current proposals to increase employers’ contribution rates for 2012/13. However, discussions will take place on the position for subsequent years, in due course”*

In relation to the third year the situation is more complex. There is no doubt that our staff feel under financial pressure because of issues such as:

- High levels of inflation
- Tax changes
- Benefit Reductions
- Potential Pension changes around which many trade unions are already balloting for industrial action

12. In addition some members of the employers group are from Authorities which have enjoyed funding increases which may have a very different attitude to the relative affordability of pay rises in 2012/13. The most recent letter from the employers in relation to this matter is attached at Appendix 1.
13. It is considered that members will, as part of their budget process for 2012/13 wish to consider the viability and rationale for budgeting for any pay award so they might wish officers to prepare options that would allow them to consider that as a course of action. A 1% pay award is equivalent to £0.6m p.a.

### **Council tax 2012/13**

14. Members will recall that they have set a financial plan that relies on council tax increases from 2012/13 onwards of 4%.
15. The Chancellor of the Exchequer, George Osborne announced new support for local authorities to help them freeze council tax next year. Councils that freeze or reduce their 2012-13 basic council tax level (Band D) will receive an additional grant equivalent to 2.5 per cent increase on their council tax for this year. Police and Fire Authorities will receive a grant equivalent to 3 per cent increase. The consultation paper on this proposal is attached as Appendix 2.
16. However unlike this year's system (which issued a similar grant but one which would be in place at least for four years). The grant would only be in place for a single year so the Authority, if it were minded to pursue a freeze, would need to deliver permanent savings equivalent to a 4% tax increase. This equates to £1.1m.

### **Grant Position for Phase 2 (2013/14 and 2014/15)**

17. Members will recall that whilst the government had a four year spending review they had previously only announced national totals of formula grant (and indeed specific figures for fire authorities) for the first two years or phase 1.
18. In phase 1 that national average grant cuts were
  - 2011/12                    5.7%
  - 2012/13                    0.7%
19. Merseyside suffered, like most Metropolitan Fire Authorities, grant cuts in excess of double the national average for Phase 1. The government has now announced the national totals for formula grant cuts for phase 2 (but not individual Authority figures). These are
  - 2013/14                    8.5%
  - 2014/15                    5%
20. Based on the current financial plan if Merseyside was at the average of national grant cuts for years 3 and 4 of the spending review it would require further savings of approximately £8.5m.
21. At present it seems likely that the Authority will not know the exact position until late in 2012. This position may be affected by the Resource Review which is looking at the overall funding of local government but it is considered that

members would wish officers to begin preparing plans for dealing with the likely outcomes at this point.

### **Lobbying Update**

22. The Authority (along with the other Metropolitan Fire and Rescue Authorities) has prepared a detailed lobbying paper regarding the potential impact of cuts on the national fire and rescue service and the communities we serve. The paper has been widely distributed and has attracted a degree of media interest to date.
23. Through South Yorkshire FRS, John Healy MP has offered to host an All Party Metropolitan MP's briefing on the matter which will take place at parliament on the 22<sup>nd</sup> November.
24. The Deputy Chief Executive has lobbied for Fire and Rescue Service representation on the Resource Review deliberations and now attends and advises as sole Fire Service representative as ideas about potential future funding for the service are considered.

### **Impact on Fire Authority Mission**

25. The Fire Authority mission is to have Safer Stronger Communities, Safe Effective firefighters.
26. This report identifies a number of potential risks to phase 1 of the budget savings plan that may require additional savings next year (2012/13) depending upon Fire Authority strategic financial decisions.
27. The announcement of the national average grant cuts for fire also contribute to an emerging picture for the Authority whereby it will, in all probability, have to deliver large scale savings over the next three years. **This will impact upon the Authority mission and will undoubtedly affect front-line services delivered to the community.**
28. It is considered, that the strategy for delivering savings, whilst recognising all our staff are hardworking and valuable supporters of the service we deliver would, in the first instance, have to focus on back office service areas.
29. It is considered that the Authority would wish the Chief Fire Officer to immediately undertake a full review of all support and back office service areas with a view to identifying significant savings that will contribute towards 2012/13 budget decisions and a longer term strategy. This is likely to identify a number of staff at risk of compulsory redundancy.
30. It should be noted that (given the likely scale of potential cuts) if the Authority is required to deliver savings in excess of £8m this could not be possibly achieved without affecting front line services and cuts in prevention, protection and response would almost be inevitable along with a very high likelihood of compulsory redundancies.

## Employee Implications

31. The Fire Authority has stated its intention to avoid compulsory redundancies wherever possible to that end it has implemented :-
  - a) a programme of Voluntary severance and Voluntary early retirement for non-uniform staff
  - b) Maintenance of high levels of reserves to give flexibility in the timing when budget cuts are implemented
  - c) The use of natural turnover rates of firefighting staff to avoid compulsory redundancy
32. To date the Authority plan has worked well to deliver its financial savings targets by using VER/VS and natural turnover rates. Since February 2011 24 non-uniform staff have left the organisation under a programme of VER/VS. In addition a number of short term contracts have been terminated.
33. The Director of People & Organisational Development will work with each Director or Head of Department to review the individual roles undertaken by each post holder within their respective department in order to establish the validity of each role, in addition to looking at alternative ways of delivering our services. This will be conducted with the intention of identifying for the consideration of the Chief Fire Officer, roles that could potentially be deleted from the Service establishment.
34. As the Chief Fire Officer carries out the reviews it will almost certainly identify a number of staff who will be at risk of compulsory redundancy. It is likely that despite a combination of VER/VS, redeployment and natural turnover the Authority will be in a position that it might need to make compulsory redundancies in a timely fashion.
35. In undertaking this exercise as early as possible it will allow people in those posts identified as potentially at risk of redundancy, the earliest opportunity to apply for other posts as they become available, or to be redeployed into other roles within other departments that may be created as part of the review mechanisms. It is crucial the Service begins this exercise across all its departments simultaneously, providing more scope for alternative options, as opposed to completing such an exercise in small stages or departmental isolation.
36. It is recommended that the Authority at this time extends the application timescale of its scheme for VER/VS. If agreed the Director of POD will report back on a 6 weekly basis on the take up and costs of that scheme (The details of the current scheme are in Appendix 3)
37. The Chief Fire Officer following his deliberations of individual departmental savings plans will report back to members the outcomes of the reviews in a timely fashion in order to support the budget decision making process the Authority will be required to take in February 2012.
38. Discussions with the Trade Unions will commence immediately, in order to manage the impact on staff at risk and to ensure all legislative consultation requirements are complied with.

39. **Members are asked to note that, based on the risks identified, there is a very high likelihood of compulsory redundancies as the Authority considers its budget for 2012/13 and future years. The Authority will need to consider a reserves strategy that supports any financial plan involving restructuring and redundancy costs.**

#### Equality & Diversity Implications

40. The Service has a Redundancy and Redeployment Policy that is jointly agreed with the Trade Unions, and on which a full equality Impact Assessment has been undertaken. Appendix 4
41. Individual service area reviews will require full individual EIA's

#### Staff Implications

42. This report identifies significant financial risks that will make it very difficult for the Authority to avoid compulsory redundancy as it moves forward. All employee implications will be dealt with in accordance with jointly agreed local and National conditions of service.

#### Legal Implications

42. The Service has a jointly agreed severance policies in place which will be complied with as well as all legislation relating to these matters. Consultation will commence immediately with the Representative Bodies as required by the Employment Rights Act 1996 and the Trade Unions and Labour Relations (Consolidation) Act 1992

#### Financial Implications & Value for Money

43. The report identifies potential financial risks to the Current Financial Plan relating to
- a) Potential for Pay awards in 2012/13 (1%=£0.6m)
  - b) Potential for the Authority to consider a permanent council tax freeze offset by a one off grant (to do so would require permanent savings of £1.1m approximately)

In addition the government has confirmed the national average grant cuts for fire at 2013/14 - 8.5%  
2014/15 - 5%

In phase one Merseyside did twice as badly as the average fire and rescue service)

VER/VS incurs a costs and is only used where a robust business case exists in line with Authority policy

#### Risk Management, Health & Safety, and Environmental Implications

44. These will be assessed as part of individual service reviews.



Contribution to Achieving Our Mission:

\*\*To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

\*\*Currently part of the IRMP 2012-2015 Consultation

45. Any necessary staff reductions will be conducted in such a way to ensure that MFRA continues to provide an excellent service to the communities of Merseyside within a smaller but dynamic service delivery function.