

AGENDA ITEM:

REPORT TO:	MERSEYSIDE FIRE & RESCUE AUTHORITY
DATE:	TUESDAY 3RD SEPTEMBER, 2013
REPORT NO.	CFO/103/13
REPORTING OFFICER:	DEPUTY CHIEF EXECUTIVE
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OFFICERS CONSULTED:	
SUBJECT:	IMPACT OF THE GOVERNMENT FINANCE ANNOUNCEMENTS

THERE ARE NO APPENDICES TO THIS REPORT

Purpose of Report

1. To advise Members of the Government announcement regarding the level of grant it will provide to the Authority for the financial years of 2014/15 and 2015/16.

Recommendation

2. It is recommended that Members note the contents of this report, and the implications on Merseyside Fire & Rescue Authority and the services it provides.

Introduction & Background

Current Position – the Starting Point

3. The starting point for considering the financial plan, is an assumption that the Authority has a balanced financial plan for the next two financial years to 2014/15.
4. The key points taken account of in that plan are set out below:-

- a) **Grant**

The Government announced the level of grant it will provide to the Authority for the years of 2013/14 and 2014/15. The Authority's funding is being cut by 8.7% and 7.5% respectively in those years - a £6.3m cash reduction. The funding reduction is worse than the national average for fire and rescue services and means that over the next two years the Fire Authority already needed to make savings of £10m to balance the financial plan. (This is in addition to significant Government grant reductions in the first two years (2011/12, 2012/13) of the spending review period which required £9.2m of savings to balance its budget.)

b) **Council Tax**

The Authority recognised the financial pressures on the communities of Merseyside but kept to its financial plan and increased its council tax precept by the maximum allowable, 2% (or an extra £1.34 for a band D property). This was in order to minimise the long term impact of government cuts on the services to the Merseyside Community.

Dealing with the Government Cuts and the £10m saving challenge:

5. In order to balance the books the Authority first sought to identify savings from Back Office and Support Services and was able to identify £7m of the required £10m savings from those areas including:-

- Assuming a further two years of pay restraint for all staff.
- Technical savings of £2.5m were identified from inflation and capital expenditure budgets.
- Additional income of £0.5m including :-
 - a. Shared use of fire stations with the Ambulance Service
 - b. Increased efficiency through a Joint Command and Control Centre with Merseyside Police
 - c. Shared services at the vehicle workshops
 - d. Cost recovery of smoke alarms from low risk households.
- Efficiencies identified in support service areas of £2.307m. This placed a large number of non uniform staff at risk of redundancy. Many of the support service areas and posts affected in fact provide front line services to the community of Merseyside notably prevention and protection,

6. **Despite the efficiencies this still left £3m in cuts to be identified from front line services.**

7. A fundamental review of fire cover was undertaken to deliver a cut of £3m. The key points were:-
- A reduction of 90 fire-fighter posts
 - We are aiming to keep all our fire stations open at present (apart from Huyton and Whiston stations which are being considered for a merger)
 - There will be a 33% cut in the number of fire appliances immediately available from 42 to 28.
 - The introduction of a 10 minute response time standard across Merseyside (on average the first response to an incident will be much faster). It will take over three years to deliver these front line savings from natural turnover of firefighting staff through retirement. The Chief Fire Officer will manage the implementation of the new fire cover model in order to deliver the savings and efficiencies in such a way as to minimise risk.
 - The firefighter post reductions are being achieved by natural retirement rates but take until mid 2015/16 to deliver.

So what's changed – Local Government Finance settlement 14/15 and 15/16 technical consultation

8. On the 26 July the Government announced a technical consultation on the finance settlement for the next two years. The consultation paper, together with supporting documents can be found at <http://www.local.communities.gov.uk/finance/1415/sumcon/index.htm>
9. The announcement allows for robust financial planning as it gives specific figures at an Authority level for 14/15 and 15/16.

2014/15

10. Funding has been cut by a further 1% in 2014/15 in line with the chancellor's announcements and the safety net top slice increased. **This will require further savings of £408K to balance the 14/15 position over and above the £10m already planned.**
11. Worryingly, the Government has set aside more money in the safety net, based on Council returns to date. The safety net is to protect Authorities with more than a 7.5% loss in local business rates. The Government has assumed business rates total will rise by 2.8% in 2014/15. There is no guarantee this is the position in Merseyside.

2015/16

12. The cash cut in 2015/16 is 8.4% (10% “real terms”). The cut is not just being applied to old grant, but the new total including the Council Tax Benefit Localisation Grant . This will result in a further grant reduction of £3.412m in a single year from revised 2014/15 figure.
13. If the local business rates growth varies from Government forecast inflation growth we can be better/worse off.
14. There are no changes proposed to distribution methodologies for grant. This is potentially favourable as it will retain the banded floor protection which assists the Authority.
15. The resource fund (£30m) and capital fund (£45m) for fire, are available for one year only for “transformation” and could not be relied on for budgeting either in the short term or mid-term. There will be a bidding process for these grants, that may take place during 2014/15 according to conversations with CLG officials.

Other Factors that impact on the Financial Plan

16. Council Tax:-

The referendum level for 2015/16 (and 2014/15) is set at 2%. In the financial plan we had assumed 4% for 2015/16 originally. We are therefore worse off by £460K.

17. Pension Costs:-

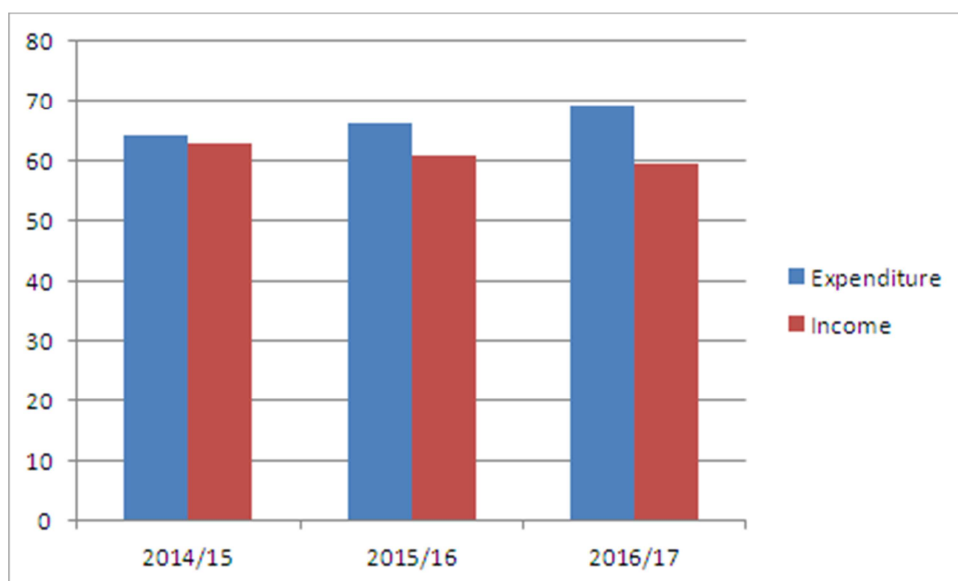
It is still anticipated that changes to the opt-out arrangements for public sector pension schemes in 2016 will add 3.4% to employers National Insurance (NI) bill (forecast cost £1.0m). The Local Government Pension Scheme is anticipating increased employer contribution costs amounting to about £0.2m p.a.

The key variations are set out in the table below:

Key Variations	2014/15 £'m	2015/16 £'m	2016/17 £'m
Inflation		1.8	3.6
LGPS Pensions		0.2	0.2
NI on Pensions Opt Out			1
Income Variances			
Grant Cuts	0.4	3.8	5.7
Council Tax Increase		-0.5	-1

Overall Impact

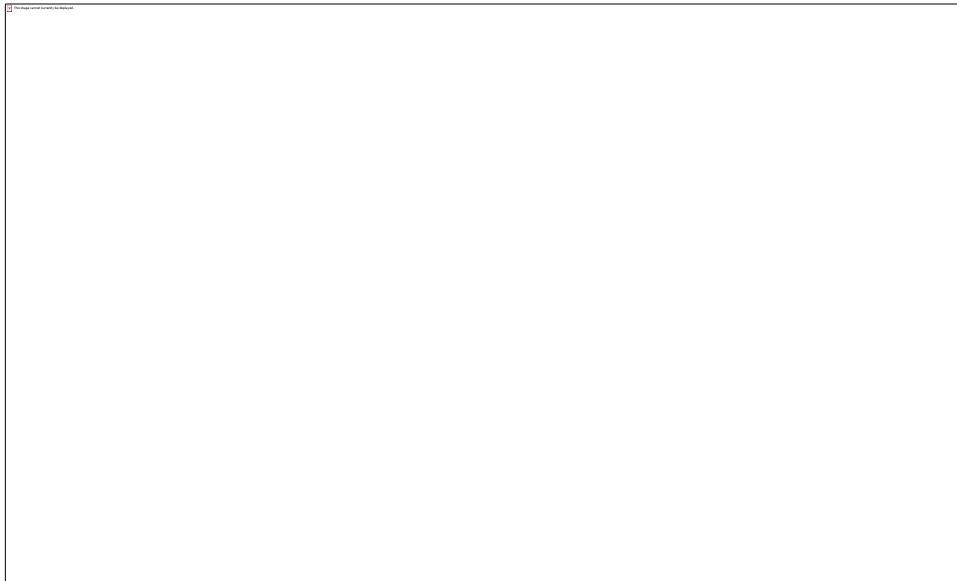
18. Allowing for increases in pay and prices in 2015/16 and 2016/17 at 2% and assuming that there will be a further 5% reduction in grant funding in 2016/17 this means that the overall forecast budget deficit the Authority will have to bridge is now estimated at **£9.1m** (over and above the £10m savings already made to 2014/15)



19. ***Given the significant efficiencies made to date and the limited further scope for back office and technical changes it is unlikely that the required reduction in front line costs is likely to be any less than £5.6m or the equivalent of about 150 firefighting posts. At the very least, this will require Station mergers and the crewing of a number of appliances on days only.***

20. Reserves are likely to be needed to support budgets in 2015/16 and 2016/17 to avoid compulsory firefighter redundancy.

21. Below is the current forecast of the firefighter retirement profile.



- In yellow are the firefighters required to require to meet the current financial plan to 2014/15 (That will not be fully achieved until just into 15/16).
- In red are the retirements required for an assumed further reduction of 150 posts (to meet the 15/16 and 16/17 financial challenge).
- Assuming this profile is correct we will therefore be 'over budget', by the following numbers in years. The number of retirements will be insufficient to keep pace with the required rate of cuts.



17. **Based on this preliminary assessment, we will need an estimated £10m of reserves to cover the cost of 292 FF posts over budget across the five year period** to avoid compulsory redundancy. Further work is required to confirm this figure.

18. Based upon the profile above we will however need to recruit (to stay at 616 firefighters) ; around 340 firefighters by 2023 so we would probably want some reserves to assist with recruitment before 17/18 when we hit target number (assuming there are no further cuts announced for the following years).

Equality & Diversity Implications

19. There are no equality and diversity implications arising directly out of this report.

Staff Implications

20. There are no staffing implications arising directly out of this report.

Legal Implications

21. There are no legal implications arising directly out of this report.

Financial Implications & Value for Money

22. The financial implications of the Government announcement are detailed above.

Risk Management, Health & Safety, and Environmental Implications

23. No implications arising directly out of this report.

Contribution to Our Mission – To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

24. The Authority needs to find ways to maintain delivering its mission with much reduced funding.

BACKGROUND PAPERS

Glossary of Terms