

REPORT TO	Fire Authority
DATE:	25th June 2007

SUBJECT: Budget update

SUMMARY:
 This report gives an update to members regarding issues for the budget for 2008-11

IMPLICATIONS:

OPERATIONAL RISK: None

COMMUNITY RISK: None

TRAINING: Members will be updated further in their Training Seminar in September 2007

H.R: None at present

FINANCE: As report

I.T/COMMS: None

EQUALITY & DIVERSITY: None

HEALTH & SAFETY: None

LEGAL: None at present

RECOMMENDATION:
 For information

BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT

Expenditure Sub Group papers
 National discussions/ NJC Papers

Report Author and Designation	Liz Aitken, Director of Finance and Procurement
Telephone number/Extension	01267 226804

Report to the Fire Authority on 25th June 2007

Budget Update

Background

The purpose of this report is to update members on the issues that will affect the budget setting process for 2008-2011, the next 3 year budgeting period for the Authority. A further update will be given at the members' training seminar in September 2007.

Introduction

Members will be aware following the last members training session in March that the Chancellors pre - budget report indicated a further tightening of resources over the 3 year period 2008-11. This is likely to become apparent in the Chancellor's Comprehensive Spending Review (CSR) announcement, which was originally scheduled for July, but has been reported as delayed, possibly even until the Autumn.

The Chancellor outlined an expected 2% increase in pay awards across the public sector and indicated a potential requirement to provide efficiencies of 3% every year. This has yet to be formally announced in the CSR, and the expectation of the Assembly in reaction to the Chancellors statements, has yet to be declared. The Welsh Local Government Association (WLGA) has made clear that it considers this level of efficiency to be unrealistic. A 3 % efficiency level for this Authority is in the region of £1.2 million.

Since March, the Authority has played its full part in the Expenditure Sub Group budget negotiating process with the Assembly and WLGA. A report has been submitted on behalf of all FRSs in Wales outlining the pressures facing the Fire and Rescue Authorities over the next 3 years.

Senior Officers have met with the Constituent Authority Treasurers in order to give them an understanding of the pressures and of their impact on the budget. The issues outlined below have been included in the Expenditure Sub Group Report and have been communicated to the Constituent Authorities.

Base budget

At the training seminar in March it was made clear to members that a re-pricing of the base budget together with the full year effects of both revenue and capital schemes would cause the budget requirement in 2008/09 to be increased by 4.1%, on a like for like basis, over that for 2007/08. Because of the impact of the one off contribution of £1.4 million from the Pensions Provision in 2007/08, which depressed the base budget for that year, the cash increase would be 7.7%.

Since that time the NJC have announced the firefighters' pay award for 2007/08 (effective 1st July 2007) at 2.4%. The budget assumed a figure of 3%, giving a reduction

in 2007/08 of near £100k. This will have an ongoing effect for the budget setting process, assisting in a small way in paying for some of the pressures outlined below.

In addition, a serious examination of the base budget will be undertaken during the summer, as part of the budget setting process, in order to deliver a process for making efficiencies over the next budgeting period.

Further pressures

In addition to the above there are a significant number of pressures facing the Authority, many of which have a high impact in terms of funding requirement. The service is making a case to the Assembly civil servants and Ministers, to get the additional resources required from them, as we see these additional pressures as 'new burdens' – something which the Assembly has promised the WLGA would be automatically funded to Local Authorities through the Standard Spending Assessment (SSA) (and on our behalf in the case of the Fire and Rescue Service).

Firelink

On the 30th March 2006 the Minister formally announced that the Welsh Assembly Government had approved participation in the Firelink project. By joining the UK Government in the procurement of a state-of-the-art digital radio system from Airwave Limited, the fire service in Wales will for the first time enjoy radio interoperability with both its police and ambulance service colleagues.

The capital costs across Wales are £44 million over 10 years, plus the costs of potential contract changes (further £ millions). Estimates suggest that the service and maintenance costs for Wales will be between £2 million and £3 million each year. There may also be a distributional issue of costs between Fire Authority areas, the basis of which has not yet been agreed.

Individual FRSs could incur additional one-off costs resulting from any local enabling works necessary to support the installation of Airwave equipment within fire service Control rooms etc. Although the extent of these works has not yet been fully assessed, such enabling costs could be significant. (£'000s)

Resilience work to the 3 Control Rooms

In recognition of the heightened requirements to maintain operational activities as were identified in the Civil Contingencies Act 2004 and to improve resilience, expenditure would be required to upgrade and interconnect existing computer systems in the 3 Control Rooms across Wales. Such a project could be completed within three years, delivering FireControl type benefits to the Principality (FireControl is the project running in England to replace the current 47 control rooms with 8 regional ones). The resultant control room architecture would then allow the emergency 999 activities of any single

control room rendered inoperable through equipment failure, pandemic, terrorism or other such threats to business continuity, to be addressed by one or both of the control rooms remaining operational. There would also be inherent support for activity peaks often associated with flooding, grass fires and other spate conditions.

A small fire service task group (including a representative from the Assembly) has in recent months been evaluating the costs of improved resilience. The total capital and revenue costs that were identified by the group over the 3 years amount to some £2.5 million, conditional upon the cost of certain works being incorporated within the Firelink programme. This is comprised of £0.5 million for the first of two phases (interconnecting the South and Mid & West Wales control rooms during financial years 07/08 & 08/09), £1.5 million for phase-two (adding the North Wales control during 08/09 & 09/10) and £150,000 per annum for staff costs. It is envisaged that the operational, technical and project staff required would be seconded from each of the three FRSs and their current posts backfilled. This leaves a small sum of £50,000 potentially available for external assurance/consultancy services.

New Dimensions/ Long Term Capability Management

New Dimensions (ND) is the national arrangement whereby FRSs are able, ready and equipped to quickly respond to a threat of national Terrorism. Wales is a key component of the national mutual aid/resilience arrangement.

Initially ND was managed centrally from Communities and Local Government (CLG), however this has now been devolved to the Welsh Assembly Government. FRSs in Wales initially fund any required training, equipment and other costs and subsequently claim back expenditure from the Assembly as direct funding, based on certain criteria. The costs of whole time staff and training for example are not eligible for claims and these costs fall on each FRS. Some FRSs undertake further work as lead FRSs on various work streams and thus incur more extensive costs which are not funded by this direct funding.

There has been some discussion regarding the potential of transferring responsibility for the role and the associated assets to the individual FRSs themselves (New Dimensions will then be termed Long Term Capability Management) and of transferring the direct funding into the Revenue Support Grant settlement. It is not clear at this juncture whether it is intended that this happens in 2008/09 or 2009/10.

The current level of specific grant allocated to FRSs across Wales is £2.2 million, however as stated above this is not the true cost of the function, and once LTCM is introduced costs will increase. The FRS's assessment of the resources required is between £4 and £6 million

Additional costs from the change in firefighter pensions funding – (1) Retained employers contributions, (2) ill health/injury pensions

Following the change in the funding mechanism for the fire-fighters pension liabilities as from April 2007, the risk of volatile pension payments transferred to central government. FRAs in Wales are now budgeting on the basis of an employer's contribution as a percentage of gross pay, something which is more manageable and predictable for business and budget planning purposes.

The level of employer's contributions at the current level of take-up by the retained staff equates to approximately £350,000 p.a. In 2007/08 this was budgeted to be met from the Pensions Provision however it must be brought back into the mainstream revenue budget at some stage. This figure may well increase as more retained staff take up the pensions option.

Also with the change in pensions funding, the costs of ill health/injury pensions are to be borne by the revenue account. This is being phased in over 3 years, and thus the costs will increase in 2008/09 and 2009/10. In this Authority this is likely to cost £150,000 a year for the next 2 years, based on the Government Actuary Departments (GAD's) estimates, although this will be reviewed as the numbers of ill health/injury retirements are generally decreasing.

Grants

There is an assumption that any schemes that are currently grant funded will continue to be grant funded, and that where grants come to an end in the 2008/09 year these will either be extended or will be transferred into the settlement to maintain current levels of delivery. Particular mention should be made of Arson Reduction, Smoke Alarms and Community Safety grants in this regard.

Ongoing pressures

The case was made to the Assembly last year for additional resources for the Rank to Role exercise, the new Community/Fire Safety legislation/initiatives (in addition to the existing grants), and for resources to support a new method of remunerating the retained personnel. A total of £7 million was requested from the Assembly across Wales. Whilst the service believed these to be unavoidable additional responsibilities brought about by new Assembly initiatives or in the case of retained remuneration, unavoidable for the future of the fire service in rural Wales, the Assembly did not recognise these pressures with additional SSA allocation. These pressures are therefore all still weighing heavily on the service and initiatives have been limited or delayed due to restricted resources.

Other issues

Other spending pressures that have arisen during the year for this Authority have been –

- (a) Integrated Clothing Project (Firebuy) – a potential requirement of £150k more than is currently provided for in the budget
- (b) Working at Height legislation – Equipment and Training, an additional £45k required each year
- (c) Continuous Professional Development payments – meant to be self funded from the removal of Long Service Increments (LSI) payments but likely to be more, depending on eligibility
- (d) Additional Responsibility Allowance – additional costs, amount not clear
- (e) Defibrillators/co-responding and training – additional costs relating to Personal Protective Equipment (PPE) which is appropriate for this type of work and training for the increased activity in this area of work
- (f) Civil contingencies, business continuity, Operational assurance, non operational assurance and WPI – this is to comply with legislation as a category 1 responder. There are significant additional demands to ensure resilience in this area, and unlike Local Authorities no additional funding has been provided
- (g) Loss of interest on the Elective Pensioners Provision as the provision is depleted – up to £75,000
- (h) As previously reported to members, there is an Employment Tribunal being held in Nov 2007 to determine whether or not wholtime and retained duty system firefighters were engaged to carry out the same or broadly similar work. A decision could take some time to filter down to local fire services.

Members should also be aware that there are other issues which require attention in the 3 year budget period :-

- (a) Sustainability and the environmental agenda.
- (b) Potential legislation giving a wider rescue role
- (c) Fire investigations
- (d) Research into societal factors leading to fires
- (e) Training and Development
- (f) Fire Stations/DDA/Equal Opportunities/Improvements
- (g) Match Funding for Making the Connections Fund and other initiatives
- (h) E- Government and Business Systems Software
- (i) Broadband

- (j) E –Fire operability (tying into Wales’s legislation compliance)
- (k) E – learning in support of the National Workforce Development Strategy
- (l) Age Discrimination legislation
- (m) Management of sickness and ill health, and other HR issues

Summary

Members will see from the above report that the budget setting process for the next 3 years will be challenging. The constituent authorities have been engaged at an early stage and further discussions are planned to take place in September. There may be further information available at that time if the CSR has been announced and the Assembly has given guidance.

Members can be assured that officers will be doing their utmost to secure resources through the SSA and through other sources in order to minimize the impact on the Council Tax payer, without affecting service delivery capabilities and consequentially impacting on safer communities.