

## TAYSIDE FIRE AND RESCUE BOARD

## REPORT BY THE CHIEF FIRE OFFICER AND TREASURER

26 JANUARY 2009

## TAYSIDE FIRE AND RESCUE –REVENUE BUDGET 2009/10 AND 2010/11

**Abstract**

This Report identifies Tayside Fire and Rescue's revenue budget for 2009/10 and 2010/11.

**1 RECOMMENDATIONS**

It is recommended that Members:

- i) Approve the budget for running Tayside Fire and Rescue in 2009/10
- ii) Approve the provisional budget for 2010/11
- iii) Approve the funding strategy as detailed in this Report

**2 INTRODUCTION**

- 2.1 This Report presents a two year revenue budget based on the best information available at time of preparation. It should be stressed that, although a two year budget has been presented, there has been no funding settlement for 2010/11 and therefore there is a degree of uncertainty regarding this year's funding. The Report shows in detail the 2009/10 budget with a summarised illustration of the following year. The detailed budget report (FB/08/44 refers) was approved by the Performance Monitoring Sub-Committee at its meeting on 24 November 2008. A number of minor revisions have been made to that report since its approval, however these do not affect the requisitions required to be paid by the constituent Councils of the Board.

There are five main elements to the revenue budget which can be shown as follows:

	<b>2009/10 Revenue Budget</b>
	<b>£</b>
Staff Costs (excluding Pensions)	19,338,843
Net Pensions Expenditure	5,274,469
Running Costs	3,670,809
Capital Financing Costs	747,726
CFCR	400,000
Income (excluding Pensions)	(199,200)
<b>Net Budgeted Expenditure</b>	<b><u>29,232,647</u></b>

- 2.2 A needs based revenue budget was compiled including known cost pressures which the Board will require to address during 2009/10. Detailed below are a number of the more significant factors which influence the way in which the budget has been

compiled. The potential use of the Board's uncommitted reserves for any of these areas or other miscellaneous areas, if greater than budgeted expenditure, was previously agreed by the Board (Board Report FB/07/05 refer). An updated Reserves Strategy will be formulated in accordance with guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the form of a Local Authority Accounting Panel (LAAP) bulletin, and will be presented to the Board at the next available opportunity. This bulletin provides guidance on the establishment and maintenance of local authority reserves and balances. The guidance represents good financial management and should be followed as a matter of course.

- 2.4.1 **Ill Health Retirements:** Due to the way in which the Firefighters Pension Scheme operates any ill health retirements require to be fully funded from the revenue budget and when they happen. Although there is provision for a certain number of ill health retirements made each year within the budget this can easily be exceeded without the control of the Board.
- 2.4.2 **Level of Retained Firefighter Activity:** A natural disaster such as woodland fire or flooding can result in the costs relating to retained firefighters escalating beyond the provision made in the revenue budget which is based on historical trends.
- 2.4.3 **Single Status Agreement and Equal Pay Claims:** The proposed new pay and grading structure is now known and the resulting associated costs have been included in the support staff costs including on-costs. As a result of the implementation of the Single Status agreement there may be a number of Appeals which could have a potential affect on the staff costs budget, some of which could be considerable. The Single Status agreement was introduced and agreed as a means of addressing Equal Pay issues, however it does not preclude any equal pay claims being taken against the organisation. No provision has been made for the settlement of equal pay claims or the backdated element of any successful Single Status appeals, and it is envisaged that these would require to be settled from the Board's uncommitted reserves.
- 2.4.5 **Transfers Out:** Due to the nature of the firefighters pension scheme, no provision is made for payments of pensions transferring out of Tayside Fire and Rescue. Depending on seniority and length of service this could be a considerable value. Based on historical data, a transfer value for a senior member of staff could cost in excess of £500,000. Again any significant value would be required to be paid from the Board's uncommitted reserves.

In the following section, a general explanation will be given regarding the treatment of the five main elements to the budget within 2009/10 and any assumptions which have been made.

### **3 BUDGET ASSUMPTIONS 2009/10**

In arriving at the provisional 2009/10 revenue budget a number of assumptions were made with regard to future developments and cost pressures. These can be summarised as follows:

### 3.1 Staff Costs

- i. All operational personnel are assumed to receive a 2.5% pay award.
- ii. All support staff within the Single Status agreement are based on current establishments with uplifts for known 2009/10 increments and a 3.0% increase effective from 1 April 2008, and 2.5% pay increase effective from 1 April 2009.
- iii. All other staff are also based on current establishments with increases for a 2.5% pay award from the effective date.

### 3.2 Pension Costs

- i. All commutation liabilities have been calculated on a retiral-by-retiral basis using incremented salaries to take account of projected pay awards.
- ii. No allowance has been made for any new pensions legislation which may be introduced. All projections are based on the current legislation.
- iii. It has been assumed that employers pension contribution rates will remain the same.

### 3.3 Running Costs

Any future cost pressures which are known about have been included.

### 3.4 Capital Financed from Current Revenue

Significant capital works, which require to be carried out, have been identified within Perth Station and a provision of £400,000 has been made in 2009/10 to finance these works.

### 3.5 Capital Financing Costs,

As a result of estimates received from the Treasury Management Team within Perth and Kinross Council, adjustments have been made to the costs incurred within this category.

### 3.6 Income

Both the Pensions Contributions elements and the Interest Receivable element have been adjusted to reflect any predicted future events.

## 4 **SUMMARY OF THE BUDGET**

The above assumptions and anticipated cost pressures for 2010/11 result in a summarised two year budget as follows:

	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>
	<b><u>£</u></b>	<b><u>£</u></b>
Net Budgeted Expenditure	29,232,647	29,733,511
Capital Financing Costs	(747,726)	(747,723)
Interest Receivable	5,000	7,000
Budget expressed as GAE	<b>28,489,921</b>	<b>28,992,788</b>

## 5 FUNDING STRATEGY

Discussions have been ongoing now for some time with Scottish Government and COSLA in relation to Fire Pensions. Figures submitted by the Chief Fire Officers Association Scotland indicated that the nationally estimated cost of Pensions in 2009/10 were some £17.7m greater than funding levels and in 2010/11 some £19m greater. The long term answer to this funding problem is the pooling of Pensions in line with the principles adopted in England and Wales. This cannot be fully put in place until 2010/11 and the details of how this will work in practice will have to be established. However, there remains the funding issue for 2009/10 and the proposed arrangements for this are as follows:

The overall funding gap for both Police and Fire for 2009/10 is some £57m. Government is proposing that there will be a "virtual" pooling of risk and that they will underwrite expenditure if more people retire than they anticipate. This reduces the estimated funding burden on Fire Authorities and Police Authorities by £17m. Specifically they estimate a reduction in Fire Pension costs of some £3.554m.

This then leaves an estimated £40m gap for Police and Fire. Central Government has agreed that they will find £20m of new money with the balance of funding to come from the local government family. By the local government family they mean a combination of Police Boards, Fire Boards and Local Authorities and it will be for each Fire Authority to negotiate the funding split of this between themselves and their Local Authority providers. With regard to the £20m new money provided, the Fire Service will receive £6.654m with the constituent Councils of Tayside Fire and Rescue receiving £331,755.

In addition, and in relation to Pensions, there is a plan to move to a system whereby fire pension costs will be financed centrally for 2010/11, with transitional arrangements being put in place from 2009/10. Under these transitional arrangements, the Scottish Government will provide additional funding to Boards to meet any commutation costs greater than 80% of those eligible to retire in 2009/10. Within the funding strategy for 2009/10, provision has been made for 100% of the pensions commutation expenditure forecast for the year. However, it has also been assumed that the Scottish Government will fund 20% of this budget. This has been committed to in principle by the Government; however at the time of writing this report no formal written commitment had been received. It is expected that this confirmation will be received shortly.

It should be noted that an agreed funding strategy and Reserves Strategy already exists and has been agreed in reports previously submitted to the Board. This strategy involved agreed efficiency savings to be achieved by the Board along with agreed requisition levels from the constituent Councils. It also committed all of the Board's transitional funding to resolving the shortfalls identified in 2008/09 created by the pensions deficit created in that year.

A number of revisions have been made to the funding strategy which was originally approved by the Performance Monitoring Sub-Committee at its meeting on 24 November 2008. The revised funding strategy for future years can be summarised in the following table:

	<b>2009/10 (£)</b>	<b>2010/11 (£)</b>
Net Expenditure-GAE Basis (Section 4 above)	28,489,921	28,992,788
Notional GAE Assessment	(28,324,372)	(28,746,788)
Surplus Over GAE	165,549	246,000
Funded By- Actual Efficiency Savings	(145,549)	(200,000)
Target Efficiency Savings	0	(46,000)
Transfer from Reserves	(20,000)	0

The efficiency savings shown against 2009/10 consist of the full year effect of not replacing 8 firefighters who will be retiring throughout the year. The full effect of this has been taken into account within the efficiency savings for 2010/11. In addition there has been a target efficiency saving set at £46,000 for 2010/11 in order to negate the amount required to be transferred from Reserves. This is in compliance with the Board's reserves strategy, which recommended that the levels of reserves to be held should be maintained between 1.5 and 5%, and will, in turn, lead to sustainable budgets in future years. Given that there is a degree of uncertainty regarding the funding settlements for 2010/11, it is felt that the Board's reserves should be kept at a balance as close to the statutory threshold of 5% as possible.

The projected balance of uncommitted reserves as a result of this funding strategy can be illustrated as follows:

	<b>2009/10 (£)</b>	<b>2010/11 (£)</b>
General Fund Balance Brought Forward	1,698,000	1,394,000
Projected Transfer from General Reserve	(20,000)	0
Projected Pension Commutations Paid From Earmarked Balance	(284,000)	0
Projected General Fund Balance Carried Forward	1,394,000	1,394,000
Projected Uncommitted Balance as a % of Revenue Budget	4.8%	4.7%

## **6 CONSULTATION**

The Clerk has been consulted in the preparation of this report

## **7 CONCLUSIONS**

In accordance with the agreement reached by the Performance Monitoring Sub-Committee, a budget has been developed which, after adjustments, would result in the following requisitions to the Board's constituent Councils:

	<u>£</u>
Angus Council	5,522,749
Dundee City Council	15,114,891
Perth & Kinross Council	8,429,458
<b>Total</b>	<b><u>29,067,098</u></b>

A detailed breakdown of the budget is shown in Appendix A.

S Hunter  
Chief Fire Officer

J Symon  
Treasurer

### **Background Papers**

No background papers, as defined in section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

Fire and Rescue Headquarters  
DUNDEE

## TAYSIDE FIRE AND RESCUE - FINAL REVENUE BUDGET

	<b>2008/09 Approved Revenue Budget £</b>	<b>2009/10 Proposed Revenue Budget £</b>	<b>Movement £</b>
Staff Costs	18,985,435	19,338,843	353,408
Pension Costs	7,370,001	7,227,033	-142,968
Property Costs	1,205,998	1,283,287	77,289
Supplies and Services	1,596,387	1,606,679	10,292
Transport Costs	718,422	777,289	58,867
Third Party Payments	3,450	3,554	104
Capital Financing Costs	987,004	1,147,726	160,722
Gross Budgeted Expenditure	<b>30,866,697</b>	<b>31,384,411</b>	<b>517,715</b>
Income	1,737,716	2,151,764	414,048
<b>Net Budgeted Expenditure</b>	<b>29,128,981</b>	<b>29,232,647</b>	<b>103,667</b>

