



Merseyside Fire & Rescue Authority Budget 2016/17

Merseyside Fire & Rescue Service — Finance Department, Bridle Road, Bootle, L30 4YD

www.merseyfire.gov.uk

Merseyside Fire & Rescue Authority 2016/17 Budget

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ama Soomaali fadlan nagala soo xiriir Diversity Team, MF&RS Headquarters, Bridle
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If you have any comments on any aspect of the financial information contained on the
website or would like further information please contact Ian Cummins by

e-mail: iancummins@merseyfire.gov.uk

Tel: 0151 296 4244

Merseyside Fire & Rescue Authority 2016/17 Budget

1. Finances

The Government has confirmed the level of grant it will provide to the Fire and Rescue Authority for 2016/17 and indicative settlement figures up to 2019/20. By 2019/20 the Service is facing a cut in the Revenue Support Grant, (RSG), it receives from the Government of over £7.7m or 41% compared to the 2015/16 grant. This is approximately a 50% cut in real terms once inflation is taken into account. RSG contributed over 30% of the Authority's revenue budget funding in 2015/16, so this level of cut cannot be contained without a significant cut in the current level of services.

After taking into account the 2016/17 Government grant settlement and financial plan assumptions the Authority is facing an £11.0m financial challenge by 2019/20.

The Authority has set a financial plan that delivers the £11m savings and has planned prudently to minimise the impact on frontline services, planning significant efficiency savings of £6.0m by reducing management and support services costs. The Authority has benefitted from a known £1.0m increase in the council tax base and the approved plan assumes this increase is permanent. Despite these efficiencies identifying £7.0m of savings the Authority must approve an unavoidable reduction of £4.0m from the operational front line.

Dealing with the Government Cuts and the 2016/17–2019/20 £11.0m saving challenge:

The Authority's financial plan assumes savings from:

Technical & Support Services savings totalling £7.0m:-

- I. Assuming a pay restraint for all staff will continue up to 2019/20. (Pay bill increase of no more than 1%), recognises a £1.950m saving.
- II. "Technical" savings of £2.528m from non-pay inflation, revenue costs associated with capital expenditure, and non-employee budgets.
- III. Additional 15% reduction in the Non Uniform Establishment saving £1.499m. This has placed a large number of non-uniform staff at risk of redundancy. Many of the "support service" areas and posts affected provide front line services to the community of Merseyside notably Prevention and Protection.
- IV. Council Tax Base increase in 2016/17 delivering £1.023m additional income yield by 2019/20

Operational Savings totalling £4.000m:-

This left **£4.000m of cuts to be found from front line operational response**. The Authority has already seen the number of fire appliances in Merseyside reduce from 42 down to 28 since 2010, which equates to a 33% overall reduction. A further £4.000m cut from operational response is likely to see a further loss of up to 100 firefighter posts which equates to 4 wholtime appliances.

The Chief Fire Officer (CFO) has identified a range of possible options for consideration:-

- (a) No station closures – 10 one pump wholetime stations, 4 LLAR stations, and 8 stations crewed days only, or
- (b) Eight station closures – 10 two pump wholetime stations, 4 LLAR stations, or
- (c) Assume 4 riders instead of 5 on all pumps, or
- (d) A hybrid option somewhere between the above extremes directed by the best response times achievable

The CFO would not be proposing any reduction in operational response resources if it wasn't for the financial position the Authority finds itself in.

All options will be fully evaluated over the coming months and officers will consult with the public on the response options as part of the IRMP 2017/20 pre-planning during March and April 2016. The preferred options will then be included in the draft IRMP that will be considered by the Authority in October 2016. The final version of the IRMP will be approved by the Authority in February 2017.

The Chief Fire Officer will need to continue to manage appliance availability on a dynamic basis under his delegated powers while the operational options are being worked on. Based on the current firefighter retirement profile and taking into account the required savings in operational response, delivering savings of the scale required will take until 2018/19 without compulsory redundancy.

Summary of Budget Changes Overall

The Authority has set a budget of £61.507 million for 2016/17, £0.662m lower than that in 2015/16. The main changes between this year's budget and last year's are:-

| | |
|---|--------------|
| Reductions in support service, management & other costs | (£1.3m) |
| Unavoidable cuts in front line staffing | (£2.7m) |
| Increase in capital financing costs to fund capital expenditure | £0.3m |
| Forecast inflationary cost increases | £0.6m |
| Changes to Employer National Insurance contributions | £1.0m |
| Reserves adjustment | <u>£1.4m</u> |
| | (£0.7m) |

2. How the money is spent

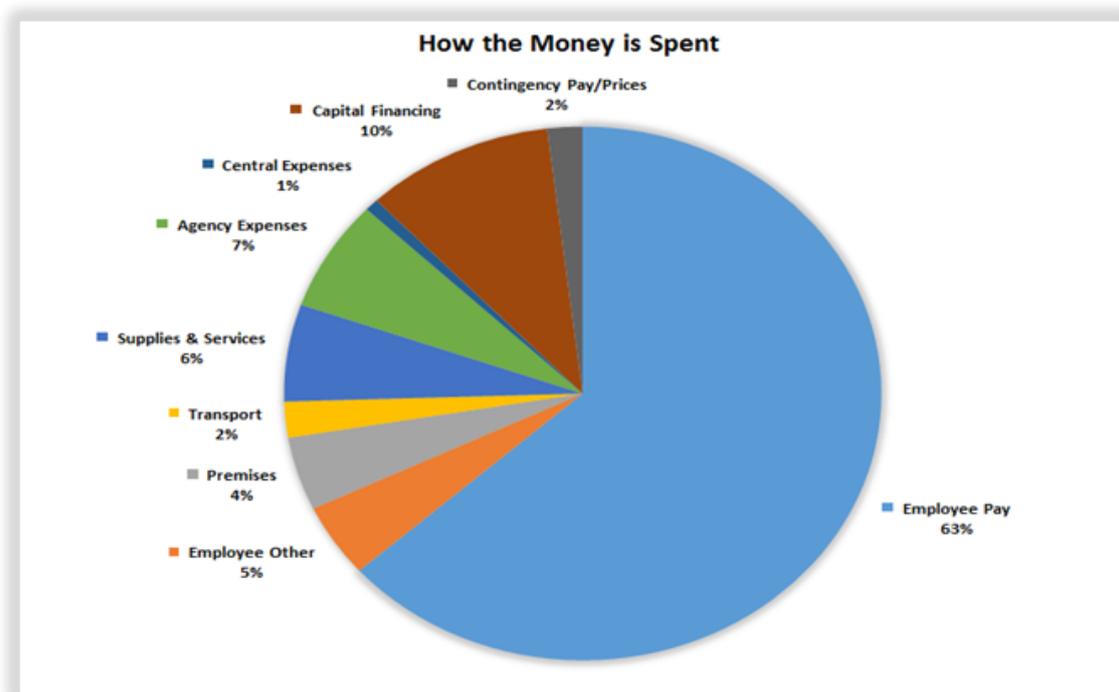
The Authority has managed to set a financial plan that allows investment in line with its Integrated Risk Management Plan (IRMP) and will help maintain its high performing status. The IRMP sets out the future strategic direction for the Authority and is available on our website at www.merseyfire.gov.uk.

The Authority has a financial plan that as far as possible maintains the front line response and service to the people of Merseyside.

The Authority has budgeted to spend in the following areas:-

Budget Expenditure 2016/17

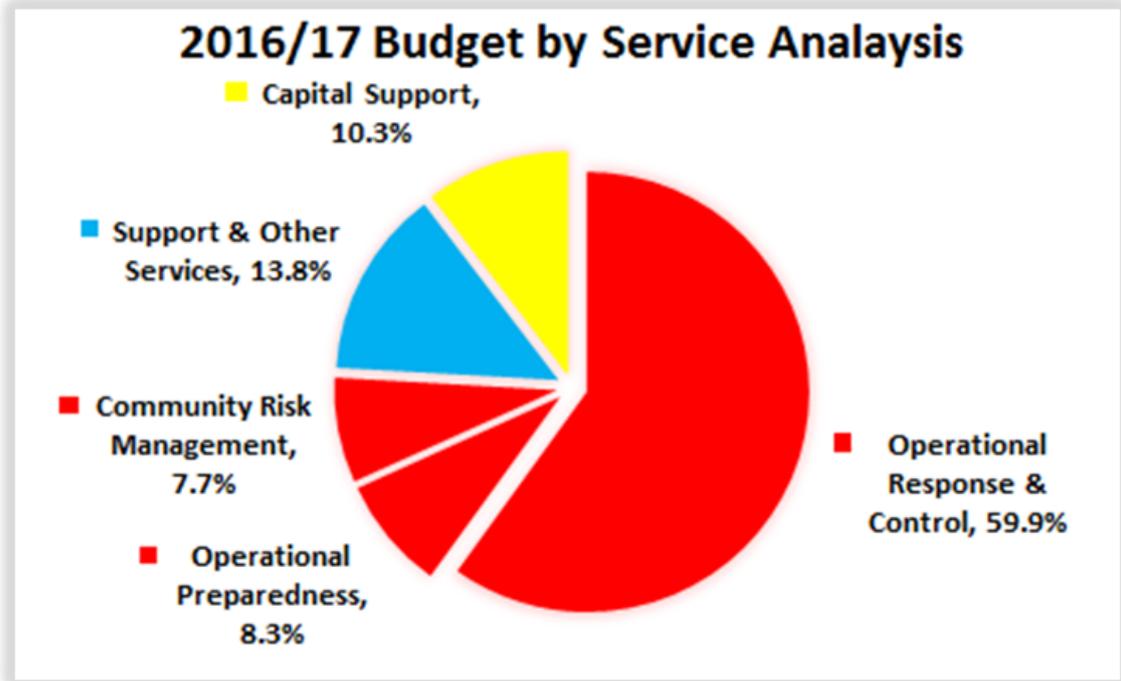
| | £000 |
|------------------------------|---------------|
| Employee Pay | 42,383 |
| Employee Other | 2,495 |
| Premises | 2,662 |
| Transport | 1,541 |
| Supplies & Services | 3,169 |
| Agency Expenses | 5,742 |
| Central Expenses | 544 |
| Capital Financing | 6,897 |
| Contingency Pay/Prices | 1,494 |
| | <hr/> |
| | 66,927 |
| Income | -6,382 |
| Capital Funded from Reserves | 5,278 |
| Contribution from Reserves | -4,316 |
| | <hr/> |
| | 61,507 |



Analysis of Expenditure by Type of Service

The Authority has an excellent track record of investing in line with its corporate priorities. It can be seen from the pie chart overleaf that most expenditure 59.9% goes on emergency and specialist response. In addition 8.3% goes on Operational Preparedness and 7.7% on Community Risk Management, and therefore over 75.9% of expenditure is on the “front line” services. In addition the 10.3% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 13.8% is on support services.

| Summary | % |
|--------------------------------|------------|
| Operational Response & Control | 59.9 |
| Operational Preparedness | 8.3 |
| Community Risk Management | 7.7 |
| Support & Other Services | 13.8 |
| Capital Support | 10.3 |
| | 100 |



3. Where the money comes from

The Authority receives the largest share of its funding from Central Government in the form of a Revenue Support Grant, (RSG), 26% or £16.5m and Baseline Funding (business rates) of £18.4m or 29%.

Overall Government Grant funding was cut by approximately 35% over the 2011/12 – 2015/16 period, and RSG will be cut in real terms by a further 50% by 2019/20.

The Authority's remaining income comes from council tax. The Authority issues a precept (a total of all the council tax to be collected) on the 5 districts of Merseyside. The Authority has kept to its financial plan and increased council tax by the maximum allowable of just under 2% or an extra £1.42 for a band D property (3p per week). This is in order to minimise the long term impact of government cuts on the services to the Merseyside Community. In 2016/17 the estimated income from the precept (council tax) is £25.934m. There has also been an additional one-off £0.647m yield from council tax collection fund surpluses from previous years.

Income 2016/17 Budget:-

| | % | £000 |
|--|-------|-----------------------|
| Government Funding | | |
| Revenue Support Grant | | -16,523 |
| Baseline Funding (Local Business rates & Top-Up Grant) | | -18,428 |
| | 56.8% | <u>-34,951</u> |
| District Council's Local Business Rates Forecast Adjustment | | 25.0 |
| Council Tax | | |
| 2016/17 Precept | 42.2% | -25,934 |
| Collection Fund (surplus) / Deficit | 1.0% | -647 |
| | | <u>-61,507</u> |

4. Capital Investment Programme

Each financial year the Authority produces a capital programme to manage major schemes. Owing to the nature of capital expenditure a large number of schemes span more than one financial year so the programme is a rolling programme covering five financial years. The Authority's five-year capital investment programme 2016/2017 to 2020/2021 totals £38.156m. The programme includes:

- Spending on fire engines and operational equipment in order to ensure Merseyside's Firefighters remain safe
- Investment in maintaining Fire Stations and other buildings
- Investment in Information Technology (IT)

Approved Authority Capital Programme for 2016/17 – 2020/21

| Capital Expenditure | Total Cost | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ | 2020/21 £ |
|--|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Building/Land | 20,611,500 | 14,624,500 | 4,070,500 | 630,500 | 905,500 | 380,500 |
| Community Risk Management | 3,575,000 | 975,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| ICT | 3,436,000 | 778,000 | 900,000 | 596,000 | 511,000 | 651,000 |
| Operational Equipment /Hydrants | 1,910,000 | 533,000 | 440,000 | 324,000 | 435,000 | 178,000 |
| Vehicles | 8,623,400 | 3,689,400 | 1,228,000 | 858,000 | 1,227,000 | 1,621,000 |
| Expenditure | 38,155,900 | 20,599,900 | 7,288,500 | 3,058,500 | 3,728,500 | 3,480,500 |

Most of the capital programme is funded by borrowing and is in line with the Authority's approved prudential borrowing limits and treasury management strategy.

5. Reserves and Balances

The Authority has prudently planned to meet its financial challenges over the medium term. The plan the Authority proposes is based upon the key assumptions around changes to grant, pay, tax and pension costs. To protect and safeguard the Authority from unforeseen changes in circumstances, demands or assumptions made in setting the budget, the Authority has established a general fund and specific earmarked reserves. The Authority forecast reserves as at 31.03.16 of £25.1m;

| Reserve Heading | £'m | Purpose |
|--|---------------------------|---|
| Grant Funded & Contractually Committed Projects | 4.7 | To cover on-going externally funded schemes or current initiatives commenced in 2015/16 or earlier and for which spend will carry over into 2016/17 or beyond. |
| Insurance / Catastrophe Reserve | 1.6 | To cover insurance excess and outstanding risks such as MMI claims, and the need for resources to cope with any major or protracted incident. |
| Cost Smoothing Reserve – Committed | 1.3 | Required over 2016/17 and future years to offset timing issues around the current approved savings options and in order to facilitate the Service time to deliver future additional savings. |
| Inflation & Pensions | 0.5 | In light of risk around 1% pay bill assumption for 2016/17 a short term reserve will allow time to make the required permanent savings if pay increases exceed 1%. |
| Capital Investment/Other | 12.5 1.1 | To contribute towards the funding of the station merger programme and any unforeseen investment in station; vehicle; ICT and other infrastructure to further modernise the service in light of future financial challenge and associated risk. |
| Recruitment | 1.0 | Over the next decade almost two thirds of Merseyside firefighters are expected to retire. In addition it takes almost a year to train a firefighter across the full range of competencies. In order to meet this challenge in a prudent and structured fashion a reserve of £1m to support some staff recruitment to manage effectively succession planning is recommended. |
| Severance | 0.4 | On the basis that the Authority wishes the CFO to use every available measure and management tool to avoid compulsory redundancy and therefore it grants delegated power to reopen and utilise the Voluntary Severance / Voluntary Early Retirement programme in line with the broad framework agreed by the Authority previously. |
| | 23.1 | |
| General Fund | 2.0 | It is normally expected that a General Fund reserve of 5% of net operating expenditure should be maintained by an organisation but this may vary based on individual risk and earmarked reserves available. For MFRA this would be £3.4m. However, as the significant risks are known and are being managed or have a specific reserve, officers recommend maintaining a general fund of £2.0m. |
| | 25.1 | |

However reserves and balances can only be used to finance one-off expenditure. They are not able to fund ongoing revenue expenditure. This is underlined by the Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.