

# **Hereford & Worcester Fire Authority**

## **Efficiency Plan**

**November 2016**

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## **About the Plan**

The Efficiency Plan sets out how the Authority plans to maintain the services it provides whilst managing with reduced real-terms funding levels. This document contains links to other relevant documents and websites and should be read in conjunction with those.

## **Four Year Plan**

The Authority's strategy for the provision of fire and rescue services for the next four years is driven by the approved Community Risk Management Plan (CRMP) 2014-2020.

The Plan has been developed using integrated risk management planning methods and is designed to conform to the Government's guidance in relation to the preparation of integrated risk management plans.

The Community Risk Management Plan can be viewed here:

<http://www.hwfire.org.uk/assets/files/crmp2014-2020.pdf>

The CRMP supports the Fire Authority's aim of providing the communities of Herefordshire and Worcestershire with sustainable, high quality fire-fighting, rescue and preventative services, while ensuring firefighter safety, community safety and the secure delivery of quality services.

In the light of changing levels of risk and resources, the CRMP sets out an overall plan to:

- increase the effectiveness of prevention, protection and response services,
- drive out any inefficiencies in organisational, operational and financial management and procedures, and
- increase value for money for the public purse and the communities of Herefordshire and Worcestershire.

The CRMP also plans ahead with sustainable outcomes that are sufficiently flexible to ensure the Service can:

- adapt to changing circumstances facing the Service and local communities, and
- improve services through innovation and transformation.

The Community Risk Management Plan is supported by the Medium Term Financial Plan (MTFP), which sets out how it will be funded. The MTFP is based on a number of assumptions, which are detailed within this Efficiency Plan.

### **Format of Financial Information**

To ensure consistency with other financial information that the Authority is now required to supply to the Home Office, the format of information differs from that used in other Authority documents. The Authority regards its own format as more familiar and meaningful to local users of the information.

The principal differences are that the Home Office:

- regard the special grants for New Dimensions etc. as income rather than as a funding stream,
- rolls the government's estimate of Retained Business Rates into "Baseline Funding" with Business Rate Support Grant; whereas the Authority includes Business Support Grant alongside Revenue Support Grant and bases Retained Business Rate yield projections on more accurate local information.

## Funding Assumptions

The following table sets out the assumptions the Authority is making about funding up to 2019-20. The Government has offered authorities a guaranteed four year funding settlement in order to provide increased certainty and to aid planning. However, this only guarantees the minimum amount of revenue support grant (RSG) receivable. Business rates receivable are not guaranteed and are subject to volatility depending on factors such as the level of growth and appeals against valuations.

|   |    | 2015-16       | 2016-17       | 2017-18       | 2018-19       | 2019-20       |
|---|----|---------------|---------------|---------------|---------------|---------------|
| Baseline Funding - Business Rates / Top Up                      | £m | 5.162         | 5.205         | 4.748         | 4.562         | 4.496         |
| Revenue Support Grant   | £m | 5.555         | 4.464         | 3.673         | 3.306         | 3.126         |
| <b>Settlement Funding Assessment Total</b>                      | £m | <b>10.717</b> | <b>9.669</b>  | <b>8.421</b>  | <b>7.868</b>  | <b>7.622</b>  |
| Adjustment for Local Business Rate share (NNDR1) to DCLG Figure | £m | (0.153)       | (0.256)       | (0.262)       | (0.267)       | (0.272)       |
| Estimated Total Council Tax Income                              | £m | 20.062        | 20.851        | 21.548        | 22.249        | 22.970        |
|   | £m | <b>30.626</b> | <b>30.264</b> | <b>29.707</b> | <b>29.850</b> | <b>30.320</b> |
| Collection Fund (council tax & business rates)                  | £m | 0.222         | 0.286         |               |               |               |
| <b>TOTAL</b>  |    | <b>30.848</b> | <b>30.550</b> | <b>29.707</b> | <b>29.850</b> | <b>30.320</b> |
| Council Tax Band D Increase                                     | %  | 1.92%         | 1.96%         | 1.96%         | 1.96%         | 1.96%         |
| Band D Council Tax  | £  | 76.50         | 78.00         | 79.53         | 81.09         | 82.68         |
| Council Tax Base Increase                                       | %  | 1.86%         | 1.93%         | 1.35%         | 1.27%         | 1.25%         |

The level of RSG the Authority receives will decrease by 44% between 2015-16 and 2019-20. This represents a significant shift in Government policy, who now expects local authorities to increase council tax to support their activities. The Authority had frozen the Band D council tax rate between 2010-11 and 2012-13 but has found it necessary to increase this annually since then. The Authority currently expects to increase council tax by 1.96% (just within the current referendum limit) in each of the subsequent years.

## Budget Assumptions

The following tables set out the expected costs pressures facing the Authority alongside other income it expects to receive.

|  |    | <b>2015-16</b> | <b>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> |
|--|----|----------------|----------------|----------------|----------------|----------------|
| <b>Employee Cost Pressures</b>             |    |                |                |                |                |                |
| Core Budget (at 2015/16 prices)            | £m | 22.258         | 22.258         | 22.258         | 22.258         | 22.258         |
| LGPS Back-funding                          | £m | 0.020          | 0.040          | 0.060          | 0.080          | 0.100          |
| Provision for Pay Awards                   | £m | 0.376          | 0.605          | 0.632          | 0.859          | 1.086          |
| Government Policy: Increased NI Rates      | £m |                | 0.380          | 0.380          | 0.380          | 0.380          |
| Government Policy: Apprentice Levy         | £m |                |                | 0.070          | 0.070          | 0.070          |
| Government Policy: Increased Pension Costs | £m |                |                |                |                | 0.315          |
|  | £m | <b>22.654</b>  | <b>23.283</b>  | <b>23.400</b>  | <b>23.647</b>  | <b>24.209</b>  |
| Excess Staff Plan                          | £m | 0.603          | 1.171          | 1.037          | 0.589          | 0.096          |
| <b>Total Employee Costs</b>                | £m | <b>23.257</b>  | <b>24.454</b>  | <b>24.437</b>  | <b>24.236</b>  | <b>24.305</b>  |
|  |    |                |                |                |                |                |
| <b>Cost Pressures (£'000)</b>              |    |                |                |                |                |                |
| Core                                       | £m | 10.945         | 10.945         | 10.945         | 10.945         | 10.945         |
| Delayed Property Maintenance               | £m |                | 0.213          |                |                |                |
| Inflation Provision                        | £m | 0.260          | 0.335          | 0.385          | 0.685          | 0.985          |
| Capital Financing                          | £m |                | 0.081          | 0.117          | 0.198          | 0.259          |
| <b>Total Non-Pay Bill Costs</b>            | £m | <b>11.205</b>  | <b>11.574</b>  | <b>11.447</b>  | <b>11.828</b>  | <b>12.189</b>  |
|  |    |                |                |                |                |                |
| <b>Gross Expenditure Requirement</b>       | £m | <b>34.462</b>  | <b>36.028</b>  | <b>35.884</b>  | <b>36.064</b>  | <b>36.494</b>  |

|  |    | 2015-16       | 2016-17       | 2017-18       | 2018-19       | 2019-20       |
|--|----|---------------|---------------|---------------|---------------|---------------|
| <b>Gross Expenditure Requirement</b>           | £m | <b>34.462</b> | <b>36.028</b> | <b>35.884</b> | <b>36.064</b> | <b>36.494</b> |
|  |    |               |               |               |               |               |
| <b>INCOME</b>                                  |    |               |               |               |               |               |
| <b>Section 31 Grants</b>                       |    |               |               |               |               |               |
| Fire Revenue Grant                             | £m | 1.132         | 1.085         | 1.097         | 0.967         | 0.837         |
| Transition Grant                               | £m |               | 0.113         | 0.142         |               |               |
| Rural Services Delivery Grant                  | £m |               | 0.108         | 0.088         | 0.067         | 0.088         |
| NNDR Grant                                     | £m | 0.209         | 0.135         | 0.137         | 0.140         | 0.143         |
| <b>Other Service Income</b>                    |    |               |               |               |               |               |
| Aerial Sites etc                               | £m | 0.111         | 0.111         | 0.111         | 0.111         | 0.111         |
| Commissioning Income Potential                 | £m |               |               |               | 0.020         | 0.030         |
| Current Surplus Space at HQ                    | £m |               | 0.080         | 0.130         | 0.130         | 0.130         |
|  | £m | <b>1.452</b>  | <b>1.632</b>  | <b>1.705</b>  | <b>1.435</b>  | <b>1.339</b>  |
| Excess Staff Plan - Seconded Firefighters      | £m | 1.273         | 0.241         |               |               |               |
| <b>Total Income</b>                            | £m | <b>2.725</b>  | <b>1.873</b>  | <b>1.705</b>  | <b>1.435</b>  | <b>1.339</b>  |
|  |    |               |               |               |               |               |
| <b>Budget Requirement</b>                      | £m | <b>31.737</b> | <b>34.155</b> | <b>34.179</b> | <b>34.629</b> | <b>35.155</b> |
|  |    |               |               |               |               |               |
| <b>Financial Challenge Before Efficiencies</b> | £m | <b>0.889</b>  | <b>3.605</b>  | <b>4.472</b>  | <b>4.779</b>  | <b>4.835</b>  |

Within employee costs there are a number of cost pressures that are outside of the Authority's control, primarily related to pension valuations and legislative changes. These increase the level of savings that the Authority is required to find between now and 2019-20. As well as cost pressures relating to general inflation, the Authority also faces increased capital financing costs as it seeks to recover from a long term (40 year) lack of investment in operational buildings.

The core income receivable by the Authority is currently projected to be stable over the medium-term, although there is currently a high risk that Section 31 grants may reduce significantly depending on the outcome of the National Resilience review. Should the grant be cut significantly then it is likely that additional savings will be required.

Income includes rental from the current surplus space at HQ, but additional income as a result of the re-location of the HQ function to West Mercia Police HQ site is shown in the next section as a consequence of collaboration.

### Cashable and Non-Cashable Savings

The Authority has always looked to achieve cashable savings and indeed in the five years before the start of the current Austerity period (i.e. 2010/11) when this Authority had grant increases at half of the national average level, had already reduced the number of whole-time fire-fighters from 369 to 314 (15%).

The 2015/16 core budget is already the result of a considerable number of efficiencies totalling £3.2m involving significant reductions in senior and middle management, redundancies of support staff and further reductions in whole-time fire-fighters (31) through innovative and flexible working arrangements.

Together with the reductions detailed in the table below the number whole-time uniform staff will have reduced by 137 (37%) since 2004/05, which is in line with the principles of the Knight Report.

In order to meet the financial challenge an additional number of efficiency savings need to be found. The savings already achieved in 2015-16 and those planned for the current and future years are detailed in the table below.

| <b>Efficiency Saving Assumptions</b>          |    | <b>2015-16</b> | <b>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> |
|---|----|----------------|----------------|----------------|----------------|----------------|
| Operational Staff Changes                     | £m | 1.027          | 2.043          | 2.043          | 2.043          | 2.393          |
| Other Staff Changes (including back office)   | £m | 0.296          | 0.415          | 0.446          | 0.446          | 0.446          |
| Review of Budgets/Procurement                 | £m | 0.150          | 0.302          | 0.312          | 0.332          | 0.382          |
| Collaboration                                 | £m |                | 0.042          | 0.194          | 0.613          |                |
|   | £m | <b>1.473</b>   | <b>2.760</b>   | <b>2.843</b>   | <b>3.015</b>   | <b>3.834</b>   |
| Planned Use of Earmarked Reserves             | £m | (0.584)        | 0.845          | 1.629          | 0.976          | 0.096          |
| Planned Use of General Reserves               | £m |                | 0.000          | 0.300          |                |                |
| Potential Use of Earmarked Reserves           | £m |                |                | 0.488          | 0.905          |                |
| <b>Total</b>                                  | £m | <b>0.889</b>   | <b>3.605</b>   | <b>4.472</b>   | <b>4.779</b>   | <b>4.835</b>   |
|   |    |                |                |                |                |                |
| <b>Financial Challenge After Efficiencies</b> | £m | <b>0.000</b>   | <b>0.000</b>   | <b>0.000</b>   | <b>(0.000)</b> | <b>0.000</b>   |



The largest savings relate to operational staffing and arise out of the approval of the Community Risk Management Plan, which as a result of flexible arrangements mean that the Authority is able to retain the same number of appliances available to respond to the same response standards, at significantly lower cost.

Efficiency savings up to and including 2017-18 are subject of detailed plans and are confirmed. The additional savings for later periods are the subject of detailed plans which are in the progress of implementation. The Authority has a sound record of anticipating, planning and delivering necessary efficiency savings.

The latter efficiencies are largely collaborative projects with other public sector partners (principally West Mercia Police) where the ultimate time-line can be effected by partners differing priorities. The Authority will maintain sufficient sums within the Budget Reduction Reserve to mitigate any changes to the savings cash-flow.

The Authority has sufficient balances within the Budget Reduction Reserve to meet the remaining budget gaps but this use needs to be considered in the light of the cautious assumptions on council tax-base growth. If actual growth over the period matches the previous 3 years the 2019/20 gap will be £0.350m lower.

As part of the proper financial management of the Authority's financial affairs the Treasurer has to ensure that balancing the budget in any year or group of years does not create a "cliff-edge" of unfunded commitments into the future. In respect of 2020/21, the collaborative and other efficiencies are expected to deliver a further £0.970m of savings which give a budget that is balanced with reason at a point that is 4 years hence, and makes the plan, to use Reserves to fund expenditure, a financially reasonable option.

## Use of Reserves

Reserves are an essential part of good financial management. They allow authorities to manage unpredictable financial pressures and plan for their future spending. The level, purpose and planned use of reserves are important factors for Members to consider in developing medium-term financial plans (MTFP) and setting annual budgets. Reserves are held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds (often referred to as earmarked reserves) to meet known or predicted requirements

Within the existing statutory and regulatory framework, it is the responsibility of the Treasurer to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

The projected balance of reserves for the period is shown in the following table.

| Reserves                       |    | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--------------------------------|----|---------|---------|---------|---------|---------|
| General Reserve at year end    | £m | 1.838   | 1.838   | 1.838   | 1.538   | 1.538   |
| Earmarked Reserves at year end | £m | 9.664   | 8.511   | 6.883   | 4.451   | 3.450   |

The level of general balances held is equal to about 5% of the core budget, whilst this level is appropriate it compares to an average level for all stand-alone Fire & Rescue Authorities of around 10% (*based on the most recently available information*).

Ear-marked reserves are held for purposes where there is a known commitment but where the timing or value is uncertain. The Authority deliberately built up these reserves to deal with the short term costs of the staff reduction plan arising from the 2014 review of emergency cover (the CRMP). These arrangements have been very successful and the peak in earmarked reserves is reducing as planned.

## Capital Expenditure

As well as ensuring that the revenue budget is affordable over the medium term, the Authority also needs to ensure money is available to purchase new assets (e.g. buildings, vehicles, equipment). The planned capital programme is shown in the table below.

|   |    | 2015-16      | 2016-17      | 2017-18      | 2018-19      | 2019-20      |
|---|----|--------------|--------------|--------------|--------------|--------------|
| <b>Capital Expenditure</b>                | £m | <b>3.312</b> | <b>9.410</b> | <b>5.949</b> | <b>7.916</b> | <b>5.159</b> |
| <u>Capital Financing</u>                  |    |              |              |              |              |              |
| Capital Receipts                          | £m | 0.014        | 1.342        | 1.356        | 0.205        | 1.140        |
| Revenue Reserves                          | £m | 0.064        | 0.309        |              | 0.969        |              |
| Government & Other Grants & Contributions | £m | 0.838        | 2.378        | 0.904        |              |              |
| Direct Revenue Financing                  | £m | 0.982        |              |              |              |              |
| Net Borrowing                             | £m | 1.414        | 5.382        | 3.689        | 6.742        | 4.019        |
|   | £m | <b>3.312</b> | <b>9.411</b> | <b>5.949</b> | <b>7.916</b> | <b>5.159</b> |

The majority of the on-going spending relates to the replacement of operational vehicles (Fire engines etc.) but also provides for new Fire Stations at Evesham, Hereford and Redditch and a fourth Strategic Training facility in North Herefordshire.

## Collaboration

The Authority has a track record of commitment to collaboration as a route to efficiency, and for example already has in place:

- collaborative Fire Control arrangements with Shropshire FRS
- payroll provision through Warwickshire FRS
- joint recruit training arrangements with Shropshire/Warwickshire/Staffordshire
- regional procurement of BA sets
- joint procurement of Insurance with Worcestershire CC
- shared Internal Audit services with 5 of the District Councils in Worcestershire

The Authority is a key member of the nationally innovative Place Partnership Ltd, a joint company between H&W Fire Authority, West Mercia Police, Warwickshire Police, Worcester City Council, Redditch Borough Council and Worcestershire County Council, to jointly manage and rationalize the physical estate of the partners.

In respect of Blue light collaboration, the Authority has already delivered a joint Police/Fire station in Bromsgrove and will have police presence at 4 rural retained fire stations.

The Authority is currently developing detailed plans for an Emergency Service Hub in Wyre Forest, in conjunction with the Police and Voluntary Sector, and a Protective Services Hub in Hereford in conjunction with Police and Herefordshire Council.

Work progresses on the re-location of Fire Control to the Police Control centre and the Fire Authority is embedded in the Police project to replace the Command and Control infrastructure and potentially provide a joint Fire/Police mobilising system.

In addition the, already planned, move of the Fire HQ function to the Police HQ site is being reviewed to ensure that the opportunities for back office efficiencies through integration are maximised by taking advantage of the new legislation.

The Authority (along with other Fire Authorities in the region) has less success in collaboration with the Ambulance Service. A number of opportunities for sharing estate have fallen through due to changes of plans by the Trust. Our communities cannot benefit from co-responding opportunities because the Ambulance Trust is not currently in a position to enter into an arrangement that is sustainable for both organisations.

## **Performance Information**

The Authority commits to publication of transparent performance information. This includes but is not limited to:

- Budget monitoring reports (revenue, capital and treasury)
- Performance Monitoring Reports
- Statement of Accounts
- Annual Governance Statement
- Statement of Assurance
- Information required by the prevailing Local Government Transparency Code

## **Progress of the Efficiency Plan**

The Authority commits to publishing an annual report on the progress of the Efficiency Plan. This will be published alongside our annual Statement of Assurance on our website.