

Medium Term Financial Plan

Report of the Chief Fire Officer

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1 Purpose of Report

This report informs Members of changes to the process of producing the Medium Term Financial Plan (MTFP).

2 Recommendations

The Fire Authority is asked to:

- a) Agree the new approach to the development of the MTFP; and
- b) Note the contents of the draft MTFP.

3 Background

For a number of years the Fire Authority has produced a MTFP in line with Audit Commission best practice. Although the MTFP is a key element of the Strategic Planning Process, it has always been produced as a standalone document, primarily focused on financial issues.

However, with the Authority adopting Public Value a number of changes to the Strategic Planning Process, including how the MTFP is produced, were agreed by the Strategy and Resources Committee at its meeting on 20 May 2010.

4 Proposed Changes to the MTFP

The MTFP has traditionally been updated as part of the annual planning process and agreed three months into the new year by the Authority at its June meeting. This year it is proposed to still bring the MTFP to the Authority but in a draft form.

The intention will then be to review, update and develop the MTFP into an all-encompassing, five-year, joint, medium-term service and financial plan. This new type of document will become much more of a working/living document, detailing how the Service intends to develop, cost and implement future proposals/changes that will be identified as part of the Public Value process.

This will then allow Members at the Authority meeting in February 2011 (when the precept and budget are fixed) to agree the 2011/12 Corporate Plan and the supporting, five-year, medium-term service and financial plan.

5 The Proposed Draft Plan

The first draft of the Plan is available for consideration by Members on the website by using the following link:

<http://www.shropshirefire.gov.uk/webimages/managing-the-service/cfa/fireauthority-meetings-data/pdf-675-10%20Appendix%20-%20Medium%20Term%20Financial%20Plan.pdf>

The current figures within the Plan for forward years are those agreed by the Authority at its February meeting. The Plan also contains a number of 'what-if' projections, based on assumptions regarding future potential budget shortfalls. At this stage in the process these are purely examples to highlight to Members the potential impact on future years' budgets.

6 Financial Implications

There are no financial implications other than those set out in the MTFP

7 Legal Comment

There are no direct legal implications arising from this report.

8 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

9 Appendix

The Draft Medium Term Financial Plan can be accessed via the link below:

<http://www.shropshirefire.gov.uk/webimages/managing-the-service/cfa/fireauthority-meetings-data/pdf-675-10%20Appendix%20-%20Medium%20Term%20Financial%20Plan.pdf>

10 Background Papers

Shropshire and Wrekin Fire Authority
Strategy and Resources Committee 20 May 2010
Report 7 – Strategic Planning Process 201/12 and the Medium Term
Financial Plan

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

| | | | |
|--|--|---|--|
| Business Continuity Planning | | Legal | |
| Capacity | | Member Involvement | |
| Civil Contingencies Act | | National Framework | |
| Comprehensive Area Assessment | | Operational Assurance | |
| Efficiency Savings | | Retained | |
| Environmental | | Risk and Insurance | |
| Financial | | Staff | |
| Fire Control/Fire Link | | Strategic Planning | |
| Information Communications and Technology | | West Midlands Regional Management Board | |
| Freedom of Information / Data Protection / Environmental Information | | Equality Impact Assessment | |
| Integrated Risk Management Planning | | | |

Shropshire and Wrekin Fire and Rescue Authority

Medium Term Financial Plan

2011/12 to 2015/16



Introduction

- 1.1** The annual Medium Term Financial Plan (MTFP) has been a feature of this Fire Authority's financial planning for a number of years and is featured on our website once the budget has been set at the Authority's February meeting. This year is no exception; however there is a very great level of financial uncertainty leading up to the 2011/12 budget. The Fire Authority therefore decided to reframe the MTFP during the year to deal with the uncertainty, and in particular to link service and financial planning issues as closely as possible. The Authority is also keen to create a plan that can be regularly updated as events unfold.
- 1.2** This plan is therefore focussed on the key issues ahead of us. Much of the background and recent developments explaining how we got to the present financial position can be found in the current Plan for 2010/11. Hopefully therefore this plan will be flexible and readily accessible to assist forward planning.
- 1.3** What therefore does the MTFP seek to achieve? The Plan's aims are to ensure that the Authority has sufficient resources to deliver its objectives and to manage risk and uncertainty.

These aims are addressed in the following way:

| | | |
|--|---|-----------|
| Current Services | To clearly set out current service objectives and performance expectations. | Section 2 |
| Current Costs | To demonstrate how the services currently provided have been budgeted, and therefore what resources will be needed to maintain those services in the next five years | Section 3 |
| Value for Money | To demonstrate how the Authority ensures that best value is obtained and maintained in delivering its services | Section 4 |
| Service Developments | To demonstrate how the Authority plans to deal with service pressures such as population changes, legislation etc | Section 5 |
| Resources required | To set out what resources are therefore expected to be needed for current service planning. | Section 6 |
| Resources Available | To set out how the Authority expects to fund the resources required to deliver current services | Section 7 |
| Risks to Budget Plans | To set out how current plans may be at risk and how the Authority seeks to protect service delivery | Section 8 |
| Dealing with Changes to Assumptions about the future | To set out how the Authority deals with changes to services, through its Working Group and Committee structure; "what if" analysis; public and partnership consultation and on-going review and renewal of the MTFP | Section 9 |

2 Current Service

2.1 Shropshire and Wrekin Fire and Rescue Authority's strategic planning process is built around a number of dependencies and milestones which overlap into three key areas: service, financial and improvement planning.

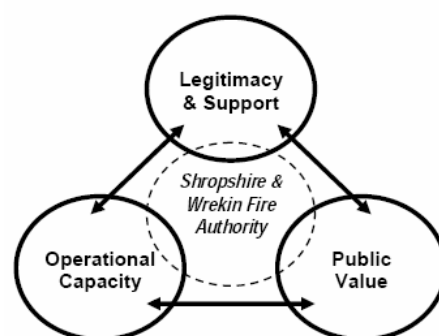
As the Service enters the most economically challenging period to ever face all public services, never has there been such an important time for the Authority to work together with the community. In moving forward the Authority has implemented the concept of Public Value

2.2 Public Value, is focused upon public 'participation' (consultation) and grounded in the notion that public services, as with the private sector, create value but, unlike the private sector, this value cannot be simply reduced to financial profit and loss. As a concept, it identifies with organisations such as Fire and Rescue Services as creating a wide range of beneficial outcomes, which include, as examples:

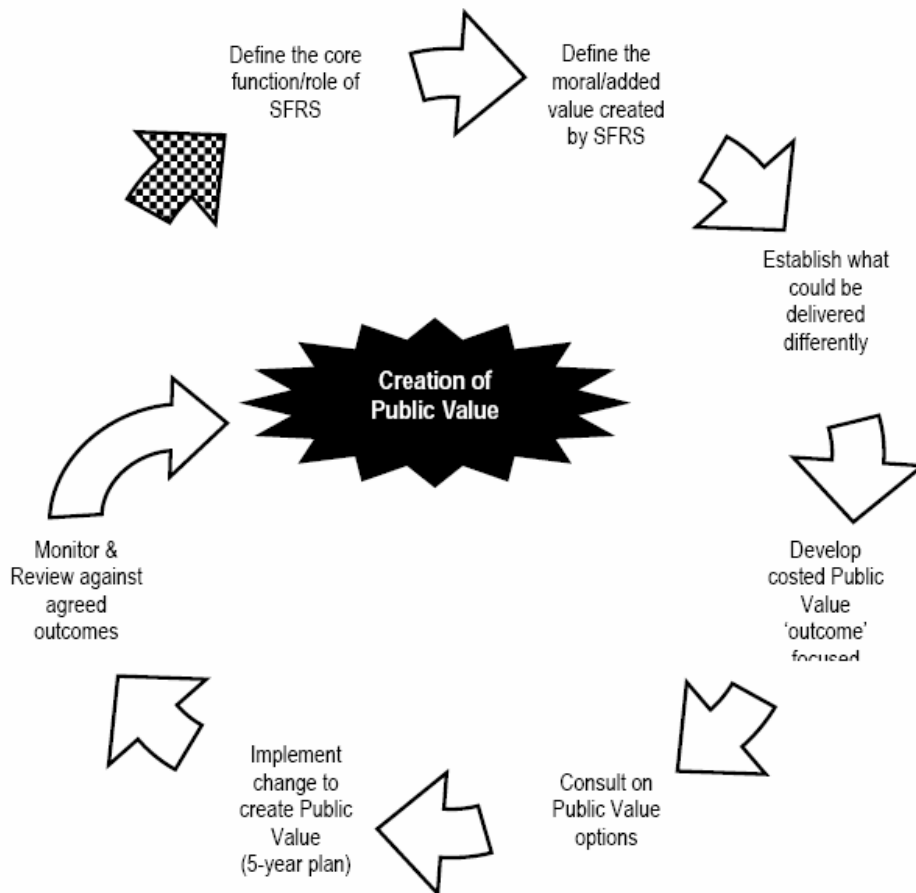
- wider economic value;
- social and cultural value;
- fairness and equity, particularly with reference to vulnerable groups;
- political and democratic value by encouraging debate, participation and engagement amongst citizens; and
- long-term sustainability of social and economic networks.

Since the introduction of Public Value in America in the mid-1990s, it has been attracting growing interest among public policy makers and managers here in the UK, Europe, Australia and New Zealand, and several developing countries.

The theory of Public Value identifies with the public sector as creating a wide range of beneficial outcomes and is framed around the 'Strategic Triangle' that draws attention to three distinct issues that public sector organisations must address in developing their strategic vision. The diagram opposite presents this theory with the Fire Authority at its centre, designed to focus the attention of Members and officers in three key areas.



With the support of Members forming the Strategic Risk and Planning Group, officers have developed a planning process based on the concept of Public Value. The process, in its most simplistic form, is summarised below:



The actual process spans a twelve-month period and involves engagement with a wide range of stakeholders through structured consultation sessions. The outcome from the process will be a detailed five-year change programme, incorporating the Authority's statutory Integrated Risk Management Plan (IRMP) obligations, that creates Public Value within the local communities.

Quality within the process is controlled through regular checkpoints, utilising the Office of Government Commerce 'Gateway Review' procedure, a procedure that is Member led. Moreover, the process includes set reporting points to the Authority and its delegated committees at all major decision points.

Financial planning each year centres on preparing five-year revenue and capital budgets, leading in February to the fixing of the precept for the year ahead.

The process for budget planning is agreed in detail each year but must be led by service planning, revenue support grant and the level of the potential precept. To be effective, strategic planning must ensure that all service plans are consistent with the budgets as agreed each February. The Medium Term Financial Plan must be prepared in a consistent way to aid future planning.

Traditionally the MTFP has been updated as part of the annual planning process and agreed three months into the new year by the Authority at its June meeting. Although the MTFP is a key element of the process it has always been produced as a standalone document, primarily focused on financial issues.

In supporting the Public Value process it is proposed that the MTFP is reviewed and developed into an all encompassing five-year joint medium term service and financial plan. It will become a working document and will detail how the Service intends to develop, cost and implement future proposals/changes that will be identified as part of the Public Value process.

The process and timetable for producing the Authority's five-year budget will continue to link to the 2011/12 Corporate Plan, the five-year medium term service and financial plan, and to work within the public value framework.

3 Current Service Finance

3.1 Base plus Committed Growth

The Authority starts its budget planning from its **base budget**, i.e. the existing budgeted cost of providing services. To this is added **committed change** i.e. known or expected changes in the next four years that have been committed by previous decisions of the Authority, or which will affect the finances but which are outside the Authority's control.

3.2 Examples of committed change as a result of the Authority's own decisions include the debt charges for borrowing to meet the current year's capital programme; planned efficiency programmes etc .Events outside our control might include changes to the Employers' contribution to pension schemes, or national taxation changes.

Table 1

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Base budget (2010/11 base) | 21,366 | 21,366 | 21,366 | 21,366 | 21,366 |
| Committed change | | | | | |
| Pension Costs | 260 | 350 | 400 | 440 | |
| Previous years investment and renewal | 76 | 10 | -84 | -134 | |
| 2010/11 developments | 184 | 207 | 207 | 207 | |
| 2010/11 Efficiencies | -152 | -152 | -152 | -152 | |
| New 2010/11 Capital investment | 61 | 61 | 61 | 61 | |
| Total committed change | 429 | 476 | 432 | 422 | |
| | | | | | |
| | 21,795 | 21,848 | 21,798 | 21,788 | |

3.3 Inflation

Quite separately the Authority tries to “inflation proof” this base plus committed resource provision by adding a pay and price contingency each year over the next five years, including the current year. This is a very significant element of annual change to the budget even at the current very low levels of inflation. However the Authority views this as an important element in service planning. Failing to deal with the effects of inflation e.g. by imposing a simple cash limit can distort the level of real service provision.

3.4 The Authority’s policy is always to make what it considers a realistic assumption about future inflation in order to avoid reliance on reserves to meet any unexpected shortfalls during the year. Balancing this is the desire to keep demands on taxpayers to a minimum and therefore to avoid an excessive level of provision. The problem however is the disproportionate impact of pay settlements over which the Authority has little control because they are largely settled by national negotiation. This year’s provision is based on about 2.5% but of this about 70% or £350,000 is dependent on two key settlements i.e. for firefighters in July and support staff in April.

3.5 Price inflation is about 30% of the provision, and is very difficult to predict, ranging from 3.4% in April down to zero or even negative numbers for some supplies. Currency movements are also important e.g. for purchase of equipment from the Euro-zone.

3.6 The graph below demonstrates the level of uncertainty at present and clearly compounded in future years:

(graph)

3.7 Faced with this, the Authority set its 2010/11 planning on an across the board assumption of two and half percent in each year, and for both pay and prices. They recognised that this was an average for a range of expenditures and over five years, but felt this to be a reasonable working assumption especially given the need to be consistent with other assumptions it would have to make on sources of income. This produced the following contingency requirements:

Table 2

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Inflation Contingency needed | 536 | 549 | 561 | 573 | |
| Potential increase in National Insurance | 109 | | | | |
| | 645 | 1,194 | 1,755 | 2,328 | |

4 Ensuring Best Value

4.1 This section demonstrates that the Authority is aware of the need to examine and challenge its base expenditure, and therefore concentrates on methods of maintaining best value. However it is increasingly clear that there is a wider aspect which is delivering “public value”. Public Value ensures that the services, their level, and the way in which they are provided in a quickly changing public service and financial climate are agreed and accepted by the public we serve. The section differentiates therefore between the processes of achieving public value, from the more specific processes of best value. The distinction between best value and public value is one of timing and significance, but both are part of the Authority’s ambitions to:

- i meet the needs of local people;
- ii provide services that are to the level and quality required by the public;
- iii are at a price that is acceptable; and
- iv are capable of being improved continuously.

The Authority recognizes that this is particularly important as it starts its budget process each year with the current year’s base budget. This has the advantage that it ensures that no major omission can occur during the process, but requires close investigation of all budgets to ensure that existing spending levels are not taken for granted.

4.2 The Authority tests whether it is providing Public Value through

- i its costs
- ii services that are appropriate for and consistent with achieving our planned targets as agreed with all stakeholders
- iii comparative information from other brigades and suppliers
- iv consultation with the public and stakeholders

4.3 The Authority is therefore clear that “Public Value” means

- i services are of the right quality being both fit for purpose and meeting local need
- ii services are delivered economically, i.e. competitively, whether by ourselves or by an external provider
- iii services are provided efficiently by ourselves or working with partners
- iv services are effective in meeting the needs of the public and at the right time
- v diverting resources constantly from areas which are no longer a priority to fund improvements in areas that are.

Objectives of the Public Value Strategy

4.4 The Authority’s objectives in achieving public value are to:-

- i target resources towards meeting local need

- ii deliver its corporate priorities, including improvement priorities
- iii integrate best value principles within existing management, planning and review processes
- iv provide services that meet local needs most economically, efficiently and effectively
- v benchmark where possible and adopt good practice
- vi ensure it develops a culture of continuous improvement
- vii ensure its managers are trained and developed to achieve value for money as is required of them

Delivering Public Value

- 4.5** The Fire Authority has adopted a formal process of public value review through the Strategic Risk and Planning Group (STRaP). This is intended to deal with major changes to the way the service is delivered and indeed potentially whether existing services are considered a priority by the public.
- 4.6** The methodology is led by a Working Group of key Members of the Fire Authority. This is at the heart of delivering wide-ranging innovation to the way the Service is managed and delivered through staff and public consultation. It looks at fundamental issues and, as such, is likely to deliver the largest shifts in use of resources through examining what services we deliver and the method of delivery.
- 4.7** The results of the STRaP Working Group's reviews together with the work of the Budget Working Group are fed into the Authority's Strategy and Performance process. In parallel the Authority's existing processes for maintaining best value are set out below

Efficiencies

- 4.8** Best value is a key part of the Authority's culture and two of its policies reflect this:
- The ambition that service developments should take into account funding available from efficiencies
 - An open approach to delivery of the Government target for efficiencies for the Fire Service as a whole
- 4.9** Although the target is acknowledged as a national average, and not all authorities will be able to achieve it, this Authority takes the view that it should aim to deliver its average share and, if higher efficiencies are deliverable, to deliver these as well. The current situation is set out below.

Table 3

| On-going efficiencies | 2005/08 £000 | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 |
|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2004/05 Final | 167 | | | |
| 2005/06 Final | 203 | | | |
| 2006/07 Final | 318 | | | |
| 2007/08 Final | 252 | | | |
| 2008/09 Final | | 327 | | |
| 2009/10 Provisional Final | | | 231 | |
| 2010/11 Forward Look | | | | 427 |
| | <u>940</u> | <u>327</u> | <u>231</u> | <u>427</u> |
| National Target | | | | |
| Disaggregation | <u>930</u> | <u>307</u> | <u>307</u> | <u>307</u> |

- 4.10** The Authority has achieved its disaggregated share of the national target for the period to 2008. From 2008/09 new targets have been set for the service of 1.6% each year until 2010/11. This equates to £307,000. The Authority has expressed how difficult it will be to find ongoing savings of this magnitude other than through the work of its Strategic Risk and Planning Working Group and has set annual targets of £150,000 for future years and asked for regular monitoring reports on achieving efficiencies. Notwithstanding, the overriding policy remains one of maximising efficiencies therefore they would not be limited by the national target, and equally, if efficiencies fell short after exhaustive work, then this would not be regarded as a failure in itself. The picture for the first year of the new targets (2008/09) shows that the disaggregated total has been achieved, and it is hoped that continuing efforts will mean that 2009/10 efficiencies when aggregated with 2010/11 will exceed the national average. Although the targets for later years will fall short, work will continue to maximise efficiencies. In the 2010/11 budget plan the following efficiencies are planned

Table 4

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <i>Training efficiencies</i> | <i>-4</i> | <i>-4</i> | <i>-4</i> | <i>-4</i> | <i>-4</i> |
| <i>Changed ridership factors</i> | <i>-148</i> | <i>-148</i> | <i>-148</i> | <i>-148</i> | <i>-148</i> |
| Ill-health retirement costs | -40 | -80 | -120 | -120 | |
| Future targets | -150 | -300 | -450 | -600 | |
| New efficiencies | -190 | -380 | -570 | -720 | |

(figures in italics treated as commitments)

Comparisons and Benchmarking

- 4.11** The main thrust is through using best practice as demonstrated in the examples emerging from the Fire Authority's annual efficiency statements. Apart from those generated directly by the Fire Authority, partnership working through the West Midlands Regional Management

Board and Family Group working parties alerts us to local opportunities and experience. We have continued to refer to the Audit Commission's paper "Rising to the Challenge" with particular interest in work done on ridership factors and innovative means to deliver some aspects of service, and to Best Value Indicators produced by the Commission.

- 4.12 The Fire Authority examines annually each example of good practice highlighted nationally and checks whether these are practical for this Authority to adopt and whether work has already been done or is in progress.
- 4.13 Finally, the Fire Authority examines each year the variations in costs as shown in the CIPFA Fire Service Statistics. Members have expected to be able to understand whether any of the variations reveal opportunities to make efficiencies and request officers to follow them up with authorities that show apparent good practice. The Audit and Performance Management Committee has started to explore national benchmarking of "back office" services and has received a report on financial services.

Growth and Savings during the Budget Process

- 4.14 Both service efficiencies and the need to prepare for unavoidable service development pressures are built into the forward planning processes within the budget. Currently the provision, based on realism and past experience, is for £200,000 of unavoidable new spending and £150,000 efficiencies a year, i.e. a net additional budget pressure of £50,000 each year. A clear distinction is drawn between efficiencies and service reductions which may be needed to accommodate the extra spending pressure.

Base Budget Reviews and Statement of Accounts

- 4.15 Since 1999, the Fire Authority has agreed a budget process whereby finance officers and budget holders examine each budget heading in the light of the previous year's outturn and the progress made so far in the current year. The intention is to make the budget as realistic as possible and, in so doing, to identify the scope for formally reducing budgets. This could be either as a result of realism, i.e. events outside the Fire Authority's control, or as a result of work by officers to obtain efficiencies, i.e. savings with no reduction in service. The Authority also reviews in detail the outcome of the previous year as reflected in its annual Statement of Accounts in order to ensure that there are no threats to service plans or opportunities that could be grasped for redirecting resources.

Effective Use of Information Technology (IT)

- 4.16 The Fire Authority has a policy of using IT to increase efficiency. Current examples are the introduction of linked IT communication at retained stations and remote terminals to allow part-time working from home or link key officers to the office. There has also been a significant move to

electronic processing of data with the Authority's bank and a move from cheques to direct credit transfer. Although not confined to IT initiatives, the Fire Authority has agreed to invest up to £100,000 in achieving efficiencies through the Shrewsbury Accommodation Project. This will include new ways of working, further digitization of paperwork and electronic data storage and or other solutions that will deliver acceptable returns for capital outlay. Each of these projects is being managed under the overarching HQ development plan.

Effective Corporate Procurement Mechanisms and Outsourcing

- 4.17** The Fire Authority's procedures for procurement have been completely updated to change the emphasis from lowest cost to ensuring best value, whilst being fit for purpose and meeting the needs of the public and service users. The Authority also recognizes that many services are more economically provided by contractors or by other local authorities e.g. support services and there is therefore no presupposition that services are best provided directly.

Achieving Economies through Joint Working

- 4.18** The Fire Authority has a history of attempting to deliver services with partners to reduce costs. In particular, regional working is delivering cost savings on recruitment, procurement, and community safety. Local Area Agreements are also producing savings by using staff more flexibly across partners' individual services. Agreements have been made to share the use of property with the West Midlands Ambulance Service. The CFO is a member of the Shropshire CAA Executive group where further work is well underway to identify area for joint working to improve efficiency further.

Customer Feedback/Public Value

- 4.19** The Fire Authority has been highlighted as having an effective annual consultation process with the public on risk reduction changes and on the budget. In particular, "scrutiny panels" organised through external consultants have produced a number of results that have led to a review of resource allocation to areas considered to be of highest priority, and have also informed the Authority on the price that the public are prepared to pay for their fire and rescue service. Consultation will be a key element in the delivery of the Public Value work by the STRaP Working Group.

Scrutiny

- 4.20** The Fire Authority has been using scrutiny to drive the search for efficiencies. Members have become even more directly accountable with the establishment of the Audit and Performance Management Committee in 2005, with the separate remit to consider performance, and whether resources are being used as effectively as possible. This involves benchmarking, comparing with best performing providers, and scrutinising audit reports. Separating these functions from the Strategy

and Resources Committee, where they were previously performed, has given much more focus to value for money.

Audit

- 4.21** The Fire Authority uses internal audit to evaluate its internal control systems, and supporting and guiding staff in securing value for money as an integral part of their role. Examples include checking that proper procurement practices are in place and information and financial systems are up to date and are accurate so that informed management decisions can be taken.
- 4.22** Internal audit also questions current practices, and suggests improvements. This is helped by the employment of internal audit services from Shropshire Council, who can bring examples of good practice particularly in the operation of common systems, e.g. creditors and payroll.

Performance Management

- 4.23** The Corporate Plan sets out aims and corporate objectives leading to agreed improvement priorities and core business. This sets the ground work for the key performance indicators, which are then monitored by officers and the Audit and Performance Management Committee and the Fire Authority.
- 4.24** The improvement priorities and core business are also embedded in the Business Department structure and set out in their Business Plans. This enables the Fire Authority to focus its efforts and resources on achieving its targets, measured by the key performance indicators, as well as meeting agreed priorities.
- 4.25** Moving into 2010 the Service is reviewing its internal performance management processes to ensure that maximum efficiency is gained particularly from our prevention activities.

Organisational Structure

- 4.26** The Fire Authority is a well managed organisation characterised by:
- Effective and understood political structures
 - A focused corporate centre contained within its own Business Department, with extensive outsourcing of support services
 - Clearly defined and accountable Service Departments
 - Clear standards and efficient corporate governance mechanisms
 - Strong systems of financial management and control and
 - Well developed training and development programmes for all staff
 - Effective distributed leadership across the Authority and the Service.

The Authority believes that this infrastructure is necessary in order to deliver public value across all activities.

Key Projects

4.27 The key projects for the coming year is reflected in the STRaP programme and include:

- i Implementing the changes as a result of the 2009 I.R.M.P. plan.
- ii Public Value review of Service provision.
- iii Production of 5 year strategy to respond to national public funding cuts.
- iv Managing the effective and efficient development of the new Station/HQ at Shrewsbury and improving efficiency through new ways of working.

5 Service Development Plans

5.1 Having established the budgets required to deliver current services, and the methods by which public value is maintained, the Authority has established its service development plans over the next five years. These consist of both revenue developments and its programme for capital investment.

Revenue developments have been identified as follows:

Table 5

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <i>District Development Teams</i> | 203 | 226 | 226 | 226 | 226 |
| <i>Other developments</i> | -19 | -19 | -19 | -19 | -19 |
| Contingency to meet future pressures | 200 | 400 | 600 | 800 | |
| New developments | 200 | 400 | 600 | 800 | |

(figures in italics treated as commitments)

5.2 The capital investment programme for new scheme **starts** was agreed as set out below. Only schemes due to start in the current year can proceed. Schemes due to start in later years are not finally committed and are reviewed each year as part of the budget process.

Table 6

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Training Facilities | 50 | 50 | 50 | 50 | |
| Appliance Replacement | 555 | 555 | 370 | 925 | |
| Building Improvements | 65 | 65 | 65 | 65 | |
| Fire Control Conversions | | | | | |
| Fire Kit replacement | | | | | |
| Breathing Apparatus upgrade | 330 | | | | |

| | | | | | |
|--------------------------|-------|-------|-------|-------|--|
| Information Technology | 50 | 50 | 50 | 50 | |
| Water Carriers | 120 | | | | |
| Telford Improvements | | 500 | | | |
| Wellington Improvements | | | 1,000 | | |
| Ford Rangers replacement | | | | 100 | |
| | 1,170 | 1,220 | 1,535 | 1,190 | |

These new starts are funded as follows:

Table 7

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Borrowing | 1,070 | 1,120 | 1,435 | 990 | |
| Capital Reserve | 100 | 100 | 100 | 200 | |
| Grant | - | - | - | | |
| | 1,170 | 1,220 | 1,535 | 1,190 | |

- 5.3** The programme is estimated to result in the following additional revenue consequences from 2011/12 scheme starts. The revenue consequences of the 2010/11 starts are now regarded as committed and are treated as part of the base plus committed changes dealt with earlier in the plan:

Table 8

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cost of borrowing | 28 | 203 | 363 | 498 | |
| Fund contributions | 14 | 28 | 42 | 70 | |
| Running costs | - | - | - | - | |
| | 42 | 231 | 405 | 568 | |

- 5.4** Borrowing is partly supported through the government grant, which is equivalent to about £0.500m a year. The cost of the rest of our borrowing falls directly on the remaining revenue resources. This is so called prudential borrowing and can only be undertaken if the Authority decides that it is prudent, affordable and sustainable.
- 5.5** The forward programme will involve prudential borrowing and is judged to be prudential; however it will clearly need to be reviewed in the light of present financial uncertainties.

6 Revenue Resources Required

- 6.1** The revenue resources required to meet current plans can therefore be summarised as follows:

Table 9

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
|--|-----------------|-----------------|-----------------|-----------------|-----------------|

| | | | | | |
|-----------------------|--------|--------|--------|--------|--------|
| Base budget (2010/11) | 21,366 | 21,366 | 21,366 | 21,366 | 21,366 |
| Committed change | 429 | 476 | 432 | 422 | |
| Inflation | 645 | 1,194 | 1,755 | 2,328 | |
| New Efficiencies | -190 | -380 | -570 | -720 | |
| New Developments | 200 | 400 | 600 | 800 | |
| Capital investment | 42 | 231 | 405 | 568 | |
| | 22,492 | 23,287 | 23,988 | 24,764 | |

6.2 As has been explained earlier capital funding resources will also be required and will on present plans require prudential borrowing:

Table 10

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Supported borrowing | 497 | 497 | 497 | 497 | |
| Prudential Borrowing | 573 | 623 | 938 | 493 | |
| Capital reserve | 100 | 100 | 100 | 200 | |
| Grant | - | - | - | - | - |
| | 1,170 | 1,220 | 1,535 | 1,190 | |

7 Forecast of Resources Available

7.1 Revenue expenditure is funded from the precept we raise on Council Tax Payers adjusted each year by any balances from previous years (the collection fund surplus or deficit); from reserves; and from government grant which includes the redistributed national collection of non-domestic rates.

7.2 The table below shows how current spending plans are anticipated to be financed. The Table shows the relative significance of each element.

Table 11

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue Support Grant | 8,372 | 8,477 | 8,586 | 8,696 | |
| | (37%) | (37%) | (36%) | (35%) | |
| Council Tax Precept | 13,932 | 14,525 | 15,145 | 15,793 | |
| | (62%) | (62%) | (63%) | (64%) | |
| Collection Fund Surplus | 30 | 30 | 30 | 30 | |
| | (-%) | (-%) | (-%) | (-%) | |
| Reserves | 159 | 256 | 228 | 246 | |
| | (1%) | (1%) | (1%) | (1%) | |
| Total | 22,493 | 23,288 | 23,989 | 24,765 | |
| | (100%) | (100%) | (100%) | (100%) | |

7.3 Revenue Support Grant

Revenue Support Grant accounts for about one third of the Authority's income. Whilst substantial this proportion is one of the lowest for

Combined Fire Authorities. Our grant has increased recently and we benefited over the three years of the last grant settlement as the table below shows. The benefit was reduced by the so called “flooring mechanism” This is the means by which the government redistributed some of the benefit to losing Authorities to prevent them falling below a floor and thereby guaranteeing all Authorities at least some gain.

Table 12

| | Grant before Floors £000 | Flooring adjustment £000 | Grant actually received £000 | % Increase % |
|---------------|-----------------------------|-----------------------------|---------------------------------|-----------------|
| 2008/09 | 8,383 | 713 | 7,670 | 6.6 |
| 2009/10 | 8,511 | 536 | 7,975 | 4.0 |
| 2010/11 | 8,633 | 366 | 8,267 | 3.7 |
| 2011/12 (est) | | | 8,372 | 1.25 |

7.4 The last grant settlement covered the three years from 2008/09 and therefore provided certainty. The new settlement for 2011/12 may be for one or three years. In addition the quantum of grant for the fire service, distribution formula, distribution data updates, flooring mechanisms are all unknown and could provide significant changes. Finally the Government are planning to freeze Council Tax, possibly by giving specific grant incentives. The impact of the worsening public finances may be made worse or better by the impact of Authority specific changes. The current budget plans assume a growth of 1.25% a year. This is a major area for review.

7.5 Precept Income from local Council Tax payers.

Income is the product of the Council Tax base, (i.e. the number of Band D equivalent properties in the Authority area) and the level of the precept. In 2010/11. This is $158,964.71 \times £83.81 = £13,323,000$. The base does increase annually but the impact on income is relatively small compared with decisions taken over the percentage rise in the precept. The Authority decided to plan for precept increases of 3.9% a year from 2011/12, which when multiplied with a modest increase in the number of Band D properties gave the following income:

Table 13

| | Precept £ | Band D Properties | Precept Income £000 |
|---------|--------------|-------------------|------------------------|
| 2011/12 | 87.08 | 159,986 | 13,932 |
| 2012/13 | 90.48 | 160,529 | 14,525 |
| 2013/14 | 94.01 | 161,104 | 15,145 |
| 2014/15 | 97.68 | 161,681 | 15,793 |
| 2015/16 | | | |

7.6 There is also a problem understanding the circumstances in which the government may cap precepts. The previous arrangements have involved a test of whether an Authority exceeds set increases in **both** precept and in budget requirement. Account has also been taken of the relative level of the precept with that of similar Authorities.

- 7.7** Budget requirement is defined as the amount required to meet expenditure plus any additions to reserves or less any use of reserves to help meet that expenditure. Recent capping rules have been as follows:

Table 14

| | Cap on Budget Increases % | Cap on Precept Increases % | SWFA Budget Increase % | SWFA Precept Increase % |
|---------|---------------------------|----------------------------|------------------------|-------------------------|
| 2008/09 | 5.0 | 5.0 | 5.1 | 3.9 |
| 2009/10 | 4.0 | 5.0 | 4.1 | 3.9 |
| 2010/11 | 3.5 | 4.5 | 3.7 | 2.9 |

- 7.8.1** Although well below the precept increase test the Authority has been close or above the Budget increase test. This has been a result of monies set aside to add to Reserves each year. The Authority also sets one of the highest precepts of English Combined Fire Authorities (CFA's). Capping may or may not continue, existing test levels be reduced or become either/or. New tests may be introduced. Capping or its equivalent is an issue that needs careful monitoring as it could have a significant impact on the Authority's main source of funding.

7.8.2 Use of Reserves

Table 11 shows that current predictions are that income will fall short of the resources needed to meet current service levels. The present policy is that because the shortfall is within the scope of current levels of saving and is also relatively stable over the plan period (between £159,000 and £256,000), then such shortfalls can be managed. Nevertheless the intention is to avoid the use of reserves. The exception would be their use as part of any future phased plan aimed at ensuring ongoing service expenditure never had to depend on one-off sources of funding such as the use of reserves.

7.9 Capital Resources

Capital investment has been dealt with as far as it affects the revenue account through debt charges and other costs of financing, plus increased running costs. The main sources of capital finance are borrowing; capital reserves or the revenue account; capital grants; leasing and capital receipts. As stated earlier the Authority presently relies on prudential borrowing and must consider how realistic this will be in future. The Authority also maintains a Capital Replacement Reserve which uses annual contributions from revenue to replace assets at the end of their planned life. A capital reserve has also been created to meet the cost of the major St Michael's Street remodelling scheme. Finding revenue to meet capital costs in future may also become difficult. In 2009/10 and 2010/11 the Authority received in total more than £1.2 million of capital grants.

This unprecedented distribution is unlikely to be continued in the current financial climate. Leasing has proven unattractive since the advent of prudential borrowing as it is as expensive for most equipment and is far less flexible. Capital receipts are a possible source of funding and the

estate has been thoroughly reviewed for opportunities. However these are limited given the nature of the asset transfer that occurred when the Authority took responsibility for the service from the former Shropshire County Council in 1998.

7.10 Potential Resources Model

The following scenarios could be envisaged i.e. an optimistic and pessimistic projection with all combinations in between being quite possible:

i- Grant

Table 15

| | Current Plans +1.25% p.a. | Optimistic No growth | Pessimistic -10% |
|---------|------------------------------|-------------------------|---------------------|
| | £000 | £000 | £000 |
| 2011/12 | 8,372 | 8,268 | 7,992 |
| 2012/13 | 8,477 | 8,268 | 7,716 |
| 2013/14 | 8,586 | 8,268 | 7,441 |
| 2014/15 | 8,696 | 8,268 | 7,441 |
| 2015/16 | | | |

ii- Precept

Table 16

| | Current Plans +3.9% p.a. | Optimistic +2.9% p.a. | Pessimistic No growth |
|---------|-----------------------------|--------------------------|--------------------------|
| | £000 | £000 | £000 |
| 2011/12 | 13,932 | 13,797 | 13,408 |
| 2012/13 | 14,525 | 14,246 | 13,454 |
| 2013/14 | 15,145 | 14,712 | 13,502 |
| 2014/15 | 15,793 | 15,193 | 13,551 |
| 2015/16 | | | |

iii- Collection Fund-assume a surplus of £30,000 each year.

The charts on the following page demonstrate these figures graphically:

Chart to demonstrate Table 15

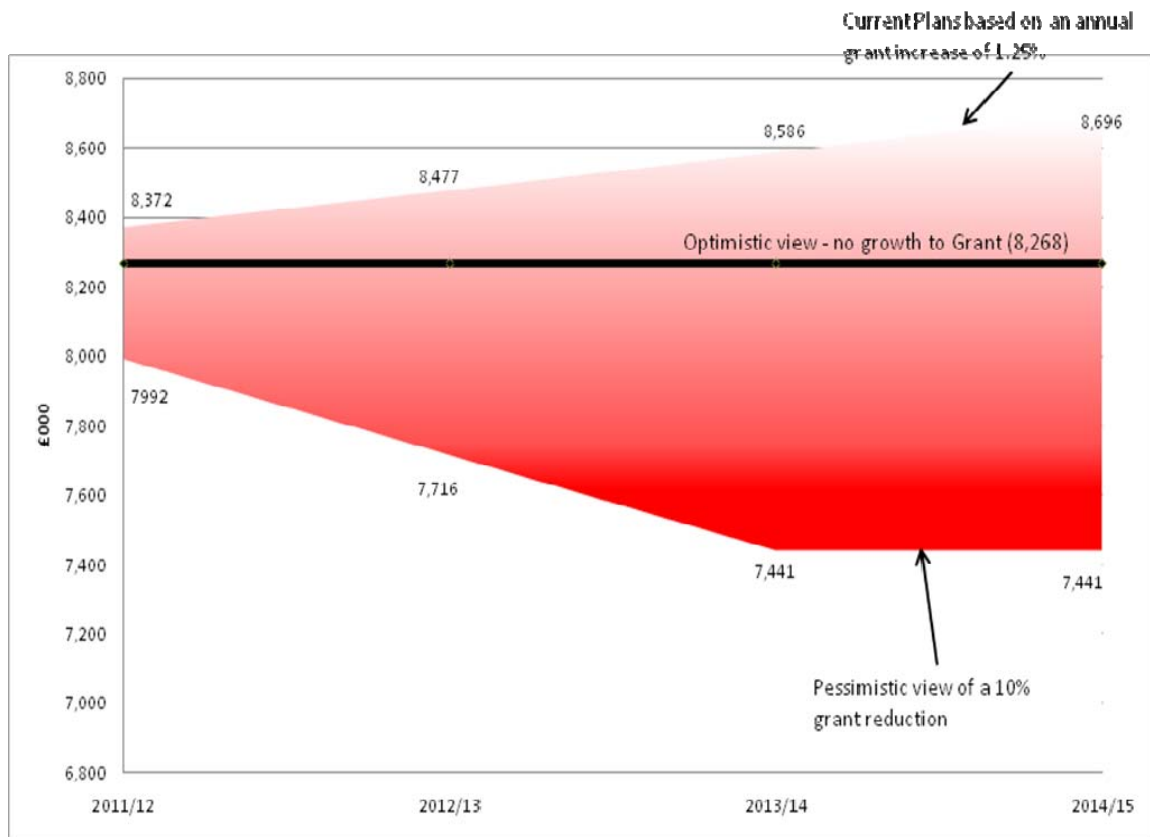
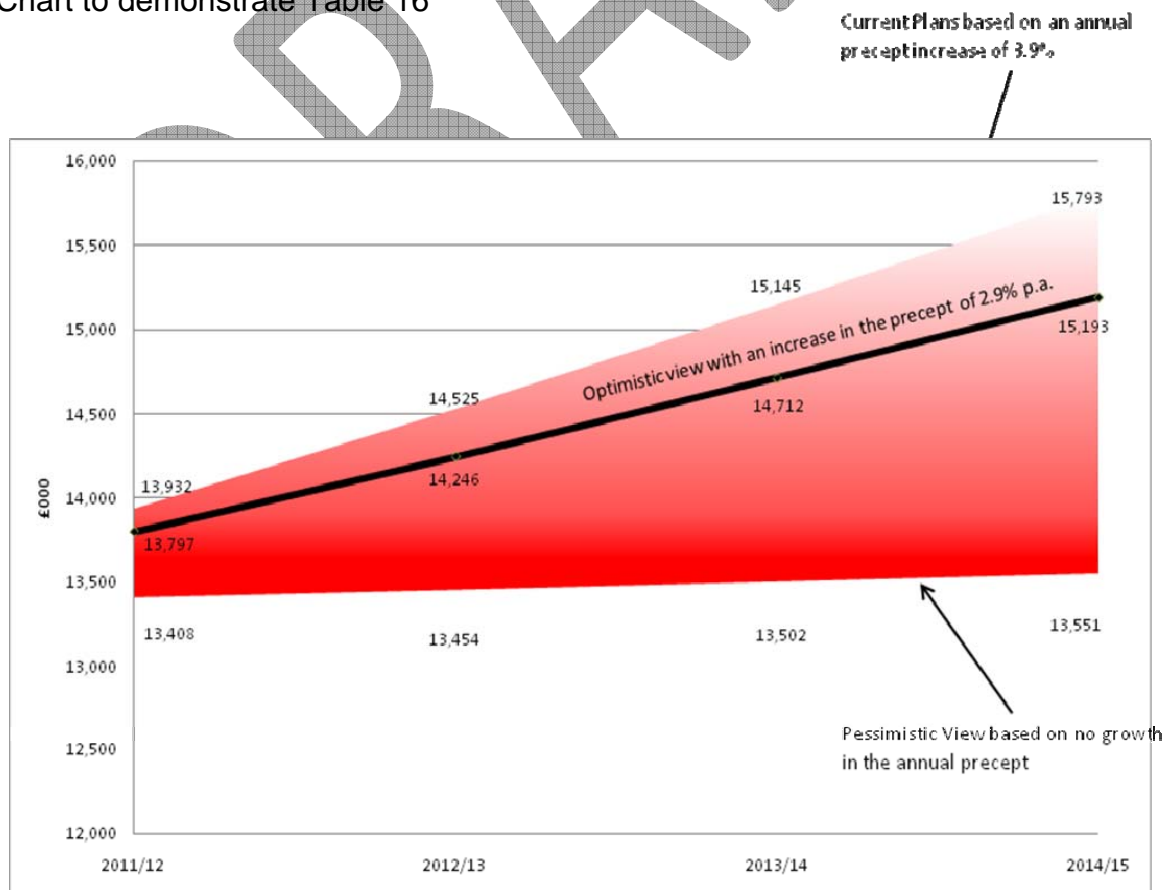


Chart to demonstrate Table 16

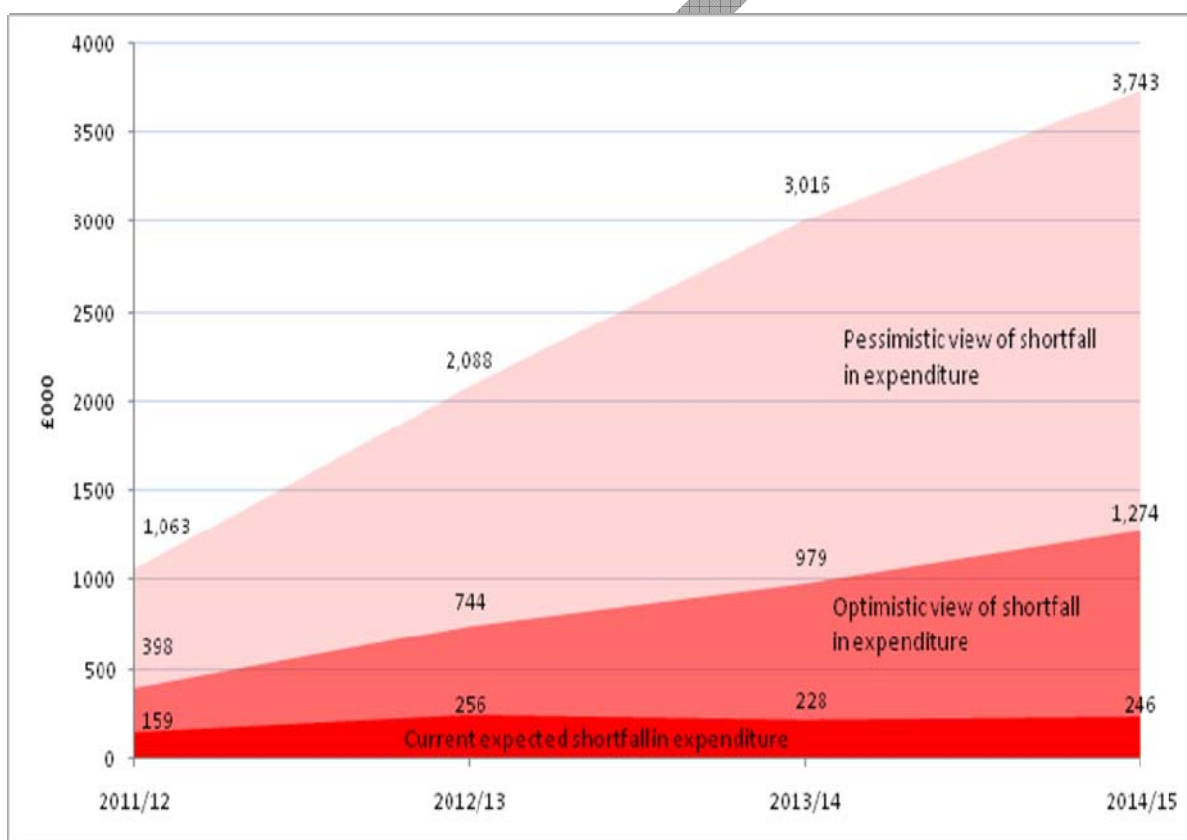


7.11 Taking these three scenarios and assuming expenditure remains unchanged, and in particular inflation does run at 2.5%, then the following potential shortfalls between income and expenditure will result.

Table 17

| | Current shortfall | Optimistic | Pessimistic |
|---------|-------------------|------------|-------------|
| | £000 | £000 | £000 |
| 2011/12 | 159 | 398 | 1,063 |
| 2012/13 | 256 | 744 | 2,088 |
| 2013/14 | 228 | 979 | 3,016 |
| 2014/15 | 246 | 1,274 | 3,743 |
| 2015/16 | | | |

Chart to demonstrate Table 17



8 Service and Budget Risks

8.1 The section above outlines the risks to the resources available to fund services.. This section deals with the major risks to maintaining and delivering those services.

- i- demographic and other changes affecting the area;
These are planned into budget projections through the £200,000 annual service development budget
- ii- extremes of weather
A specific reserve is maintained
- iii- legislation, such as a possible change in the Working Time Directive

Major uncertain risks such as these are monitored through the Risk Register, but no specific budget is allocated other than the £200,000 annual provision

- iv- pay, pensions and other matters affecting our employees
An annual contingency is included for inflation occurring in the year. Reserves are also held to meet specific staff issues such as the pension and conditions settlements affecting retained staff.
- v- technical issues such as the control centre and its associated systems
These are dealt with in the budget projections as far as possible, with reserves provided for unexpected one-off costs
- vi- other unforeseen events such as illness, accidents, liability claims etc
These are covered in a General Reserve, which attempts to balance the cost of such events against the probability of them happening. Insurance cover is also in place for a number of risks
- vii- price inflation and other supply issues
The annual contingency for inflation also meets price increases. Officers review suppliers' contracts to ensure that failures or monopoly situations do not endanger service delivery or cost.

8.2 Set out below is a schedule of the reserves that the Authority uses to protect the delivery of its services:

Table 18

| | April 2011 £000 | April 2012 £000 | April 2013 £000 | April 2014 £000 | April 2015 £000 |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Major Capital Projects | 733 | 755 | - | - | - |
| Capital replacement | 4 | 135 | 230 | | |
| Extreme Weather | 295 | 295 | 295 | 295 | 295 |
| Pensions and Other Staff Matters | 797 | 812 | 827 | 832 | 837 |
| General Reserve | 541 | 557 | 574 | 591 | 608 |
| General Fund | - | - | - | - | - |
| | | | | | |
| Total | 2,370 | 2,554 | 1,926 | 1,718 | 1,740 |

In addition the Authority tries to maintain a high level of good governance to minimise the risk of financial or other problems arising, and if they do to take swift action to mitigate their effect.

9 Dealing with the next Five Years and public finance pressures

9.1 The Authority has remodelled its formal structures to bring service planning using "Public Value" processes within the remit of a Strategic Risk and Planning Working Group (STRaP). Their work and that of the Budget Working Group will be co-ordinated through the Strategy and Resources Committee who will recommend a combined budget and service strategy to the Authority.

- 9.2** Work has begun on identifying budget reductions that could be made quickly in the event of the need to respond to emergency reductions or to provide a lead –in time for more permanent service changes. These reductions could not be sustained indefinitely without impact on service levels.
- 9.3** STRaP has also set in motion the processes of Public Value which are identifying longer term reductions which will have the least impact on services and in some cases even identify efficiencies i.e. maintain services at lower cost. Core services and priorities for other services are also being identified in case there is a need to make significant decisions about service levels.
- 9.4** This document will also be continually updated as an aid to identifying and communicating how the process of service and financial planning is being developed through the year, culminating in its final approval in February together with the 2011/12 agreed budget

DRAFT