

Financial Planning Strategy

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

This report seeks the Committee's approval to submit recommendations to the Fire Authority, firstly on the role of the Integrated Risk Management Planning (IRMP) Working Group in formulating financial service strategy, and secondly on the work programme for service and financial planning leading to budget proposals in December.

2 Recommendations

The Committee is asked to recommend to the Fire Authority that it:

- a) Extend the terms of reference of the IRMP Working Group to cover consideration of all major issues effecting service levels and the financial position of the Authority, in particular potential service developments and reductions, efficiencies and major capital projects;
- b) Amend the reporting process of the IRMP Working Group so that it reports directly to the Strategy and Resources Committee;
- c) Request the Strategy and Resources Committee to examine how short-term expenditure reductions might be made in 2010/11, with least impact on service delivery;
- d) Request the Strategy and Resources Committee to build up service delivery from a zero base and produce a set of what-if service reductions, which would protect core service delivery;
- e) Add capital investment plans in Telford to the 2012/13 programme, and Wellington to the 2013/14 programme;
- f) Request officers to seek to fund any minor new developments from existing budgets; and
- g) Explore ways of lobbying to improve the current grant distribution to this Authority with any new formula to be used from 2011/12 onwards.

3 Background

The Fire Authority in February based its financial strategy on the following assumptions:

- i. Pay and Prices contingency is not hypothecated to any area, but is based on inflation rates ranging from 3.5% to 2.5%, falling to a range of 2.5% to 2% from 2011/12 onwards;
- ii. A capital programme set out in three-year budget plans, and extended to nine years in the Medium Term Financial Plans;
- iii. New developments – for planning purposes of £200,000 a year;
- iv. Efficiencies – for planning purposes of £150,000 a year, with particular reference to the Audit Commission’s report ‘Rising to the Challenge’
- v. Grant increasing by about 1.25% a year;
- vi. Collection Fund surpluses remaining in surplus of £50,000 a year;
- vii. The Band D equivalent tax base growing slightly, in line with latest actuals; and
- viii. The precept increasing at 3.9% a year, whilst examining the scope to reduce the rate of increase.

These assumptions produced the following projections:

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	New 2014/15 £000
Expenditure					
i Previous Years Budget	20,779	21,823	22,736	23,459	24,179
ii Base Variations	301	203	22	50	0
iii Pay and Prices	644	569	517	504	504
iv Capital (New Starts)	57	91	134	116	100
v New Developments	192	200	200	200	200
vi Efficiencies	-150	-150	-150	-150	-150
	<u>21,823</u>	<u>22,736</u>	<u>23,459</u>	<u>24,179</u>	<u>24,833</u>
Income					
Grant/ NNDR	8,268	8,372	8,477	8,586	8,696
Collection Fund (Surplus)	50	50	50	50	50
Council Tax	13,323	13,893	14,487	15,106	15,752
	<u>21,641</u>	<u>22,315</u>	<u>23,014</u>	<u>23,742</u>	<u>24,498</u>
Deficit Projection	<u>182</u>	<u>421</u>	<u>445</u>	<u>437</u>	<u>335</u>

In response to these potential deficits, the Fire Authority agreed to monitor closely key external uncertainties that could affect service levels, and to review the current schedule of ‘what-if’ service reductions, if needed, in the next five years.

4 2010/11 Financial Planning and Programme

The current programme, integrating the strategic planning process, is attached to this report at Appendix A. From this, there is an identified need to examine major service/ financial variations in detail, and to ensure effective consultation is carried out. Equally there is a need to ensure the Strategy and Resources Committee is kept fully informed of the work so that it can produce a comprehensive set of budget recommendations to the Fire Authority.

It is, therefore, proposed that the scope of work of the IRMP Working Group is expanded as outlined in Appendix A, and that it reports directly to the Strategy and Resources Committee.

5 2010/11 Financial Planning – Key Issues

There seems to be no reason to change the budget process outlined in Appendix A, subject to the amended involvement of the IRMP Working Group.

The Fire Authority has asked that key external uncertainties be closely monitored, and since February, a number of factors have changed:

Inflation

- i. Pay inflation has fallen, although other prices – notably the interest rates for investments – has partially offset this;
- ii. The outlook for public finances has deteriorated further, with questions being asked over whether there will be any increase in either grant or Band D equivalent tax base, or whether collection funds will remain in surplus;
- iii. There is also the issue of capping, which is currently established at a limit of 5% increase in Council Tax, but might be revisited in the current low inflation environment.

2010/11 Budget Strategy

There is a projected deficit for 2010/11, (although this may be affected by changes identified from monitoring the current year). In addition some of the external factors affecting tax base, and collection fund will not be confirmed until January. Finally, 'what-if' service reductions, if needed, may have relatively long lead-in times. It would seem prudent, therefore, to examine how short-term expenditure reductions might be made in 2010/11 with least impact on service delivery.

Five-Year Budget Strategy

For longer term financial planning, it would be prudent to examine the consequences of service reductions over the next five years that would be needed to deal with deficits should external factors go against the Fire Authority.

The Medium Term Financial Plan lists possible reductions of up to £3.7 million, some of which will be impossible to achieve without compromising current service levels. Latest analysis (see appendix B) indicates all the potential factors affecting future deficits, and it is recommended that 'what-if' scenarios of the consequences of meeting deficits be examined

The Fire Authority will be particularly conscious of the need to protect core services. Officers propose to use the autumn period to build up the service from a zero base, identifying these core services and their cost, together with ancillary and support services. This should ensure the Fire Authority to be able to continue its key objective of safeguarding core services through the financial difficulties of the next five years.

Grant Losses

The projections set out in appendix B assume a zero growth in grant from 2011/12 onward. There is concern that the total grant for the Fire Service nationally will be restricted, and also that the replacement distribution formula, to be introduced in 2011/12 may switch resources away from relatively sparse areas once again. The Authority already has the third highest precept, and one of the lowest proportions of income from grant in the country. The current formula would be giving the Authority an additional £366,000 in 2010/11, if this was not required to protect other authorities from loss (the so called flooring mechanism). There is therefore a window of opportunity to lobby for the full benefits of the current formula to be at least secured, and for the redistribution of grant to relatively sparse areas to continue.

Other Issues

Planning should also accommodate plans for possible capital investments in later years for Telford and Wellington as requested by the Fire Authority.

For relatively small requests for desirable development items to be found from the £200,000 planning total, officers will be asked to minimise the additional cost by challenging whether they can be financed from existing budgets or from contingencies if they are one-off items.

6 Financial Implications

The financial implications of this report are set out within it.

7 Legal Comment

There are no direct legal implications arising from this report.

8 Equality Impact Assessment

This report has been assessed against the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and this has shown 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 Appendices

Appendix A

Financial Planning Strategy 2010/11 to 2014/15

Appendix B

Potential Deficits

10 Background Papers

There are no background papers associated with this report.

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.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	*
Civil Contingencies Act		National Framework	
Comprehensive Performance 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	*

Financial Planning Strategy 2010/11 to 2014/15

1 Purpose of Appendix

This appendix sets out the decisions of the Fire Authority on its delegated Strategic Planning Process for 2010/11, and, in particular, how the financial planning strategy fits into it. It goes on to outline how the Authority could more clearly dovetail in the work of the Integrated Risk Management Working Group (IRMWG) into the process.

2 Background

The Integrated Strategic Planning Process was agreed by the Fire Authority on 3 July 2009, and the timetable is attached at Appendix Aa.

The Fire Authority has approached its budget setting using the following methodology:

1. It reviews spending decisions in the following way:
 - a) Start with the current year's revenue and capital budget, which should reflect service delivery plans.
 - b) Thoroughly review the current budgets for accuracy to ensure that there is no spare cash or shortfalls in the delivery of the service plans. Add or subtract unavoidable changes
 - c) Consider a realistic provision for those pay and prices, which are currently unknown, but will affect spending in the years ahead.
 - d) Review the policy for provisions and reserves, and, in particular, make sure that actual balances take into account the current risk register.

So far expenditure reviews are largely driven by a realistic review of facts, and do not, therefore, involve significant decisions above the level of the service.

- e) Review service delivery for efficiencies. By definition, these should not involve change to the services provided, but do things just as effectively but for less cash. It could be argued, therefore, that efficiencies fall into the same category as a) and d) above. However major efficiencies are likely only to be identified through quite fundamental reviews of the means by which the service is delivered, which goes well beyond the financially led process in a) to d).

- f) Review the multi year capital programme. Although a programme up to 2017/18 is included in the Medium Term Financial Plan, only schemes scheduled to start in 2009/10 or earlier are committed. Therefore each year, a fresh view can be taken on the schemes planned to be started in the year ahead.
- g) Review service growth. The Fire Authority is faced every year by change that requires additional expenditure, and also considers desirable service development. Therefore, for modelling and planning purposes only, the forward budgets always include a provisional sum of about £200,000 each year to meet such developments as Members might wish to approve.

Items e), f) and g) cover expenditure areas that are linked to new decisions about the service and it is in this area that scope for changing the shape of service delivery really lies.

2. It then takes into account income to meet this expenditure.

- h) Government Grant. The process has been greatly helped by the adoption of three-year grant settlements. 2010/11 is the last of the 2008/11 series and therefore hopefully fixed? Although extreme circumstances may lead the Government to change the totals and/ or amend significantly capping criteria. However given the current economic situation, the 2011/12 settlement is likely to be challenging. Unfortunately, the precise grant at the beginning of a new settlement period is not usually known until late November or early December. Budget planning for 2010/11 is likely, therefore, to take place in the peculiar context of a known grant for the year ahead, but major concerns for subsequent years.
- i) Council Tax. Income from the Council Tax is determined by three things, the first two of which are beyond the control of the Fire Authority:
 - a. Any income from, or payment to, the collection funds of the billing authorities. This comes from any addition or shortfall they experience in collecting our precepts for earlier years. This is not finalised until January.
 - b. The number of Band D equivalent properties. Any increase from the previous year will produce extra precept income without having to increase the precept. This figure is also confirmed in January.
 - c. The level of the precept itself. Currently the Authority has a policy that precept increases are to be limited to 3.9% per year, whilst examining the scope for reducing the rate of increase. The precept is finally fixed in February each year.

In an ideal world, expenditure (a to g) can be equated to income (h to i) with minimal, if any, detrimental effect on desired service delivery.

However, the Fire Authority recognised the dangers of budget shortfalls in later years, indeed deficits peaking at £440,000 were forecast during the next five years. To deal with such deficits the Fire Authority specifically decided to review the current schedules of “what if” service reductions, if needed, in the next five years. The “what ifs” are, therefore, the missing element in the expenditure side of the budget equation.

3 The Role of the Integrated Risk Management Working Group

From the appendix, it can be seen that the Integrated Risk Management Working Group works in parallel with Strategy and Resources Committee until November, when the budget implications of its work programme are integrated with the main stream work of the Committee. This is in order to produce clear budget recommendations to the Fire Authority meeting in December. An improvement in the process might be to capitalise on the Working Group’s service knowledge and consultation processes and to task the Working Group with looking at significant growth, efficiencies, new capital scheme proposals and “what if matters, i.e. to cover those items which change the shape and content of service delivery.

If the Working Group then reports directly to the Strategy and Resources Committee, the Committee would be fully informed of service implications, as it developed its over-arching budget proposals to the Authority.

Strategic Planning Process

Month	Service Planning	Financial Planning	Improvement Planning	
			IRMP	Audit
July	<p>3rd - CFA approves proposal for 2010/11 Strategic Planning timetable</p> <p>Review "What if" matrix</p> <p>Consider potential growth, efficiencies and service requirements for 2010/11</p>	<p>3rd - CFA agrees: Annual Statement of Accounts 2008/09 Medium Term Financial Plan (MTFP) 2009/10 Service and Financial Planning Process 2010/11</p> <p>Officers review Directorate and Departmental Plans, revenue and capital budgets, together with financial plans with partner organisations.</p> <p>Policy Group receives monthly reports on capital and revenue spending in line with progress on service plans. In particular, pay awards, price increases, prudential guidelines, efficiencies and the St Michael's Street project are monitored.</p> <p>The risk register is reviewed together with the level, nature and potential calls on reserves. These processes then continue throughout the year.</p> <p>Directorate heads review service pressures and capital programmes. Bids or project appraisals are developed, where necessary.</p>	Outline costs of IRMP proposals established	Managing performance audit (includes operational assurance)

Month	Service Planning	Financial Planning	Improvement Planning	
			IRMP	Audit
July cont.		<p>“What-If” Budget savings are reviewed. A meeting of the Budget Working Group will be called to consider this review and other aspects of officers’ work in time to report to the Strategy and Resources Committee on 17th September.</p> <p>Lead Officers and the Partnership Assessment Group (PAG) consider any partnership resource needs.</p>		
August	Tasks above continue throughout August	Tasks above continue throughout August	Consultation	
September	<p>PG Paper requesting officers to consider growth/efficiencies and impact on 2010/11 capital schemes (review of 2010/11 capital items and efficiency savings)</p> <p>Futures workshop</p>	<p>Tasks above continue throughout September</p> <p>17th (since changed to 23rd) - S&R receives progress report on budget planning issues and puts forward a Budget Strategy for 2010/11 and later years.</p>	Consultation	
October	<p>Final deadline for growth and capital items and efficiencies prior to evaluation</p> <p>PG receives results of growth evaluation, capital items and efficiencies</p> <p>Strategic planning workshops</p>	<p>14th - CFA approves budget process, setting out the key issues it wishes officers to explore</p> <p>Officers prepare reports on the budget, disaggregated in the way previously used, as follows:</p> <p>i Changes to the base budget, i.e. the net cost of delivering the policies and</p>	Consultation	<p>Audit Commission final report on outcomes of CAA.</p> <p>Improvements to feed into service planning if</p>

Month	Service Planning	Financial Planning	Improvement Planning	
			IRMP	Audit
October cont.		<p>services currently approved;</p> <ul style="list-style-type: none"> ii Pay and Prices contingency, i.e. the sum required to meet pay awards and price increases that are not currently known and budgeted; iii Service efficiencies; iv Service growth and savings (presumed to flow from the updated What-If analysis); v The cost, both capital and revenue, of new, and previously unapproved capital projects, i.e. new starts scheduled from 2010/11 onwards; and vi Changes to reserves and balances 		appropriate.
November	<p>12th - S&R receives officers' reports on the six areas above, summarised and converted into overall budget implications for 2010/11 and later years. This forms the basis of a budget recommendation to the Fire Authority.</p>		<p>12th - S&R receives report on IRMP future budget implications.</p> <p>Complete consultation</p> <p>(Date TBC) present findings to IRMP Members' Working Group</p>	

Month	Service Planning	Financial Planning	Improvement Planning	
			IRMP	Audit
	26th - APMC receives report on monitoring responsibilities for strategic planning Develop 2010/11 Corporate Plan			
December	Develop 2010/11 Corporate Plan	16th - CFA agrees a budget for both expenditure and income, which will form the basis for consultation with the public, local business and other stakeholders. Consultation on budget	16th - Report to CFA on outcomes from consultation for decision	
January	Refine Corporate Plan and set performance targets Produce draft Corporate Plan 2010/11 Officers develop Directorate/Departmental plans	Consultation on budget (Date TBA) S&R finalises budget proposal	Primary implementation tasks begin	
February	(Date TBA) CFA agrees 2010/11 Corporate Plan Officers develop Directorate/Departmental plans	(Date TBA) CFA agrees final budget for 2010/11 and later years and fixes the precept for 2010/11	Primary implementation tasks	
March	(Date TBA) S&R agrees performance targets Officers develop Directorate/Departmental	Draft MTFP Produce Budget Booklet	Primary implementation tasks	(Date TBA) APMC receives annual audit

Month	Service Planning	Financial Planning	Improvement Planning	
			IRMP	Audit
	plans Refine Corporate/Directorate/ Departmental plans 31 st - Release Performance Summary			Audit & inspection letter.
April	1 st - Corporate Plan 2010/11 and Directorate/Departmental plans come into effect Develop Annual Report		Major implementation tasks begin	
May	Develop Annual Report	(Date TBA) prepare the draft for the 2011/12 financial planning process.		
June	(Date TBA) CFA agrees Annual Report 30 th - Release Annual Report	(Date TBA) CFA agrees the 2010/11 MTFP and Annual Statement of Accounts 2009/10		

Key

CFA	Combined Fire Authority	OA	Operational Assurance
UOR	Use of Resources	BWG	Budget Working Group
PAG	Partnership Assessment Group	VFM	Value for Money
APMC	Audit and Performance Management Committee	IRMP	Integrated Risk Management Plan
S+R	Strategy and Resources Committee	MWG	Members' Working Group
PG	Policy Group	MTFP	Medium Term Financial Plan
TBA	To be arranged	CAA	Comprehensive Area Assessment

Potential Deficits

The schedule below lists the assumptions about variables that affect the level of the potential deficit.

- i. The Fire Authority can set any precept up to 4.9% without being capped;
- ii. Overall inflation is assumed to run at 2.75% or 2.5% each year from 2010/11;
- iii. Grant is frozen in cash terms at 2010/11 levels, which are set out in CSR 2007;
- iv. There is no increase in Band D equivalent tax base;
- v. Collection fund balances are zero;
- vi. Cost of investment in Telford and Wellington stations added, but no change to current assumptions for other capital projects, and developments net of efficiencies.

It is currently impossible to predict with any certainty the scale or timing of most of these factors. To put some scale, at least on 2010/11, the totalling deficits would result from the schedule of assumptions:

					Deficit £
2010/11	Precept	+3.9%	inflation	2.75%	175
	Precept	+3.9%	inflation	2.5%	133
	Precept	+4.9%	inflation	2.75%	46
	Precept	+4.9%	inflation	2.5%	5

As a ready reckoner these deficits change as follows:

Inflation	a variation of	0.25%	=	£40,000 pa
Precept	a variation of	1%	=	£125,000 pa
Grant	a variation of	1%	=	£80,000 pa