

REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

MEDIUM TERM FINANCIAL PLAN 2006/07 – 2008/09

1 Purpose of Report

To seek the approval of Members for the contents and publication of the Fire Authority's Medium Term Financial Plan (MTFP).

2 Recommendations

Members are asked to:

- a) Note the current background to, and purpose of, the MTFP;
- b) Agree the contents of the MTFP; and
- c) Agree to the annual updating and publication of the MTFP in conjunction with the Performance Plan.

3 Background

Following a Comprehensive Performance Assessment (CPA) audit in 2005, the Fire Authority was rated overall as 'Good' by the Audit Commission. This was based upon the Fire Authority's having achieved scores of 3 (consistently above minimum requirements, performing well) in 8 out of the 9 areas, which made up the audit. With regards to the audit category of 'capacity: resources and value for money', however, the Fire Authority achieved its lowest rating of 2 (at only minimum requirements, adequate performance). The Fire Authority's CPA report made clear that one of the main reasons for this grading was that there was "no medium-term financial strategy in place to formalise financial planning".

Consultation has recently closed on the Audit Commission's proposed fire and rescue performance framework for 2006/07. A confirmed framework is expected to be published at the end of July 2006. One of the key elements of the proposed framework is a 'Use of Resources Assessment', which will assess the Authority across a broad range of financial issues and provide a scored assessment, including whether the Authority is providing value for money. This assessment will be



supported by the use of 'Key Lines of Enquiry' (KLOEs), which include the MTFP as a key element. The following KLOEs make specific reference to the MTFP:

- 2.1.1. The Authority has put in place a Medium Term (3 year) Financial Strategy (MTFS), which is linked to its key strategic aims and objectives and takes account of local improvements and national priorities, including the requirements of the efficiency agenda set out in Fire Service Circular (FSC) 8/2005.
- 2.1.2 The MTFS models income and expenditure over a minimum of 3 years and is reviewed and updated at least annually.
- 2.1.5 Budgets are revised annually in light of the reasons for, and consequences of, the previous year's outturn and are linked to the MTFS.
- 2.1.12 The MTFS is linked to other internal strategies and plans as appropriate, such as Human Resources, Information Technology, Integrated Risk Management Planning and the Best Value Performance Plan.
- 2.1.13 Business planning is integrated into financial planning and drives the MTFS and internal resources allocation, with changes in allocations determined in accordance with policies and priorities.
- 2.1.14 Budgets are linked to the MTFS and high level budgets for future years within this.
- 2.1.15 The Authority's MTFS is communicated to staff and stakeholders.
- 2.1.19 The MTFS describes in financial terms joint plans agreed with partners and other stakeholders.
- 2.1.20 The MTFS models balance sheets and resources requirements over a minimum of 3 years.
- 2.3.1 The Authority has an up-to-date corporate capital strategy, linked to the IRMP and the MTFS.
- 3.1.8 The Authority has made appropriate provision in its MTFS to manage the impact of reductions in Government funding, brought about by adjustment for the return of transitional funding in 2006/07 and 2007/08.
- 4.1.14 The Authority can demonstrate that it has embedded business risk management in its corporate business processes, including strategic and financial planning.

At a meeting of the Strategy and Resources Committee on 25 May 2006, Members of that Committee received a presentation from the Chief Fire Officer and Treasurer detailing the progress that had been made in developing the Fire Authority's MTFP. Members approved the proposed Plan and agreed the contents. Although they agreed that the benchmarking and consideration of notable practice be highlighted in the MTFP, they requested that more detailed analysis should not be included, but reported separately to the Fire Authority and followed up through the Strategy and Resources Committee.



At a financial seminar for Members on 7 June 2006, presentations on the Statement of Accounts and MTFP were delivered by the Chief Fire Officer, Treasurer and Principal Accountant in preparation for this meeting of the Fire Authority.

4 The MTFP

A draft copy of the proposed MTFP is attached as an Appendix to this report. The table below describes how the Plan links to each of the KLOEs for the “Use of Resources Assessment” as described above.

Section	Contents and Purpose	KLOE
Foreword by Chair and Chief Fire Officer	A statement of how business and financial planning allocates resources in accordance with policies and priorities	2.1.13 2.1.15 (part)
1. Introduction and Service Priorities	A summary linking resource allocation and service priorities and showing how this is managed and brought together within the Fire Authority	2.1.12 2.1.13
2. The National Context	Outlines the underlying issues for: <ul style="list-style-type: none"> i) national funding in meeting the service objectives for the Fire Authority; ii) achieving efficiencies; iii) precept levels; and iv) other main issues (especially the National Framework) affecting all fire authorities 	2.1.1
3. Overview of Revenue 2006-09	Examines the key factors affecting revenue expenditure, grant income and the precept over the next 3 years Explains the forward year strategy and how public consultation takes place Links the budget and service objectives to the Business Departments charged with delivering these objectives	2.1.1 2.1.2 2.1.14 2.1.15
4. Value for Money Strategy	Sets out the processes by which the Fire Authority continually seeks to achieve economy, efficiency and effectiveness. This includes particulars of work on benchmarking the CIPFA (Chartered Institute of Public Finance and Accountancy) financial statistics, as required by the Authority, and how examples of notable practice are tested for their application to this Fire Authority.	2.1.1



5. Overview of Capital Investment Plan 2006-09	Outlines the strategy behind the capital programme and how it will be funded	2.3.1
6. Treasury Strategy 2006-09	Sets out the method by which the Fire Authority manages its Treasury functions and ensures that its capital investments are sustainable. Appendix A sets out the prudential indicators used to check for affordability and sustainability.	2.3.1
7. Budget Risk Assessment	The risks assessed in order to arrive at the strategy on resources, provisions and balances are scheduled	4.1.14

5 Next Steps

Members are asked to approve the contents of the MTFP, subject to any amendments which may have been identified through the Members' Financial Seminar (to be held on 7 June 2006). Members are also asked to note that the MTFP provides a clear link with the Fire Authority's Performance Plan 2006/08, in particular, describing how fulfilment of the aims and objectives of the Authority is managed financially. Members are, therefore, asked to agree that the MTFP should be updated and published annually in conjunction with the Performance Plan, i.e. under current arrangements, at the end of June each year.

6 Legal Comment

There are no direct legal implications arising from this report.

7 Appendix

Draft Medium Term Financial Plan

8 Background Papers

Audit Commission:

CPA for fire and rescue service performance framework 2006/07

Shropshire and Wrekin Fire Authority:

19 October 2005, Report 13, Comprehensive Performance Assessment Improvement Planning 2005/06 and minutes

Strategy and Resources Committee

25 May 2006, Report 6, Medium Term Financial Plan 2006/07 - 2008/09 and minutes.



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.

Balance Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment	*	Operational Assurance	
Equality and Diversity		Retained	
Efficiency Savings		Risk and Insurance	
Environmental		Staff	
Financial		Strategic Planning	*
Fire Control/Fire Link		West Midlands Regional Management Board	

For further information about this report please contact Alan Taylor, Chief Fire Officer, on 01743 260201 or Keith Dixon, Treasurer, on 01743 260202.



SHROPSHIRE AND WREKIN FIRE AUTHORITY

MEDIUM TERM FINANCIAL PLAN

DRAFT

2006/07 to 2008/09



Foreword by the Chair of the Fire Authority and the Chief Fire Officer

This Medium Term Financial Plan sets out Shropshire and Wrekin Fire Authority's continued commitment to providing a Fire and Rescue Service, which represents the best possible value for money for Shropshire's residents. It builds upon the achievements of the past, and charts a clear course for the future.

We start from a base where our services have recently been independently judged as 'Good' by the Audit Commission, who also commented in their national report on Comprehensive Performance Assessment for the Fire and Rescue Service that, despite comparatively low budgets and cost per head of population, Shropshire and Wrekin Fire Authority has achieved 'good' overall performance. In league tables recently published by the Government, the Fire Authority is shown as being 19th out of 46 with regard to cost per head of population, despite the fact the our Service covers a large rural county with the third smallest population of all fire and rescue authorities.

We have demonstrated for many years our commitment to 'putting Shropshire's safety first' and have clear performance information confirming an ongoing reduction in the risks posed to the public we serve. We still have much to do, however, and this Plan describes how we intend to finance vital investment in our Retained Service, in community fire safety in rural Shropshire and, where necessary, in the relocation of our wholetime (permanently staffed) fire stations to provide even greater risk reduction.

This year's Local Government Finance Settlement has seen quite substantial changes to the way in which fire and rescue authorities are funded. Changes have included new financial arrangements for firefighters' pensions, changes to indicators caused by the elimination of national standards of fire cover and changes to fire safety law. Changes have also been made to the formula to recognise the increasing role of community fire safety work: the fixed percentage element has been increased from 3% to 6% and this element has been widened to include the population of those over 65.

This Plan describes the implications of these changes upon our budgets, and recognises that these latest developments indicate that the Government is fulfilling its promises, made in the White Paper 'Our Fire and Rescue Service', to re-distribute funding to match risk better. The Plan also, however, describes how a large proportion of the benefits achieved by the Fire Authority in the finance settlement are lost due to 'flooring' and previous years' adjustments. For example, for 2006-07 an increase in grant of 17.4% is reduced to 3.6%, predominantly to ensure that no other fire and rescue authority receives an increase of less than 1.5%.

It is appreciated that the floor element serves an important function in guaranteeing that no authority receives less than a minimum increase in formula grant support from central government. It is, nonetheless, painful that the public of Shropshire and Telford and Wrekin will continue to be asked to pay one of the very highest levels of precept in the whole United Kingdom for their Fire and Rescue Service, due almost entirely to the fact that many years of Government under-funding will still take years to correct.

Despite these problems, this Medium Term Financial Plan demonstrates that Shropshire and Wrekin Fire Authority will continue to make the best use of its limited resources for the benefits of the public we exist to serve.

Dave Morgan
Chair of Shropshire and Wrekin Fire Authority

Alan Taylor
Chief Fire Officer

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SECTION 1

Introduction and Service Priorities

DRAFT

1. INTRODUCTION

- 1.1 This is Shropshire and Wrekin Fire Authority's (SWFAs) first comprehensive Medium Term Financial Plan (MTFP) covering financial years 2006-07 to 2008-9. It highlights the way in which the Fire Authority drives the setting of medium term strategic targets, which in turn shape medium term and annual financial plans. This MTFP is designed to be read as a stand-alone document, but its compilation is an integral part of a strategic policy to operational implementation continuum. In particular, the MTFP is closely linked to SWFAs Performance Plan for 2006-08, which describes more fully how the Authority will continue to deliver an improved service for the public of Shropshire and Telford and Wrekin. Both the MTFP and the Performance Plan will be reviewed and updated annually to take account of national, regional and local developments.
- 1.2 This Plan builds upon the work undertaken in previous years to ensure that financial planning links closely to Service planning and to the delivery of the Fire Authority's five strategic aims. It also embraces a number of wider policy initiatives developed during the year, and describes what appears to be a favourable (if gradual) shift of central government controlled resources towards more rural fire and rescue services, such as Shropshire.
- 1.3 Comprehensive medium term planning is an essential part of delivering an excellent fire and rescue service for the people of Shropshire in the most cost-effective way, but the world does not stand still. Through the Fire and Rescue Service Act 2004 and the National Framework, the Government continues to impose new legislative and policy pressures backed by tougher regulatory and inspection regimes, and these do not always accord with local priorities and pressures driven by our extensive engagement with local communities. Demographic changes and modernisation interact with these priorities and pressures to create increased demands well in excess of additional grant funding, with the potential to impose council tax burdens well beyond that which the tax was designed to withstand.
- 1.4 SWFAs response to these extraordinary demands continues to be one of confronting problems before they become apparent and seizing opportunities before they become established practice. This approach is about leading rather than following, and it is not without risk. But, as a small yet efficient Fire Authority that has always been recognised as innovative compared with others, and one where new pressures are relatively high and funding remains relatively low, a more reactive strategy simply will not do.
- 1.5 This approach to financial planning is based upon solid foundations. SWFA has recently been confirmed as a "Good" fire authority within the Government's Comprehensive Performance Assessment (CPA). In the Audit Commission's recent national report on the outcomes of CPA for fire and rescue authorities (FRAs), SWFA is cited on a number of occasions, notably for strong overall performance, for comparatively low budgets and cost per head of population, and for the high levels of motivation and enthusiasm of staff. SWFA has also long demonstrated a relentless commitment to continuous improvement of its services and to value for money.
- 1.6 In summary, this Plan reflects a determination on the part of Members and officers to build on past successes, to focus on areas for improvement, to secure continued excellent value for money, and to take the lead on developing new and improved ways of delivering an even better fire and rescue service.

SUMMARY OF SHROPSHIRE AND WREKIN FIRE AUTHORITY'S MEDIUM TERM FINANCIAL PLAN

- 1.7** Within this section of the MTFP, the longstanding strategic aims and objectives of SWFA are briefly described and broad links with the finances and budgets are provided. The degree to which SWFAs priorities have driven Service improvements and reduced the risks of fire to the people of Shropshire are then detailed, and the medium and longer term financial implications of yet further improvements are considered. These include increased budgetary requirements for improved Community Fire Safety (CFS) in rural areas; for maintaining and improving the Retained Service; and for the relocation of wholtime appliances to match risk within the more urban areas of Shropshire. Finally, this section also includes a description of how SWFA ensures sound financial management and value for money, and briefly describes its approach to risk management, customer care, people development and working in partnership.
- 1.8** Section 2 of the MTFP attempts to place the funding of SWFA within a national context. It describes the process of modernisation, which commenced with an independent review of the Service in 2002 by Professor Sir George Bain, through to changes to the funding of the Service, which have occurred in the most recent Local Government Finance Settlement 2006-07 and 2007-08, and the detail of the recently published Fire and Rescue Service National Framework for 2006-08. With regard to the impacts of national funding upon SWFA this section highlights the following:
- There has been a clear recognition by the Government that funding of the Service needs to change so as to be more focussed upon the actual reduction of risk.
 - The Government has introduced changes to funding to recognise that need.
 - The changes to date still do not appear to take account of the impacts of sparsity.
 - The changes to date are, however, generally beneficial to SWFA.
 - The effects of 'flooring' have had a huge and disproportionate affect upon the funding of SWFA.
 - As a result, SWFA will continue to receive one of the lowest levels of central government funding per head of population of any FRA.
 - Consequently the precept levels set by SWFA will remain amongst the highest of all FRAs.
- 1.9** Section 3 of the MTFP seeks to provide an overview of the revenue budgets of SWFA. It details the response of SWFA to the Government on the Finance Settlement 2006-07 and 2007-08 and describes how both efficiencies and service developments were taken into account when agreeing upon precept increases for the next two years. Also included are details of the responses of stakeholders and the public to consultation on the precept increases. Finally, this section includes details of the way in which the revenue budget is managed and of the levels of reserves and balances set by SWFA.

The factors taken into account when setting revenue budgets for the next three years are summarised as follows:

- SWFA received improved grant settlements for 2006-07 and 2007-08.
- In responding to the Government's consultation on the grant settlement, SWFA highlighted a number of areas where the council tax payers of Shropshire and Telford and Wrekin continue to be penalised through the revised funding system - namely, through lack of recognition of the impact of sparsity, through the massive negative impact of 'flooring', and through significant losses from unexplained 'previous years amendments'.
- The improvement in grant settlements offered SWFA the opportunity to set a nil increase in precept for 2006-07.
- The need to take into account efficiencies made through its Integrated Risk Management Plan (IRMP) and for substantial investment in the Retained Service, however, required a precept increase for 2006-07 of 4.5% and for 2007-08 of 4%. This approach was widely supported by all political parties on SWFA.
- Consultation with the public and stakeholders also provided widespread support for such an increase.
- In continuing to drive its longstanding strategic aims for the Service, SWFA manages its budgets through five separate departments, each with their own delegated budget responsibility.
- SWFA has established a number of reserves and provisions, which have helped quantify and clarify the need for a general reserve, and will also help reduce the financial pressure on services in future years.

1.10 Section 4 of the MTFP describes the wide range of methodologies and structures used by the Fire Authority to ensure that it is promoting and delivering value for money.

1.11 Remaining sections of the MTFP then provide much greater detail on the Capital Investment Plan, the Treasury Strategy and on Budget Risk Assessment.

REVENUE AND CAPITAL BUDGETS

1.12 So far as Revenue Budgets are concerned, the proposed working budgets for the medium term are as follows:

	2006/07 Budget	2007/08 Forecast	2008/09 Forecast
Department	£000	£000	£000
Executive	2,414	2,828	3,560
Service Delivery	10,699	10,794	10,892
Strategy & Performance	1,351	1,351	1,351
Human Resources & Development Resources	1,771	1,926	2,111
	<u>2,061</u>	<u>2,061</u>	<u>2,061</u>
	<u>18,296</u>	<u>18,960</u>	<u>19,975</u>

1.13 The pay and price contingency is held within the Executive and distributed according to quantified and justified need.

1.14 Revenue spending plans are co-ordinated and integrated with the capital investment programme summarised below:

	2006/07 Budget	2007/08 Forecast	2008/09 Forecast
Department	£000	£000	£000
Service Delivery	-	150	-
Strategy & Performance	185	50	310
Human Resources & Development Resources	50	30	30
	<u>1,380</u>	<u>1,295</u>	<u>2,015</u>
	<u>1,615</u>	<u>1,525</u>	<u>2,355</u>

1.15 This programme is currently sustainable, funded as follows:

	£000	£000	£000
Loan	1,275	1,445	2,063
Capital Reserve	340	80	292
	<u>1,615</u>	<u>1,525</u>	<u>2,355</u>

1.16 Alternative funding directly from revenue or from leasing would be considered, if the opportunity was available and could prove financially advantageous.

SERVICE PRIORITIES

1.17 The Service Priorities of SWFA were established as long ago as 1998 when the Fire Authority was formed. Although they have been adapted slightly over the years, due, for example, to changes in legislation, they remain fundamentally the same today as they were eight years ago and have been responsible for a massive and well documented improvement in the safety of communities throughout Shropshire. Details of the strategic aims and objectives of the Authority are shown below.

STRATEGIC AIM 1

Reduce the risk to life and material loss from fires, road traffic collisions and other emergencies in the community

Corporate Objectives for Strategic Aim 1

- 1 Reduce the incidence of deaths and injuries in the community
- 2 Contribute to the reduction of road traffic collisions
- 3 Reduce the incidence of fires and false alarms
- 4 Ensure the effective enforcement of fire safety legislation

(Note: Corporate Objective 2 was recently added as result of the introduction of the Fire and Rescue Services Act 2004 and of IRMP consultation during 2005)

STRATEGIC AIM 2

Protect life, property and the environment from fire and other emergencies

Corporate Objectives for Strategic Aim 2

- 5 Ensure the provision of an appropriate risk based approach to fires
- 6 Ensure the provision of an appropriate response to non-fire emergencies
- 7 Minimise the effect of our intervention actions on the environment

STRATEGIC AIM 3

Secure the highest level of safety and welfare for all staff and Authority Members by providing effective supervision, training, equipment and systems of work

Corporate Objectives for Strategic Aim 3

- 8 Maintain and improve the health, safety and welfare of all Members and employees
- 9 Ensure that all Members and employees are competent and able to perform their role
- 10 Ensure the provision and availability of appropriate equipment, resources and supplier support

STRATEGIC AIM 4

Provide a service that demonstrates quality and Best Value in service provision

Corporate Objectives for Strategic Aim 4

- 11 Promote a partnership approach in pursuance of continuous improvement, having regard to a combination of economy, efficiency and effectiveness
- 12 Ensure the provision of a service that meets the needs of the community
- 13 Ensure the effective management of performance and corporate risk
- 14 Reduce the environmental impact of our daily conduct

STRATEGIC AIM 5

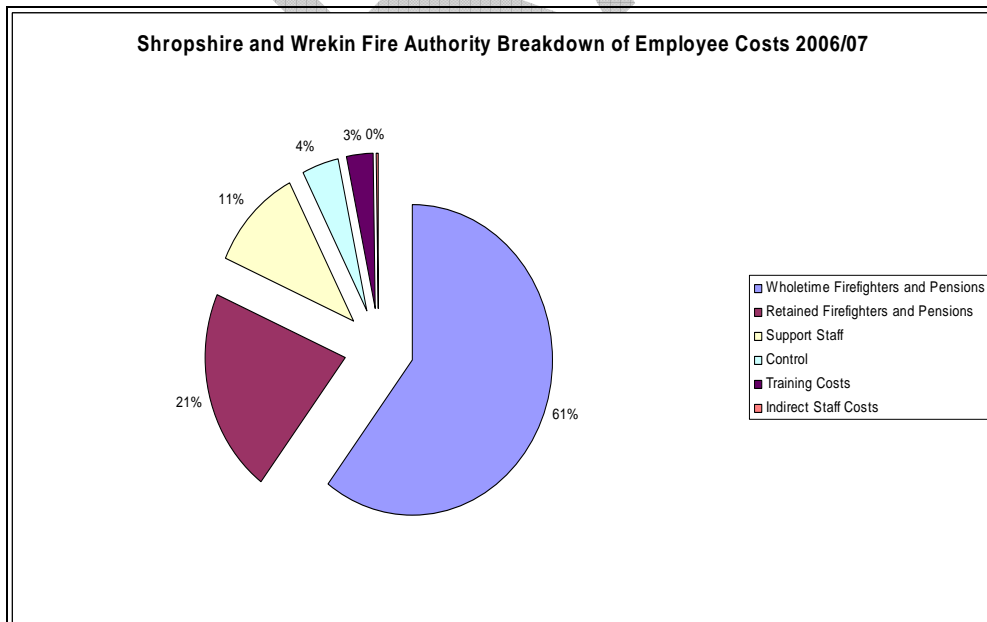
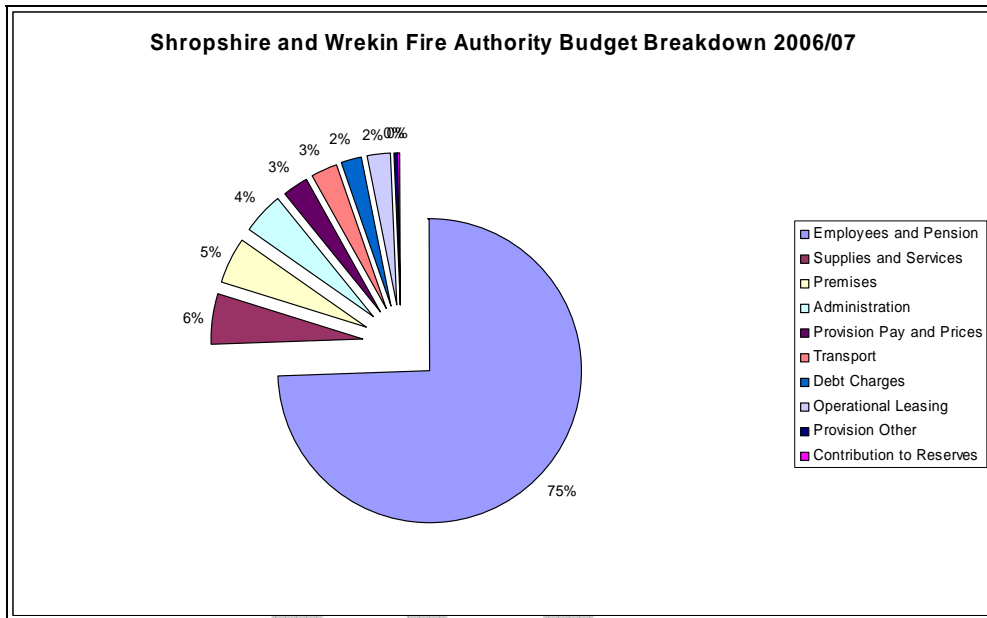
Provide a service committed to the highest levels of equality and fairness

Corporate Objectives for Strategic Aim 5

- 15 Provide a fair and equitable service to the communities of Shropshire and other stakeholders
- 16 Provide a fair, equitable and dignified place of work for all employees and visitors
- 17 Seek to employ a workforce representative of the community that we serve.

Links between Costs and Priorities

1.18 Whilst Strategic Aim 1 has been the number one priority of SWFA for many years, clearly the provision of a fire and rescue service to meet the needs of Strategic Aim 2, dealing with fires and other emergencies when they occur, remains by far the largest cost driver for any FRA. This is demonstrated clearly in the following charts, which provide a breakdown of the overall SWFA budget and a further breakdown of employee costs:



Links between Priorities and Performance Improvement

1.19 Under the latest developments of Comprehensive Performance Assessment (CPA) the Audit Commission have, through their proposed 'fire and rescue service performance framework 2006/07', brought together a range of current Performance Indicators (PIs), which they envisage will measure outcomes rather than inputs or process and cover the full range of services provided by FRAs. The Audit Commission have taken measures to minimise the impact of volatility between various years; have adjusted the PI outcomes to take account of deprivation; and, have set upper and lower thresholds for performance in order to be able to score FRAs against their achievements.

1.20 At the time of writing this plan the Audit Commission's proposals are still out for consultation; the results of their proposed methodology for SWFA are, however, set out below. These show that the Fire Authority is in an extremely strong position compared to other FRAs with regard to actually delivering against its key priorities:

SWFA Performance against proposed Audit Commission Key Performance Indicators

Ref	Description of PI	Source	Audit Lower Threshold	Audit Upper Threshold	SWFA Outcome	SWFA Position
F1	Primary fires per 10,000 population	BVPI 142 (ii)	15.2	7.5	7.7 (following deprivation adjustment)	Mid Table
F2	Accidental dwelling fires per 10,000 dwellings	BVPI 142 (iii)	10.0	5.2	5.9 (following deprivation adjustment)	Mid Table
F3	Deaths arising from accidental dwelling fires per 100,000 population	BVPI 143 (i)	0.625	0.5	0.49	Upper Table
F4	Injuries arising from accidental dwelling fires per 100,000 population	BVPI 143 (ii)	10.9	6.3	3.8	Upper Table
F5	Percentage of accidental dwelling fires contained to room of origin	BVPI 144	89.8%	91.3%	91.7%	Upper Table
F6	False alarms caused by automatic fire detection attended per 1,000 non-domestic properties	BVPI 149	150.9	112.2	83.6	Upper Table
F7	Number of deliberate primary fires (including vehicles) per 10,000 population	BVPI 206 (i) and (ii)	No change from 2004/05 to 2005/06	5% reduction from 2001/02 to 2005/06	45% reduction from 2001/02 to 2005/06	Upper Table
F8	Number of non-fire related incidents attended per 10,000 population	Non BVPI	30.2	23.1	22.95	Upper Table

Within their performance framework, the Audit Commission have described how they will score FRAs based upon their distribution of PIs that are below the lower threshold, above the threshold, or in between the two thresholds, as set out in the table below, which demonstrates that SWFA is likely to achieve the highest possible rating:

Audit Commission approach to scoring Key Performance Indicators

PI element score	Distribution of PIs	SWFA
4	No PIs at or below the lower threshold and 35% (3) or more PIs at or above the upper threshold	✓
3	No more than 15% (1) of PIs at or below the lower threshold and 25% (2) or more PIs at or above the upper threshold	
2	Any other combination	
1	35% (3) or more PIs at or below the lower threshold	

The Costs of Further Improvements

1.21 In order to progress even further the modernisation agenda and, more importantly, to continue to improve the safety of the public of Shropshire and Telford and Wrekin, SWFA has identified three more initiatives, which will make demands upon the finances of the Authority in the medium to long term. These are related primarily to the first two strategic aims of SWFA and are also very much interrelated. These initiatives and the financial implications are described briefly as follows:

a) Improving smoke alarm ownership

Almost 60% of the population of Shropshire live within the urban areas of Shrewsbury or Telford, which are served by SWFAs five wholetime fire appliances, (two at Shrewsbury, two at Telford and one at Wellington). Since 1998 wholetime firefighters have been heavily involved in CFS activities and, as such, have been responsible for the dramatic improvements demonstrated above with regard to reductions in accidental dwelling fires and associated deaths and injuries. In the more rural parts of Shropshire covered by retained personnel, however, the advancement of CFS has not been so rapid or indeed productive.

Through the use of the Fire Service Emergency Cover (FSEC) software provided by the Office of the Deputy Prime Minister for the purpose of Integrated Risk Management Planning, it has recently become possible to identify the level of risk of accidental fire for all dwellings in the County. As a result, during 2005/06, SWFA made available over £100,000 for retained firefighters to commence CFS (and in particular the fitting of free smoke detectors) in all areas of the County. This initiative has proved to be extremely successful, with over 10,000 homes visited and 3,500 smoke alarms fitted by retained personnel in 2005/06. As a result SWFA has made an ongoing commitment to funding retained CFS work.

b) Ensuring all fire appliances are available

With 23 out of SWFAs 28 fire appliances crewed by retained personnel, the Authority has not been immune to the problems of recruitment and retention of sufficient personnel to crew the appliances, as highlighted in a national report published in February 2005. Although SWFAs shortfall of approximately 8% of retained firefighters is well below the figure of 20% nationally, it has still in the past meant that up to seven fire appliances could be unavailable or 'off the run' at any

one time. This is a situation which is, of course, totally unacceptable with regard to meeting the Authority's strategic aim to 'protect life, property and the environment from fire and other emergencies'.

As such, SWFA carried out a Best Value Review (BVR) of the Retained Service during 2005. The Review identified the need for very substantial investment in the Retained Service over the next four years and, as described in Section 3 of the MTFP, SWFA has made a commitment to this investment, which has had a significant impact upon the budgets and finances of the Authority in the medium and longer term. The investment amounts to £824,000 during 2006-07, rising to £1.108 million by 2009-10, i.e. an increase of over 6% on SWFA's budget for 2005-06.

c) Ensuring all fire appliances are located to match risk

Under the old national standards of fire cover applicable until September 2004, fire cover (and hence fire appliances) were located to provide protection for buildings. Thus, within Shropshire, two wholtime appliances are currently located adjacent to the town centre of Shrewsbury and a further two are in the vicinity of Telford Shopping Centre. As described in Section 2 of the MTFP, it has more recently been recognised nationally that the major risk to life from fire occurs in the home. As such, FRAs have been required for a number of years to implement their own Integrated Risk Management Plans (IRMP), which must seek to ensure that resources are actually matched to risk.

Through their IRMP, SWFA has set attendance standards for fires and road traffic collisions; these standards already appear to provide strong evidence that it will be necessary to re-locate several of the Authority's wholtime appliances to provide the best match possible to actual risk. Work continues to identify where the fire appliances would best be located, taking into account both current and future risks. The costs of making such adjustments has, however, been built into the Capital Investment Plan and these are described in Section 4 of the MTFP.

Sound Financial Management and Value for Money

1.22 The report in July 2004 by Sir Peter Gershon on "Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency" identified 2.5% efficiency savings per annum for local government. The Fire and Rescue National Framework made clear that these savings related also to FRAs. In the 2005/06 edition of the framework, however, there was clear recognition that the costs and savings of modernisation would fall unevenly across FRAs. This view was also recognised during the Government's work on identifying changes to funding for the Fire and Rescue Service, where it was noted that those FRAs with higher numbers of wholtime staff (which does not include Shropshire) would have the greatest opportunities to force out savings.

1.23 In the recently published national framework for 2006-08, however, no mention is made of differing abilities to force out savings, and it is implied that all FRAs are expected to achieve gross efficiency savings of at least 5.67% of their 2004-05 expenditure by 2007-08. SWFA has built into its medium term planning forecasts the impact of the savings required to meet the Gershon targets. The Fire Authority has already noted the national targets for the Fire Service and adopted a policy of looking for a local disaggregated target of about £890,000.

1.24 To date cashable savings of £711,000 have been identified and the money removed and reallocated within the budget. The Fire Authority has also acknowledged that simple disaggregation of the target does not imply that such a level should or could be achieved. Conversely, if it were possible to find more efficiencies, this would be done. The Fire Authority has, therefore, established a policy of looking to maximise efficiencies in order to achieve best value and give opportunities to invest any savings in priority service objectives. This has been exposed in the medium term financial plan as being the intention to fund future developments from efficiencies. In addition we shall be identifying other savings where we have increased quality or quantity of services within the same budget.

1.25 In recent years, the financial status of SWFA has improved on all fronts. The Authority has now been self precepting for three years and, although difficulties were experienced initially, reserves and balances have increased to a robust level consistent with our external auditors' guidance.

1.26 The continuation of this commitment to sound financial governance allows SWFA to take rational decisions around Prudential Borrowing in the context of affordability and sustainability. The proposals contained in this Plan include financial provision for part of the costs relating to the capital programme for 2006-07 to 2008-09, which will actually not fall to be paid until later years. This will ensure that current and future council taxpayers share the cost of vital investments, from which both groups will benefit, and that these costs are sustainable based on current financial forecasts.

Risk Management

1.27 The proposals contained in this Plan are underpinned by a comprehensive appraisal of strategic and operational risks. Corporate and departmental risk registers are maintained and regularly updated. In this way risk management is treated as an integral part of the planning and managing processes, rather than as a separate annual event. An assessment of financial risks associated with the 2005-06 budget is included within Section 7 of this Plan.

Customer Care

1.28 SWFA exists to serve the interests of the people of Shropshire, and this must always be its central focus. The importance of this focus is being reinforced by our development of a revised customer charter, the principles of which can be summarised as:

- Involving and consulting customers about the way in which services are delivered
- Ensuring clear and constructive two-way communications with a choice of media
- Measuring performance against our customer charter criteria
- Providing staff with relevant and appropriate training
- Using technology where customers want this

Workforce Development and Working in Partnership

1.29 Staff are an organisation's most important resource, and excellent services cannot be delivered without committed people, who are fulfilled by their work. Leadership and management are about empowering every individual to make the fullest possible contribution to the delivery of front line services, whether directly or indirectly.

The most pleasing outcome of the recent CPA process for the Authority was the following comment made within the Audit Commission's national report:

“Good authorities, including Shropshire and Wrekin, Warwickshire and Gloucestershire employ some of the smallest workforces nationally but make the most of their enthusiastic and motivated staff. Furthermore, they are able to recognise their capacity weaknesses and build on their strengths. An example being their ability to prioritise and bring extra capacity through partnership (Page 35, Paragraph 80).”

BRINGING IT TOGETHER

- 1.30** SWFA policies are developed and implemented on a thematic basis covering prevention, protection and intervention. Moreover, the themes are themselves interdependent, knitting together as a coherent corporate strategy. But most importantly, it is the policies which drive the allocation of resources on a rationally planned medium term basis.
- 1.31** The Fire Authority's search for continual improvement in cost effectiveness will be unremitting. The economies of previous years are built upon, with £711,000 of revenue savings included in the proposals for 2006-07, and a total of at least £890,000 sought by 2007-08.
- 1.32** This Medium Term Plan describes how policies emanate from the community, inform strategic plans and operational plans, and facilitate effective service delivery to the public of Shropshire and Telford and Wrekin by individuals and teams.

SECTION 2

National Context

DRAFT

INTRODUCTION

- 2.1** SWFAs financial and service planning must take place within the context of the national economic and public expenditure plans for the Fire and Rescue Service. This part of the Medium Term Financial Plan looks at the recent history of Fire and Rescue Service funding, and discusses the broad assumptions within which the budget and Medium Term Financial Plan will be framed. This Section also provides extensive detail on the Government's most recent position with regards to financing, as detailed in the recently published Fire and Rescue Service National Framework 2006-08.

BACKGROUND

The Bain Review (2002)

- 2.2** In December 2002, the results of an Independent Review of the Fire Service conducted by Professor Sir George Bain were published, with the aim of making recommendations on the future organisation and management of the Fire and Rescue Service (FRS).
- 2.3** The Review found that major changes were required across the Fire Service; including that there needed to be a new approach to the way the FRS was organised and managed; that the work of the Service should be based more around risk management and prevention; that new reward systems and structures were required; and that the distinction between 'full-time' and 'retained' staff should be abandoned.
- 2.4** Furthermore, Sir George identified that the governance of the Service needed restructuring so that policy would be laid down clearly by ministers, and institutions would be in place to deliver the policy agenda effectively at local level. He identified that, if the challenge of these recommendations was accepted, FRS personnel would have the chance to move to a new system that encouraged them to develop their personal skills and would make their jobs more satisfying, with increased rewards.
- 2.5** Although the terms of reference did not include a need to examine the financing of the Fire and Rescue Service, Sir George did identify that *"Brigades working on fire prevention have been hampered by another 'perverse' incentive. Until the local government finance settlement announced on 5 December this year, only a miniscule element of the Standard Spending Assessment (SSA) formula was linked to fire safety in any form. So there is no encouragement to invest in fire safety; quite the reverse, since fire authorities got no extra money for reducing fires."* As long-term performance information indicates clearly, this 'perverse' incentive has never prevented SWFA from investing in preventative work since its inception in 1998.

Our Fire and Rescue Service (White Paper) 2003

- 2.6** The White Paper *Our Fire and Rescue Service* presented to Parliament in June 2003, responded to the Independent Review of the Fire Service by Professor Sir George Bain and set out the Government's vision for the Fire and Rescue Service in England and Wales and the strategy for achieving that vision. It highlighted a Fire Service that could be proud of what it had achieved in the past, but that needed to extend its role in the future in order to serve even better the communities it is there to protect.

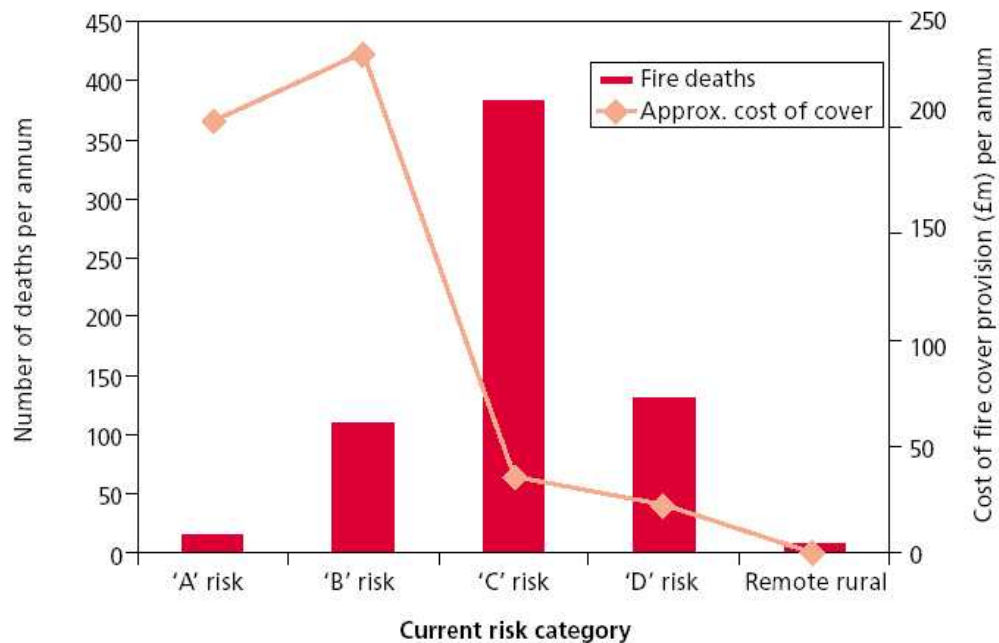
The White Paper identified that the Fire and Rescue Service had been hampered by:

- an outdated legislative framework;
- an outdated structure;
- weak institutional support;
- an insufficient focus on risk prevention; and
- poor human resources systems.

2.7 The White Paper also highlighted that total Government expenditure on the Fire and Rescue Service had increased from £1,237 million in 1997-98 to £1,583 million in 2003-04. More importantly that resources were not always allocated on the basis of need, exemplified in the White Paper as follows:

“For example, as Figure 3 shows, at present we devote many more resources to protecting buildings in city centres (where deaths are low) compared to what we devote to residential areas (where deaths are much higher). Response standards and the way resources are organised should vary in accordance with those different levels of risk. At the moment, they do not. This must change.”

Figure 3: Current allocation of resources to risk



A risk = normally in the largest cities and towns, and including main shopping, business, entertainment or industrial centres
 B risk = normally in the larger cities and towns
 C risk = normally in the suburbs of the larger towns and in the built-up areas of smaller towns
 D risk = all risks other than remote rural

Source: ODPM

2.8 Within Shropshire, under the standards of fire cover referred to above, Shrewsbury, Telford and the centres of the larger market towns were classified as 'C' risk, and the remainder of Shropshire (with the exception of small pockets of remote rural risk) was classified as 'D' risk. The White Paper, therefore, confirmed a long-held belief that SWFA had been under-funded for many years.

The Fire and Rescue Service Act 2004

- 2.9** The Fire and Rescue Services Act 2004 ('the Act') received Royal Assent on July 22nd. It replaced the Fire Services Act 1947 with a new legislative framework to ensure the Fire and Rescue Service was better able to meet the particular challenges of the 21st Century.
- 2.10** The Act put prevention at the heart of what the Fire and Rescue Service does, for example by creating a new duty for all fire and rescue authorities to promote fire safety, and other powers to help create safer communities, particularly for the most vulnerable in society. The Act also formally recognised the broader role the Service has taken on over the last 50 years, beyond its traditional firefighting role. This includes rescue from road traffic accidents as well as responding to other serious incidents, such as major flooding and the new terrorist threat. The Act provided fire and rescue authorities with clear authority to equip and respond to specific local risks and the particular needs of their communities as identified, for example, in their Integrated Risk Management Plan. This could include co-responder schemes or other specialist activities, such as rope rescue or dealing with heath and moor land fires.
- 2.11** The Act also made provision to place the 'Fire and Rescue National Framework' on a statutory footing, providing national and strategic guidance and support to the Service for the first time.

The Fire and Rescue National Framework 2004-05

- 2.12** Within the very first Fire and Rescue National Framework, the Government identified that the changes under the modernisation programme and the associated agreement on pay and terms and conditions for firefighters would have significant financial ramifications. There would be increased costs to fund the pay award and potentially some aspects of the modernisation agenda, for example the increased emphasis on prevention. Substantial savings were also identified, however, as being available, for example through better targeting of resources to match risks, and through regional collaboration. Overall, the Government believed that the costs and savings of these changes should balance across the Spending Review 2002 (SR02) period (2003/04 to 2005/06).

Distribution

- 2.13** Due to proposed changes to pensions finance arrangements also identified within the Framework, the Government recognised the need for change to the Fire Formula Spending Share, as the existing system, which included an element predicated on forecast pensions outgo costs, could no longer be fair. In addition, the Government also recognised that the costs and savings of modernisation could fall unevenly across fire and rescue authorities. The Government, therefore, asked a working group of officials, including the Local Government Association (LGA) and representatives from fire and rescue authorities, to examine the case for change and possible alternatives to the existing Fire Formula Spending Share that might better reflect fire and rescue authorities' needs. The Government indicated that they would consider proposals for changes to the Formula in the light of the working group's conclusions and that any changes to the Formula would come into effect for 2005/06 at the earliest.

Combined Fire and Rescue Authorities

2.14 Finally, the Government also recognised that Combined Fire Authorities' (CFAs) change to major precepting status means holding reserves for the first time by adjusting the alternative notional amounts used for capping purposes by 3%.

The Fire and Rescue National Framework 2005-06

Revenue Support

2.15 The second Fire and Rescue National Framework identified that according to the provisional 2005/06 local government settlement, fire and rescue authorities would receive an average increase in grant of 3.7% and no authority would receive less than a 2.5% increase in 2005/06. In referring to Sir Peter Gershon's efficiency review that formed part of Spending Review 2004 (SR04), the Government identified within the national framework that fire and rescue authorities had a part to play in helping local government to meet that target. The Office of the Deputy Prime Minister had assumed within its own efficiency target that English fire and rescue authorities together would achieve £105 million gross efficiency savings in 2007/08, compared to the position in 2004/05. This would amount to a gross efficiency saving in 2007/08 equivalent to around 5% of total 2004/05 expenditure.

Council tax

2.16 The national framework included a reminder that capping powers were exercised against five fire and rescue authorities in 2004/05. One authority was capped in-year and four were set notional 2004/05 budget requirements, which were lower than the actual budget requirements. The Government made clear that they expected to see significantly lower council tax increases in 2005/06, and that they expected average council tax increases in England in 2005/06 to be less than 5%; including for fire and rescue authorities.

Distribution

2.17 Within the 2005-06 Framework, the Government again recognised that proposed changes to pensions finance arrangements could entail a change to the Fire Formula Spending Share. Furthermore, it again recognised that the costs and savings of modernisation could fall unevenly across fire and rescue authorities. In contrast to the 2004-05 Framework, however, the Government confirmed that any changes proposed by the funding working group would come into effect for 2006/07.

LOCAL GOVERNMENT FINANCE SETTLEMENT 2006/07 AND 2007/08

Fire Formula Working Group

2.18 In accordance with the National Framework 2005-06, the Government established a Fire Formula Working Group to look at the case for change and possible alternatives to the existing Fire Formula Spending Share. The Group consisted of officials from the ODPM, LGA, FRAs and the Chief Fire Officers Association (CFOA). In accordance with the expressed wishes of Members of SWFA, the Chief Fire Officer attended these meetings to highlight the problems experienced by FRAs with a large retained workforce. The Working Group held three meetings on 16 April 2005, 24 May 2005 and 14 June 2005, details of which can be found on the ODPM website at

<http://www.local.odpm.gov.uk/finance/0607/grant.htm#fire>

2.19 As a consequence of these meetings the Government, in late June 2005, issued a consultation paper on the Formula Grant Distribution for 2006-07. The consultation covered potential alternative grant systems; Formula Spending Share (FSS) formula changes (including fire), capital finance and the Area Cost Adjustment; and grant formula changes affecting resource equalisation and floor damping. The proposed changes to the fire FSS can be summarised as follows:

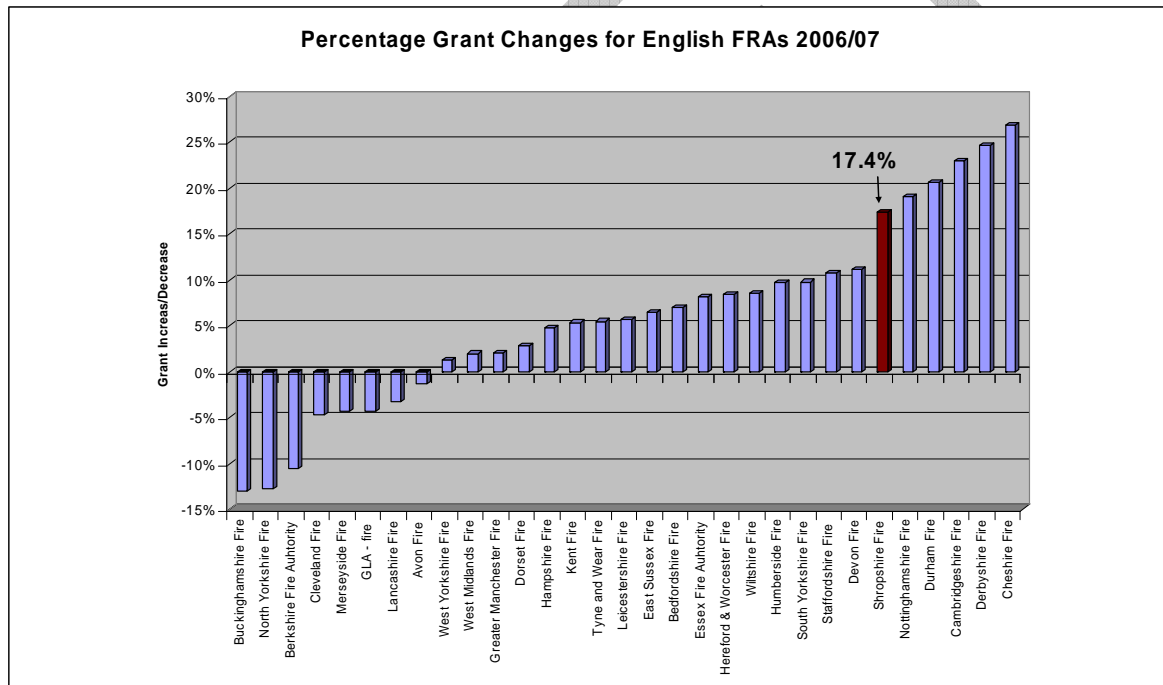
- The removal of an element for 'A' risk under the old standards of fire cover, to be replaced by an element based upon the number of 'Control of Major Accident Hazards' (COMAH) sites within an FRA's area;
- Changes to the population measures for at risk population in need of fire safety education; including an element for the over 65s;
- An increase in the weighting of the fire safety education factor from 3% to 6%;
- The replacement of certifiable premises and plans examined with a measure of property and societal risk;
- The introduction of a five-year moving average of property types at risk to avoid fluctuation from year to year;
- The introduction of the new survey of English housing types to reflect risk better, i.e. single parents and pensioners, council terraces, old people, many high-rise flats; together with average number of people per room; and
- The introduction of a fixed element for sparsity judged as a 1% population top-up.

2.20 In responding to the consultation, SWFA highlighted that the element on sparsity was essential, if resources were to be made available for investment in the Retained Service. The Authority also pointed out that the Retained Service is extremely cost-effective (crewing costs for a retained appliance being approximately 12.5% of those for a wholetime appliance) compared to other alternatives, as acknowledged by the ODPM's own review, and that in a capped environment a judgemental change was required.

Settlement 2006/07 and 2007/08

2.21 The provisional two-year settlement announced on 5 December 2005 confirmed changes to the Fire Formula Spending Share to take into account the move to three-year settlements, new financial arrangements for firefighters' pensions, changes to indicators caused by the elimination of national standards of fire cover and changes to fire safety law. Changes were also made to the Formula to recognise the increasing role of community fire safety work in FRAs by increasing the fixed percentage element from 3% to 6%. The indicator used to distribute this was also updated and widened to include the population of those over 65.

2.22 Most notably, however, the proposed introduction of a fixed element for sparsity was not included, and this was given specific reference in the consultation response of SWFA, included in Section 3 of this Plan. Other elements included within the provisional settlement, however, did ensure that SWFA received a much better than normal settlement as demonstrated in the chart on the following page, which shows that SWFA received a 17.4% increase in grant prior to the impact of flooring and previous years' adjustments:



Levels of floors in 2006/07 and 2007/08

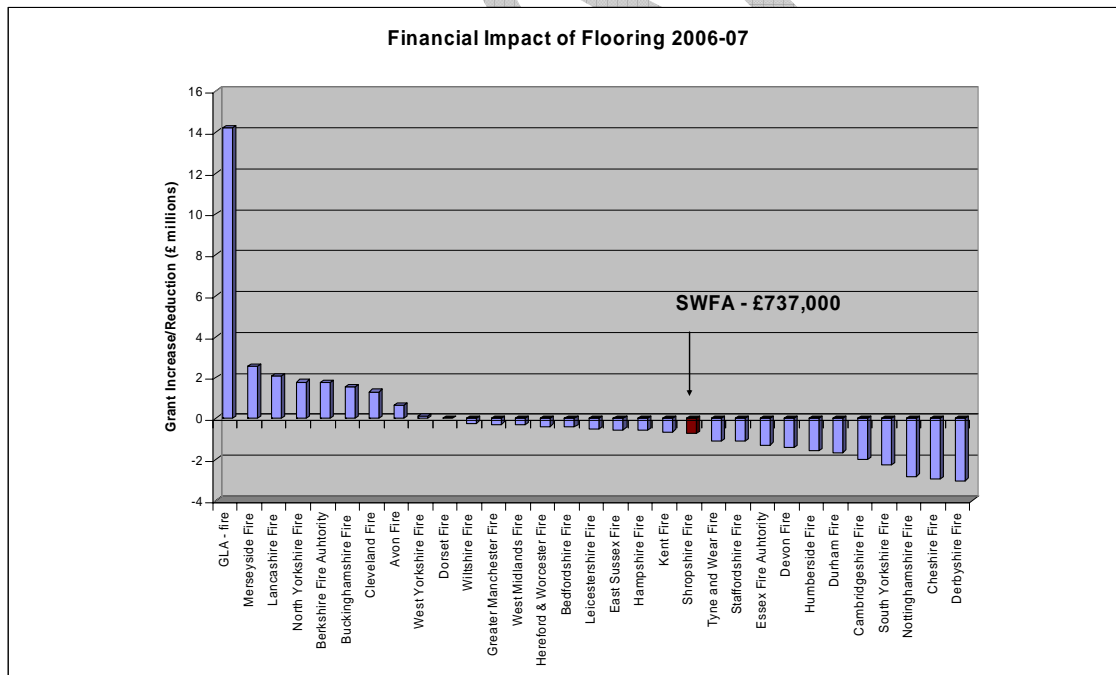
2.23 Floors have for many years been a regular feature of the grant settlement. The floor element guarantees that no authority receives less than a minimum increase in formula grant support from central government. A ceiling element has been used previously to limit the increase any individual authority can receive in any one year in order to help "pay" for the cost of providing the floor. In the 2005/06 settlement, however, 'ceilings' were removed on the grounds that they penalised authorities in rapid high growth areas.

2.24 The levels for floors for 2006/07 and 2007/08 for different types of authority are shown in the table below.

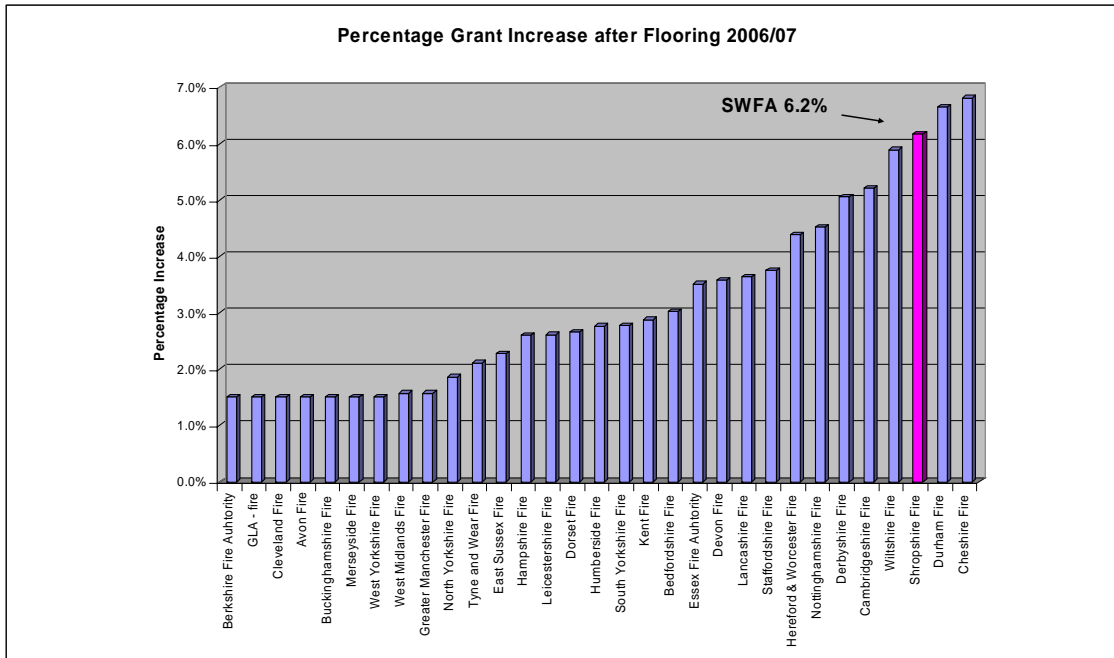
Type of Authority	2006/07 Floor	2007/08 Floor
Education/social services authorities	2.0%	2.7%
Police authorities	3.1%	3.6%
Fire authorities	1.5%	2.7%
Shire districts	3.0%	2.7%

2.25 As all the Formula Grant to be paid to local authorities must come from within the finite overall pot, the cost of providing the guaranteed floor must also be met from this pot. In order to do this grant increases above the floor are scaled back. The amount of grant scaled back is then used to pay for the floor guarantee.

2.26 Although the floor for FRAs was the lowest of all authorities at 1.5%, the fact that the largest of all FRAs, London, was approximately 5% below that floor, has had a major impact upon the grant changes of all other FRAs. As demonstrated in the following chart, London's grant had to be increased by over £14 million to reach the minimum increase of 1.5% and this proved very expensive for FRAs, such as SWFA:



2.27 Thus flooring impacted greatly upon SWFA's own grant, which fell by £737,000, thereby increasing by only 6.2%, as shown in the following chart:



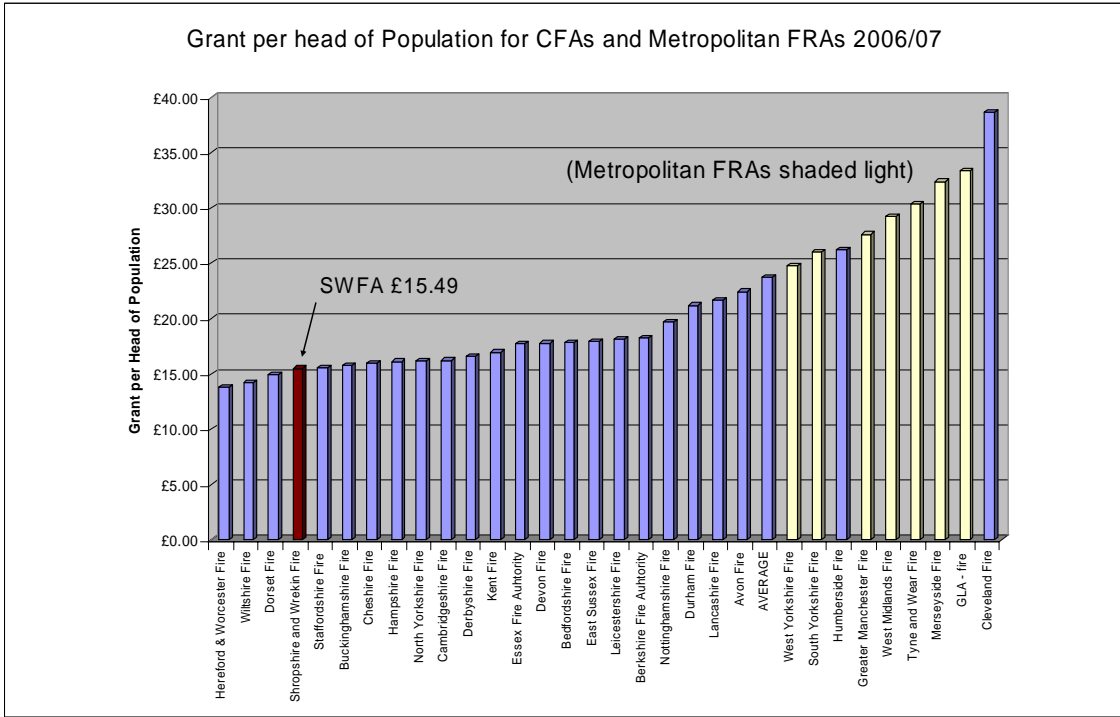
2.28 Unfortunately for SWFA and for the council tax payers of Shropshire and Telford and Wrekin, this was not the end of the bad news. SWFA also lost a further substantial amount of grant for 2006/07 due to previous years' adjustments. These amounted to £104,000 for 2004-05 and a further £66,000 for 2005-06 and resulted in the actual grant increase received by the Authority totalling only 3.6%. Thus the grant settlement, which had been substantially amended to recognise the actual needs of FRAs, had gone from one of very good news for the people of Shropshire and Telford and Wrekin to an increase barely above inflation as summarised in the following table.

	Grant	% change over 2005/06
Grant 2005/06 (adjusted to take account of changes to pension financing)	£6,522,000	
Grant 2006/07	£7,692,000	17.4
Grant after flooring	£6,956,000	6.2
Grant after previous years adjustments	£6,786,000	3.6

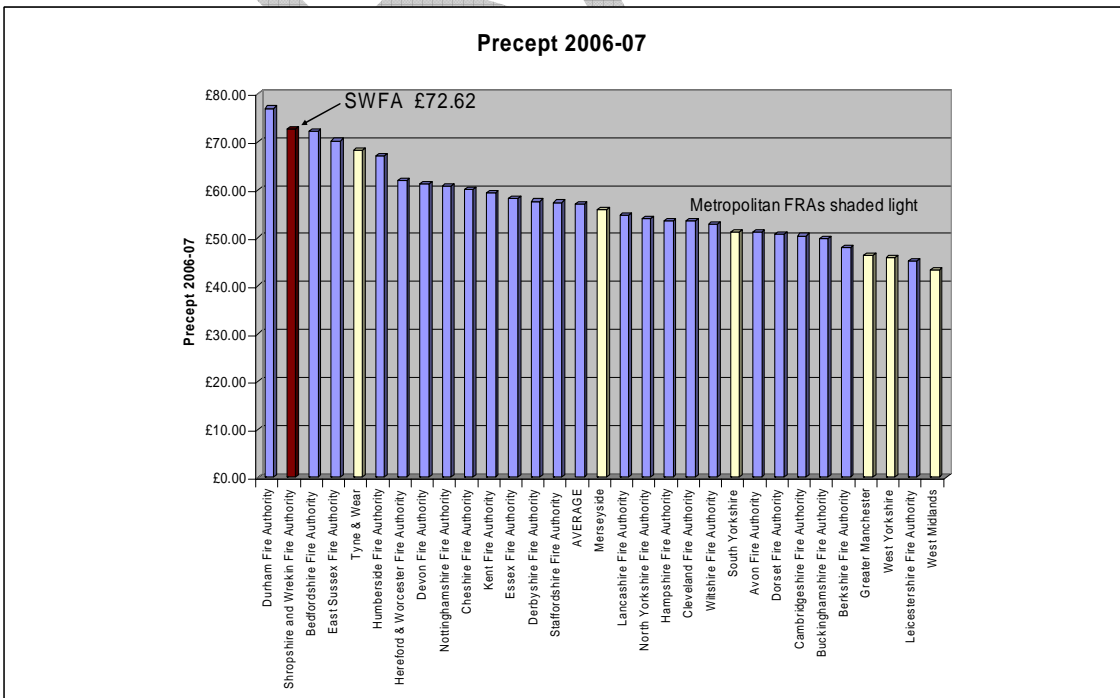
It should be noted that the effect of flooring will also continue into the second year of the two year settlement, and that, with the floor set at 2.7% for 2007-08, SWFA will lose a further £669,000 to flooring.

The Overall Effect of the Settlement 2006/07 and 2007/08 on SWFA

2.29 As demonstrated in the chart on the following page chart, the overall effect of the two-year settlement (after flooring) is that SWFA continues to receive one of the very lowest grants per head of population of any FRA (£15.49 as opposed to an average of £23.71 and a maximum in Cleveland of £38.61); despite the now well-recognised difficulties of providing a fire and rescue service in a large, mainly rural area employing a majority of retained firefighters.



2.30 This, of course, means that, although SWFA benchmarks well with other FRAs with regard to actual spend per head of population (19th out of 46), the financial burden of funding the Service falls disproportionately upon the council tax payers of Shropshire and Telford and Wrekin. This is clearly demonstrated in the following table showing precept levels for 2006-07.



FIRE AND RESCUE SERVICE NATIONAL FRAMEWORK 2006-08

2.31 The first two-year version of the National Framework was published on 6 April 2006; this clarified the Government's latest position with regard to national funding of the FRS as follows:

Revenue Support

2.32 The Government confirmed that in the Local Government Settlement for 2006/07 and 2007/08 fire and rescue authorities received average grant increases of 1.96% in 2006/7 and 3.14% in 2007/8 and no authority received less than 1.5% in 2006/7 and 2.7% in 2007/8. The Framework specifies that:

Fire and rescue authorities should develop fully the opportunities for efficiency improvements, including through collaboration, consistent with their duties under Best Value and the Government's objectives to reduce accidental deaths from fire in the home and deliberate fires.

2.33 The Government also confirmed once more that under Sir Peter Gershon's efficiency review the ODPM has assumed within its own efficiency target that English fire and rescue authorities together will achieve £105m gross efficiency savings in 2007/08. This would amount to a gross efficiency saving equivalent to around 5.67% of total 2004/05 expenditure. This will need to be achieved by the end of financial year 2007/08. The Framework requires that:

All English fire and rescue authorities should report their efficiency gains through Annual Efficiency Statements (AES) as described in Fire Service Circular 48/2005.

2.34 The Framework notes that a lot of activity is already taking place in fire and rescue authorities aimed at increasing efficiency, some of it pre-dating the efficiency target. This is in areas, such as shift patterns, crewing arrangements, appropriate use of overtime, reducing sickness and other absences, minimising ill-health retirements, collaboration, partnerships, procurement, risk management, driving down false automatic fire alarm activation, better use of retained firefighters, civilianisation and capital investment. The Government recognises that different fire and rescue authorities face different challenges and have adopted a wide variety of approaches to achieving efficiency in these and other areas. The ODPM has joined forces with CFOA and the LGA in bringing together notable practice from across the Service into case studies that will be disseminated to all fire and rescue authorities. The intended purpose of making these case studies widely available is to ensure that all fire and rescue authorities know how other fire and rescue authorities are approaching achieving efficiency gains. The Framework requires that:

Fire and rescue authorities should consider actively for themselves whether any of the approaches identified in the case studies guidance will assist them in delivering greater efficiencies.

2.35 An assessment of each of the case studies provided to date against the position of Shropshire Fire and Rescue Service (SFRS) was reported to the Authority's Strategy and Resources Committee in May 2006 and the full Fire Authority in June 2006. A number of the case studies were identified as worthy of further consideration.

Transitional Funding

2.36 In recognising that there may have been a lag between costs and savings of Fire and Rescue Service modernisation, the Government paid £30 million transitional funding to English and Welsh fire and rescue authorities in 2004-05. Originally the Government planned to recoup the transitional funding before the end of 2005/6 but later agreed to the LGA's request to defer this until 2006-07. Following further representations, the Government has smoothed the impact of recovering this money by deferring recoupment of half (£14 million) of the transitional funding from FRAs until 2007-08, so that half will be recouped in 2006-07 and half in 2007-08. Through prudential budgeting, SWFA was in a position to be able to pay back all of the transitional funding in 2006-07, if required, and does not, therefore, envisage any difficulties achieving full repayment in 2007-08.

Council Tax

2.37 In common with the rest of local government, fire and rescue authorities must ensure that they do not place unreasonable burdens on their council tax payers. The Government used its reserve capping powers against fourteen authorities, including five fire and rescue authorities, in 2004/05. No fire and rescue authorities were capped in 2005/06, when the average council tax precept increase for fire and rescue authorities in England was 4.4%, with none setting increases higher than 5%.

2.38 The Government clarified its expectation that all fire and rescue authorities should ensure they do not set excessive increases in 2006/07 and 2007/08. The Government made clear in its general election manifesto that it would not hesitate to use its capping powers to protect council taxpayers from excessive rises in future years.

Three-Year Settlements

2.39 In its Spending Review 2004 the Government announced that it would be introducing three-year revenue and capital settlements for local, police and fire and rescue authorities. The purpose of this change is to maximise the benefits of three-year spending plans for central government departments by cascading them down to the maximum extent possible. A consultation paper on this subject was issued by the ODPM in December 2004 with the analysis of responses issued in June 2005. The Government's proposals were issued on 19 July 2005.

Pensions Finance

2.40 The national framework confirmed the Government's proposal that from 1 April 2006, instead of meeting the full cost of pension outgo from their operational budgets, fire and rescue authorities will pay an employer contribution out of operational resources in order to cover the accruing liability to pay pensions in the future. This employer contribution and employee contributions will be paid into a pension fund, held by the fire and rescue authority, from which pensions outgo will be met. The ODPM will 'top up' the pension fund or recover any surplus. The intention is that new arrangements will:

- counter the yearly volatility in pensions expenditure, which has fed into council tax precept increases; and
- increase transparency in fire and rescue authorities' budgets, in that they will more accurately reflect the cost of providing the frontline service.

2.41 For the remaining two years of this spending review period, the new top-up grant required to meet any gap in fire and rescue authorities' pension accounts will be financed by top-slicing Formula Grant. This should be cost neutral, because the underlying cost driver to the public purse – the bill for pensions outgo – will be unaffected.

Distribution

2.42 As described above, the National Framework confirms that changes have been made to the fire and rescue formula to take into account the move to three-year settlements, new financial arrangements for firefighters' pensions, changes to indicators caused by the elimination of national standards of fire cover and changes to fire safety law. Changes have also been made to the formula to recognise the increasing role of community fire safety work in authorities by increasing the fixed percentage element from 3% to 6%. The indicator used to distribute this has also been updated and widened to include the population of those over 65. As described above and unfortunately for SWFA, following consultation with local government, Ministers decided not to include an additional element for sparsity in light of other changes to the formula.

Local Prudential Borrowing Regime

2.43 The Local Government Act 2003 replaced the existing system of basic and supplementary credit approvals for local authorities with a new local prudential regime. From 1 April 2004, Local Authorities, including fire and rescue authorities, have been free to borrow for investment without Government consent, provided they can afford to service the debt.

Supported Capital Expenditure

2.44 ODPM Fire Circular 58/2005 informed English fire and rescue authorities of the amounts of supported capital expenditure, which each will receive in 2006/07 and 2007/08 alongside the two-year Local Government Finance Settlement. The total supported capital expenditure for each year is £57.98 million. The Department for Communities and Local Government (the successor of the ODPM) is currently considering what support there might be for reviewing the basis for the distribution of supported capital expenditure to fire and rescue authorities.

Private Finance Initiative (PFI)

2.45 The National Framework provides detail on 8 existing PFI schemes in the FRS and describes further successful bids made by a number of FRSSs. The PFI programme has the potential to help fire and rescue authorities with the provision of some of the capital assets necessary to meet the modernisation agenda. It is hoped to launch further bidding rounds for fire and rescue authorities in succeeding years.

Other Sources of Funding

2.46 The National Framework describes in detail a number of other sources of funding available to all fire and rescue services as follows:

2.47 £25 million available to fire and rescue authorities in England for the period up to March 2008 to enable the Fire and Rescue Service to undertake home fire risk checks and to provide free smoke alarm installation for vulnerable, high risk households. The Government will continue to provide support for fire prevention work, including

community fire safety, working with young people and arson reduction. It has made a further £11.4 million available to fire and rescue authorities in England for the period to March 2008 to support fire prevention work, including community fire safety, arson reduction and work with children and young people. This single grant to all fire and rescue authorities replaces the grants paid to some authorities under the Community Fire Safety Innovation Fund and funding to complement the capital grants paid to fire and rescue authorities under the Home Fire Risk Check initiative.

- 2.48** For the New Dimension programme, the Government has committed over £200 million, which includes funding for equipment and training as well as supporting the crewing needs resulting from this investment. New Dimension is due to complete its roll-out of capability by spring 2007. For the Firelink project, the Government has committed to fund the procurement and capital costs of the new wide-area radio system for the Fire and Rescue Service.
- 2.49** An Emergencies Order underpinning the New Dimension programme is planned to be made by the Government in autumn 2006 or early in 2007. It would only take effect once the New Dimension capabilities are fully operational from spring 2007. Whilst these are being rolled out, fire and rescue authorities will not be expected to incur additional expenditure. The Government will act in accordance with the 'new burdens principle' (explained more fully below). This would ensure that any new burden to fire and rescue authorities arising from an Emergencies Order would be agreed after discussion between the Government, the LGA and CFA.
- 2.50** The Government recognises that there will be net additional costs to fire and rescue authorities during the transition from local control rooms to the national network of control centres. Central government will support these costs in line with the new burdens principle. Guidance on funding under the 'new burdens' principle was issued on 23 December 2005 in Fire Service Circular 63/2005. This provided more detail on exactly what work needs to be done and which costs will be met by the Department for Communities and Local Government and which should be met by fire and rescue authorities.
- 2.51** The Government also funds a wide range of work relevant to the role of fire and rescue authorities, particularly on prevention and community fire safety, for example on neighbourhood renewal, such as the Safer and Stronger Communities Fund.
- 2.52** The Treasury/Cabinet Office Invest to Save Budget aims to '*Encourage innovation and partnership throughout the public sector, in order to improve the quality and cost effectiveness of public services*'. Projects are appointed with a view to the resulting learning and benefits being applied by others more widely.
- 2.53** Fire Service Circular 50/2005 highlights some further existing grants that fire and rescue authorities may wish to apply for either directly or through their partners.

FiReBuy

- 2.54** The ODPM has met the costs of establishing FiReBuy Ltd, including £800,000 spent on the Integrated Clothing Project, which fire and rescue authorities had expected to meet from their own budgets during 2005/06. In 2006/07 and 2007/08, the Department for Communities and Local Government will fund up to £1.8 million, each year, for running FiReBuy Ltd. The Department will work with fire and rescue authorities in 2006 to identify a future funding mechanism, including cost recovery.

Charging

2.55 The range of calls to which fire and rescue authorities respond goes beyond dealing simply with fires. Responding to special service calls, ranging from road traffic collisions to stalled lifts and people locked out of their homes, accounts for almost half of the calls which the Fire and Rescue Service attends.

2.56 Section 19 of the Fire and Rescue Services Act 2004 preserves a power to charge for responding to incidents other than fire calls and ensures that emergency medical assistance is free at the point of delivery. By “charge” the Government means the recovery of up to the full costs incurred by the fire and rescue authority in providing that service to distinguish it from “trading”, which is considered in paragraph below. The first Order made under Section 19 came into effect on 1st October 2004 and specifies all services for which at least one English fire and rescue authority was charging as at 1st April 2004. Any future proposals to extend charging would be subject to extensive consultation. Government specifies that:

Fire and rescue authorities should consider very carefully whether the costs of providing the non-statutory services specified in the Order should fall on those who requested the service or on council tax payers.

‘New Burdens’ Principle

2.57 Where a central government department’s policies or initiatives increase the cost of providing local authority services, the ‘new burdens’ principle means that the Government will fund the additional expenditure, provided that the aggregate value of the burdens across all authorities in any financial year is greater than £100,000. A procedure has been agreed by the Government with the LGA for assessing new burdens costs.

Summary

2.58 With regard to national funding of the fire and rescue service and the impacts upon SWFA, the main points of note can be summarised as follows:

- There has been a clear recognition by the Government that funding of the Service needs to change so as to be more focussed upon the actual reduction of risk;
- The Government has introduced changes to funding to recognise that need;
- The changes to date still do not appear to take account of the impacts of sparsity;
- The changes to date are, however, generally beneficial to SWFA;
- The effects of ‘flooring’ and ‘previous years’ adjustments’ have had a huge and disproportionate affect upon the funding of SWFA;
- As a result, SWFA will continue to receive one of the lowest levels of central government funding per head of population of any FRA; and
- Consequently, the precept levels set by SWFA will remain amongst the highest of all FRAs.

SECTION 3

Overview of Revenue 2006-09

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INTRODUCTION

3.1 This section of the MTFP considers the impact of the grant settlement for 2006/07 and 2007/08 on the finances of SWFA and, in particular, upon the effects of flooring. It details the response of SWFA to the settlement, and describes how the results of consultation have influenced the spending plans of the Fire Authority for the next three years and beyond. Finally, the way in which the revenue budget is controlled and monitored is explained and the level of reserves utilised to control risks to the Authority are detailed.

GRANT SETTLEMENT

3.2 As described in Section 2 of this Plan, the Government's changes to the Fire Formula Spending Share provided for funds to be allocated more on the basis of the actual needs of FRAs than in previous years. The provisional two-year settlement announced on 5 December 2005 provided the following increases for SWFA:

Grant 2006/07	£6,786,000	+3.6% (on adjusted base)
Grant 2007/08	£7,256,000	+4.3%

3.3 This was after loss of Pension Top-Up Grant and Transitional Grant (which is to be recouped over two years). It was also after losing £170,000 for previous years' adjustments. The figures show that additional need had been recognised, although, disappointingly for SWFA, the proposed allowance for sparsity had not been included and a significant proportion of the gain for the Authority was to be lost through floor-damping. The provisional grant settlement details and the effects of flooring are set out in the tables below:

Build up of Formula Grant

	£000	£000
2006/07 Grant		
Formula Grant		6,956
2004/05 adjustment	104-	
2005/06 adjustment	66-	170-
Adjusted Grant		6,786
2005/06 Grant		7,219
Less 2005/06 adjustment	667-	667-
Notional adjusted grant		6,552
Increase in 2006/07 over 2005/06:		
Increase before adjustment in 2006/07		+6.2%
Increase after adjustment in 2006/07		+3.6%
2007/08 Grant		7,256
Increase in 2007/08 over 2006/07		
Increase before adjustment in 2006/07		+4.3%

Effect of Floor Damping

	2006/07 £000	2007/08 £000	% Change
Relative Needs	971	1,008	
Relative Resources	937 -	1,007 -	
Central Allocation	7,659	7,924	
Total Grant	7,693	7,925	+3.0
Floor damping	737	669	-9.2
	6,956	7,256	+4.3

RESPONSE TO GRANT SETTLEMENT

- 3.4 Grant increases of 3.6% and 4.3% for 2006-07 and 2007-08 respectively were seen as moving some way towards addressing the longstanding under-funding by central government of SWFA, and Members and officers were on the whole supportive of the proposed settlement. There clearly remains, however, a number of important areas where the people of Shropshire and Telford and Wrekin continue to be penalised financially through no fault of their own or of SWFA. The following response to the Government regarding the provisional settlement explains the anomalies, which continue to exist with regard to funding of the fire and rescue service in general and in Shropshire in particular:

“In response to the Revenue Support Grant Consultation Paper issued by the Secretary of State on 5 December 2005, Shropshire and Wrekin Fire Authority would wish to express general support for the settlement which, for the first time, appears to go some way towards recognising the particular needs of rural fire and rescue authorities such as our own. In particular, we note the changes to the distribution of grant from 2006/07 for fire and rescue authorities, and support the following changes, which clearly allow for a more appropriate allocation of funding based upon needs:

*The replacement of the outdated “A” risk indicator;
The modification of the community fire safety indicator to include a factor for population aged 65 and over;
The doubling of the weighting of the community fire safety indicator;
The replacement of the fire safety enforcement indicator with a property and societal risk indicator; and
The modification of the fire risk indicator.*

There are, however, three areas where we feel that the proposed grant allocation fails to meet the needs of our own Fire Authority, or indeed those of the council tax payers of Shropshire and Telford and Wrekin.

Sparsity

The Fire Authority is particularly disappointed that earlier proposals for the introduction of a fixed element for sparsity have not been progressed. We note, from paper SWG/05/51 (entitled Fire FSS) of the meeting of the Settlement Working Group on 6 June 2005, that this proposal was “in relation to the modernisation agenda and a potential change in the distribution of costs between fire and rescue authorities employing largely retained firefighters and those employing fulltime firefighters”.

Being an Authority, which maintains 28 front line fire appliances, 23 of which are crewed by retained personnel, we have argued that sparsity and the needs of retained firefighters have been ignored for many years within arrangements for funding distribution. Following publication by the ODPM last February of the findings of a review into recruitment and retention challenges within the Retained Service, we were, however, hopeful that many years of underinvestment in this important area of the Service would be addressed. We were hopeful that specific recognition of sparsity issues would enable investment and also give a fairer deal to Council Tax Payers. The exclusion of a factor for sparsity means that this has not been possible.

Floors for Grant

Shropshire and Wrekin Fire Authority fully recognises the need for grant floors to maintain stability and predictability of grant, and recognises that a floor of 1.5% for fire and rescue authorities is the lowest of all groups of authorities. The effect of the floor upon our own Fire Authority, however, is to reduce our grant by £737,000 in 2006/07 and by £669,000 in 2007/08. These figures represent reductions of 9.5% and 8.5% respectively on our grant, and clearly have a major impact upon our ability to reduce our own precept to bring this more into line with similar authorities.

Previous Years' Amendments

The Authority is concerned at the significant changes that take place to grant entitlement as a result of Amending Reports for earlier years. These are difficult, if not impossible, to explain to Council Tax payers and make financial planning difficult despite the efforts that government has made to introduce greater certainty for future years.

Summary

Shropshire and Wrekin Fire Authority recognises that an increase in grant equating to 3.6% in 2006/07 and 4.3% in 2007/08 begins to tackle the problem of serious under-funding that we as an Authority have experienced for many years. It also means that, when taken together with our own considerable efficiency savings, we are able to progress proposals for substantial additional investment in the Retained Service in Shropshire (an extra £824,000 in 2006/07 equating to almost 4.5% of our current budget). Unfortunately, the omission of a factor for sparsity, the disproportionate affect of floor damping, and a wholly inexplicable loss of grant from previous years' settlements mean that the cost of this investment will inevitably fall upon the council tax payers of Shropshire in the form of a precept increase in the region of 4.5%.

Finally

In response to the recently issued Fire and Rescue Service Circular 62/2005 entitled 'new financial arrangements for firefighter pensions – local government financial settlement,' whilst we recognise that these arrangements may have caused concerns for a small number of fire and rescue authorities, we would urge against any major changes to the settlement. The changes to the pension financing arrangements are wholly welcome to the Authority, given the benefits of stability, whilst still keeping responsibility for early retirements through sickness at the local level. Initial transition difficulties are therefore acceptable. As you will be aware, we are operating against particularly tight deadlines for consultation on our own budgets with the public and stakeholders. Any significant changes as result of the temporary problems of the new pension arrangements, or indeed any significant change following your 11 January deadline, will have a major impact upon our own budget setting process.

Should you require any further clarification of any of the issues raised above, please do not hesitate to contact either myself or our Chief Fire Officer, Alan Taylor, or Treasurer, Keith Dixon, on 01743 260201.

*Councillor Dave Morgan
Chair
Shropshire and Wrekin Fire Authority*

3.5 Following the consultation period, the final grant settlement was announced on 31 January and showed that SWFA had a reduced entitlement (from those shown above) in 2006/07 of £20,000 and a reduction in 2007/08 of £61,000. No direct reply to SWFA's consultation response was received and the reasons for the subsequent reductions have not been released.

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REVENUE BUDGETS 2006/07 AND 2007/08

- 3.6** During early consideration of revenue budgets for 2006/07 and 2007/08 Members of SWFA recognised that (even after the effects of floor damping) they were in a position to be able to reduce the level of precept to council tax payers for 2006-07 as follows:

2005/06 Precept	£69.48
2006/07 Precept	£68.93
2007/08 Precept	£70.29

- 3.7** It was also recognised, however, that such a reduction took no account of two important developments in service provision, namely efficiency savings to be generated through the Integrated Risk Management Planning process and, additional investment identified through a Best Value Review of the Retained Service in Shropshire. These are summarised below.

Integrated Risk Management Planning (IRMP)

- 3.8** Through the reduction in availability of aerial appliances from two to one, the Fire Authority's IRMP Action Plan 2006/07 provided an opportunity to reduce wholtime firefighter posts by eight (4.8%), providing for approximately £259,000 in efficiency savings, approximately £90,000 of which would be required to enable minimum staffing levels on wholtime stations to be guaranteed. The IRMP for 2006/07, therefore, offered the opportunity for net savings in the region of £169,000.

Retained Review

- 3.9** In recognition of the vital importance of the Retained Service to Shropshire (23 out of 28 fire appliances crewed by retained personnel) and, as also identified by the Government in a national review of the Retained Service, in view of many years of under investment in this aspect of the Service, SWFA, in February 2005, had commissioned a Best Value review of the Retained Service. The outcome of the review identified a need for substantial investment as shown on the following page.

Summary of the Financial Implications of the Draft Best Value Review

Pg No	Rec	Subject	2006/07	2007/08	2008/09	2009/10
19	2	XL Cabs (Additional firefighters)	£133,000 (18)	£201,000 (9)	£272,000 (9)	£346,000 (9)
28	9	Recruitment	£5,000	£5,000	£5,000	£5,000
44	17	Retained Support Officers (8 posts)	£303,000	£313,000	£324,000	£326,000
44	17	Vehicles and miscellaneous	£12,000	£14,000	£14,000	£14,000
45	18	Cleaning, maintenance and admin (15 hours per month per Station)	£57,000	£59,000	£62,000	£63,000
46	19	Retained Project Manager	£49,000	£51,000	£53,000	£55,000
60	23	Training (3 hrs per month per firefighter)	£165,000	£176,000	£187,000	£199,000
69	26	Community fire safety	£100,000	£100,000	£100,000	£100,000
TOTAL			£824,000	£919,000	£1,017,000	£1,108,000

3.10 Although such investment represented an increase of around 4.5% of the revenue budget, all Members of SWFA were fully supportive of the Best Value Review recommendations and of the need to ensure that this most cost-effective means of providing fire cover was maintained and supported for future years.

3.11 It was, therefore, agreed that consultation on the budget for 2006/07 and future years should include both the proposals for IRMP efficiencies, and retained investment. Budget consultees were, therefore, asked to endorse a precept increase of 4.5% for 2006/07 and a projected increase of 4% for 2007/08 with the rationale for such increases explained using the following table:

Implications of various council tax increases on funding the IRMP proposals, Retained Review and 2007/08 Capital Programme

2005/06 Precept £	2006/07 Increase in Precept %	Annual Cash Increase £	Total Precept £	Net Surplus (Shortfall in 2006/07) £	2007/08 Precept Increases				
					Surplus / (Shortfall) +5%	Surplus / (Shortfall) +4.5%	Surplus / (Shortfall) +4%	Surplus / (Shortfall) +3.5%	Surplus / (Shortfall) +3%
69.48	+5%	3.47	72.95	(33)	162	104	48	(9)	(66)
69.48	+4.5%	3.13	72.61	(86)	106	49	(8)	(64)	(121)
69.48	+4%	2.78	72.26	(141)	48	(8)	(65)	(121)	(177)
69.48	+3.5%	2.43	71.91	(195)	(9)	(65)	(121)	(178)	(234)
69.48	+3%	2.08	71.56	(249)	(66)	(122)	(178)	(234)	(290)

The precept figures given above are for Band D properties.

CONSULTATION ON BUDGETS AND PRECEPT

3.12 The Fire Authority places the highest significance on the need to consult with the public and stakeholders. The Audit Commission's national report on CPA in the FRS highlights examples of effective community engagement. It states that most fire and rescue authorities are developing their approaches, with SWFA cited as an example of good practice regarding the use of Scrutiny Panels, focus groups, public meetings and internet communication being used to inform improvement priorities

3.13 With regard to its budget setting process SWFA consults through:

- Publishing its budget meetings, decisions and reports on its website;
- Commissioning public meetings and meetings with non-domestic rate payers through Opinion Research Services Ltd; and
- Meetings with the Shropshire Association of Local Councils and other public bodies, as requested.

3.14 These consultations have shaped the budget process throughout, and the primary source of feedback for the Fire Authority came from two Scrutiny Panels (with the public and stakeholders) as follows:

3.15 Scrutiny Panels

Panel	Attendees	Composition
Shrewsbury	19	5 women, 7 men
Ludlow	12	10 women, 9 men

3.16 All participants, who attended the IRMP 2006/07 Scrutiny Panel in October 2005, were invited to attend a follow-up consultation session on Shropshire and Wrekin Fire Authority's Precept 2006/07. SWFA also extended invitations to a number of its stakeholders. Those, who attended, engaged fully with the issues and actively participated in the Panel.

3.17 The Scrutiny Panel methodology was first adopted by SWFA in October 2004 for public consultation on the IRMP 2005/6, a decision informed in the main by the experience of the previous year's consultation. In Shropshire, as in many other fire and rescue service areas, focus group discussions had been the primary method employed to consult with the general public. During this process it became apparent that a substantial amount of information had to be given to participants, and this was inevitably constrained by the time available (one-and-a-half hours) and the limited technical knowledge of the facilitators. In an attempt to address these issues, a different format was deemed to be advisable.

3.18 A Scrutiny Panel offers three distinct benefits:

- Technical expertise is available both to explain the issues and to respond to any queries;
- Meetings last for about three hours, giving much more time for questions, responses, and for people to consider the issues in some detail; and

- A Scrutiny Panel is not normally a one-off event; people are asked to commit themselves to an ongoing relationship, which may last for two or more years, hence they build a level of knowledge that leads to more informed debate.
- 3.19** The other side to the story is, however, that a much higher degree of involvement is needed on the part of the Fire and Rescue Service. Similarly, participants are asked to make a far greater commitment than is required from Focus Group attendees.
- 3.20** One of the major benefits in using the Scrutiny Panel methodology is that participants will, over time, develop a good knowledge of the Fire and Rescue Service. There is, however, the issue of over-identification with the Service to be considered, which can be a side effect of gaining more knowledge and understanding. This can be overcome by ensuring that the Panel is 'refreshed', with one third being replaced annually. It is advisable that the first 'refreshing' takes place after two years to allow time for the Panel to become established.
- 3.21** Previous Scrutiny Panels have worked very successfully and all parties have enjoyed the experience. The positive feedback received from participants indicated that the meetings have not only left people with a much better understanding of the Fire and Rescue Service, but have also left them wanting to continue as Panel members. As such, it has been decided to adopt the same methodology, and invite the same people to discuss Shropshire and Wrekin Fire Authority's budgetary plans for 2006/07 and beyond.

Scrutiny Panel Agenda

3.22 The Scrutiny Panel programme fell into four parts. Firstly, a presentation was given to the Panel by the Chief Fire Officer, together with the Treasurer and Chair of the Fire Authority. This gave Panel members detailed information about the 2006/07 precept and proposed future budgets. The Panel was then given the opportunity to ask questions and seek points of clarification, before dividing into small groups and considering the budget in some detail. The groups were asked to consider proposals relating to:

- SWFA's proposed revenue budget 2006/07
- Efficiencies and investment
- Capital expenditure
- Future budgets

Finally, there was a plenary session where the facilitator fed back the groups' findings and views.

Summary of Feedback

3.23 Revenue budget 2005/06

- All groups were of the view that the rise in council tax to fund Shropshire and Wrekin Fire Authority's budget increase is satisfactory and justified.
- Participants were satisfied that the budget incorporates efficiency savings, and were particularly pleased that the main intention of the increase appears to be the development of a vastly improved Retained Service.

- Participants expressed general disconcertion that, until now, the funding situation has led to Shropshire and Wrekin Fire Authority (SWFA) having the 2nd highest precept of all Combined Fire Authorities.
- Given this, the vast majority thought it reasonable that SWFA charges what it does in order to provide a necessary service.
- Panellists were, on the whole, satisfied that the Government has acknowledged the need to increase SWFA's share of the Revenue Support Grant (RSG).
- There was recognition that SWFA is not yet receiving its full RSG allocation of 6.2%, which has led to the need for a rise in council tax. Most called for this situation to be rectified.
- Encouragingly, all groups were of the view that the Fire Authority represents excellent value for money, particularly in light of forthcoming investment in the Retained Service and in community fire safety (CFS) which will, it was felt, result in service improvements.
- It was believed that SWFA should publicise the value for money it offers. Participants suggested greater use of the media to disseminate information on the RSG and the reasons for the council tax increase.

3.24 Efficiencies and Investment

- The proposal to reduce Shropshire's aerial appliances to only one available at any one time was generally accepted as the most efficient way forward.
- The loss of eight whole-time firefighter posts was, on the whole, supported, providing the posts are lost through 'natural wastage'; there is no detrimental effect on service provision; and there is no reduction in the overall number of operational staff.
- It was suggested that the eight trained and experienced wholetime firefighters be appointed as Retained Support Officers.
- The proposed investment in the Retained Service was fully and wholeheartedly supported. The service was judged to be vitally important to Shropshire. It was believed that any improvements designed to improve the morale of firefighters should be welcomed.
- The breakdown of costs for improvements to the Retained Service was deemed well thought-out and balanced. All aspects were generally believed to offer value for money.
- Participants particularly praised the following:
 - The ideas for improvement were derived from retained firefighters themselves;
 - The proposals for improvement are being piloted to ensure they are feasible and successful;
 - The additional three hours training per month;

- The recompense for cleaning, maintenance and administrative duties;
 - The recruitment drive, which, it is hoped, will lead to an increase in retained firefighter numbers and, subsequently, scheduled time off for staff;
 - Expenditure on 8-seater fire appliances, which will afford firefighters more opportunities to attend incidents; and
 - Greater opportunity for retained crews to undertake CFS in local communities.
- A minority believed that retained firefighting could be made more attractive for women and ethnic minorities. They advocated a more flexible system whereby, if women are only available when their children are at school, SWFA could employ them during that time. This system would not only encourage women to join the Service, but would also address the issue of staff shortages during this time of day.

3.25 Capital Expenditure

- The proposed capital expenditure was thought to represent good value for money. Participants generally agreed that the items of expenditure appear to have been well chosen and well thought-out.
- It was deemed essential to expend money on the following:
 - Improvement of retained stations
 - Improvement of training facilities
 - Building maintenance
 - Replacement fire engines and rescue tender
 - Replacement of radio communications
- It is encouraging to note that participants have implicit trust in SWFA to spend wisely on the capital programme.

3.26 The building improvements at Shrewsbury were thought to be expensive. Although participants understood the reasons behind the maintenance of Headquarters, they described it as *wasted money* in light of the advent of Regional Control in 2009. As such, they suggested that SWFA should expend on essential repairs only in the meantime.

Future Budgets

3.27 The scale of future budget increases was, on the whole, thought to be acceptable, providing figures for injuries and deaths continue on a downward curve.

3.28 Percentages were deemed well chosen – below the 5% capping rate and allowing 1% flexibility for 2007/8, if needed - and proposed investment in the future thought appropriate.

3.29 The downward trend in precept increases was praised. Participants stated that they would like to see them diminish further in future years, although there was concern that this would not be the case due to the need for future expenditure on the new Headquarters at Shrewsbury.

- 3.30** Stakeholders in particular questioned whether a gradual reduction in the precept is realistic, because of the need to continually modernise the service.
- 3.31** The overwhelming majority believed that the Fire Authority's RSG allocation should increase further in future years.
- 3.32** It was certainly felt that there should be a balance between an increased RSG and local responsibility for local services as, to an extent, responsibility for local issues should remain in the locality through council tax and business rates.
- 3.33** If, however, an increased RSG allows a council tax reduction, this would be welcomed by all!

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BUDGETS AND PRECEPT 2006/07 AND 2007/08

3.34 In view of their desire to force out efficiencies and to fund improvements in the Retained Service, and, after taking into account the consultation response detailed above, SWFA approved the three-year growth in expenditure detailed in the following table:

Analysis of Expenditure Growth 2006/07 to 2007/08

	2006/07 £000	2007/08 £000	2008/09 £000
i. 2005/06 Budget Requirement	17,948	17,948	17,948
ii. Less reserves set aside in 2005/06	329-	329-	329-
iii. Changes to Firefighters' Pension arrangements	322-	167-	18
iv. Other committed changes	186-	219-	269-
	17,111	17,233	17,368
v. Pay and Price Increases	400	900	1,400
vi. Cashable efficiencies	336-	336-	336-
vii. Retained Review, IRMP, etc.	923	1,018	1,116
viii. Capital Programme	96	245	427
ix. Reserves and Provisions - Transitional Payment Reserve offset by addition to Capital Reserve	68-	100-	-
x. Grant amending orders	170	-	-
	18,296	18,960	19,975

3.35 The impact upon precept levels for 2006/07 was assessed as follows and approved.

Analysis of Precept Change

	£000	Precept	
		£	%
i. 2005/06 Base less Grant and Collection Fund (adjusted for pension changes)	17,347 6,687		
	10,660	69.48	
Reserves and other committed change	583-	3.80-	5.47-
ii. Pension Changes (adjusted for the new scheme)	279	1.82	2.62
iii. Pay and Prices	400	2.61	3.76
iv. Cashable Efficiencies	336-	2.19-	3.15-
v. Retained Review and Other Developments	923	6.02	8.66
vi. Capital Programme	96	0.62	.89
vii. Grant Amending Orders	170	1.11	1.60
viii. Grant and Collection Fund	360-	2.35-	3.38-
	11,249	73.32	5.53
ix. Increase in Tax Base		0.70-	1.01-
		72.62	4.52

BUDGET MANAGEMENT BY DEPARTMENTS

3.36 As described in Section 1 of the MTFP the longstanding aims and objectives of SWFA are as follows:

STRATEGIC AIM 1

Reduce the risk to life and material loss from fire and other emergencies in the community

STRATEGIC AIM 2

Protect life, property and the environment from fire and other emergencies

STRATEGIC AIM 3

Secure the highest level of safety and welfare for all staff by providing effective supervision, training, equipment and systems of work

STRATEGIC AIM 4

Provide a service that demonstrates quality and Best Value in service provision

STRATEGIC AIM 5

Provide a service committed to the highest levels of equality and fairness

3.37 In order to deliver against these service priorities and their associated corporate objectives, management of the Service is divided into five managerial areas, each with its own distinct service priorities and its own clear budget areas. The business plans and budgets of each of the departments are linked to the overall Performance Plan of SWFA and each is summarised on the following pages.

3.38 Executive

Lead Officers: Chief Fire Officer/Treasurer

The Executive Department provides the link between Shropshire and Wrekin Fire Authority and Shropshire Fire and Rescue Service. The Executive Department exists to ensure that the Fire Authority is able to fulfil its responsibilities for overall corporate governance of the Service, including the setting of strategic direction, financing the Service, setting aims, objectives and targets for the Service and monitoring the achievement of targets. In order to meet the needs of the Fire Authority, the Executive Department is also responsible for the planning and co-ordination of the work of all other departments.

Budgets

	Staff Budgets	Other Budgets	Total Budget 2006/07	Capital
Executive	563,486	1,850,139	2,413,625	0
Executive	282,720	59,390	342,110	
Corporate Support	148,752	356,957	505,709	
Finance	132,014	1,433,792	1,565,806	

3.39 Community Safety

Lead Officer: Deputy Chief Fire Officer

The Community Safety team is the service delivery branch of the Service. Through this team the Service delivers a broad range of community safety services, including community fire safety, business fire safety, emergency vehicle mobilising and operational delivery.

Budgets

	Staff Budgets	Other Budgets	Total Budget 2006/07	Capital
Community Safety	10,664,125	35,460	10,699,585	0
Operational Response	272,202	0	272,202	
Fire Prevention	993,758	33,860	1,027,618	
District Performance	8,756,314	1,600	8,757,914	
Fire Control Convergence	641,851		641,851	

3.40 Human Resources and Development

Lead Officer: Assistant Chief Officer

People are the organisation's most important resource and the role of the Human Resources and Development Department is to ensure that the Service has the right people in the right place at the right time with the right skills and competence properly to meet the needs of the organisation and that individuals gain the maximum satisfaction from their jobs.

Budgets

	Staff Budgets	Other Budgets	Total Budget 2006-07	Capital
Human Resources and Development	903,471	867,246	1,770,717	
Human Resources	249,799	417,712	667,511	
Training & Development	653,672	449,534	1,103,206	50,000

3.41 Strategy and Performance

Lead Officer: Assistant Chief Fire Officer

The Performance Improvement Department comprises of three distinct teams that collectively provide a core support function to Shropshire Fire and Rescue Service. The Department is primarily responsible for the provision and maintenance of a modern and resilient communications and information infrastructure, and the management of risk and performance. In addition to supporting Brigade wide issues, the Department also acts as the organisation's primary point of contact and support to the West Midlands Regional Management Board.

Budgets

	Staff Budgets	Other Budgets	Total Budget 2006-07	Capital
Strategy & Performance	684,541	666,487	1,351,028	
Management of Risk	294,449	20,700	315,149	
Programme Office and WMRMB	229,261	29,800	259,061	65,000
ICT	160,831	615,987	776,818	120,000

3.42 Resources

Lead Officer: Head of Resources

The Resources Department is responsible for ensuring that employees have the resources (including buildings, vehicles and equipment) and supplier support they need to provide an effective, safe and efficient service. The Technical Services Team has the specialist skills to manage the wide range of resources and suppliers used by the Service. The team also provides procurement and environmental management for the whole Service. The Service's workshops provide an in-house maintenance service for vehicles and specialist equipment.

Budgets

	Staff Budgets	Other Budgets	Total Budget 2006-07	Capital
Resources	377,912	1,683,407	2,061,319	
Technical Services	235,810	1,606,097	1,841,907	1,380,000
Workshops	142,102	77,310	219,412	

3.43 Overall Revenue and Capital Budget 2006-07 Allocation

As can be seen from the table below, the complete revenue and capital budgets of SWFA are clearly delegated to departmental heads. Further delegation of budgets is then the responsibility of those departmental heads, with budget monitoring information provided to individuals on a monthly basis and discussed at the Service's Policy Group on the same timescale. The Fire Authority also, of course, regularly monitors its budgets through its full meetings and through its Strategy and Resources Committee, whilst the Audit and Performance Management Committee of the Fire Authority additionally provides a robust forum for challenge on all budget matters.

3.44 Overall Budgets

	Staff Budgets	Other Budgets	Total Budget 2006-07	Capital
Executive	563,486	1,850,139	2,413,625	
Community Safety	10,664,125	35,460	10,699,585	
Human Resources and Development	903,471	867,246	1,770,717	50,000
Strategy & Performance	684,541	666,487	1,351,028	185,000
Resources	377,912	1,683,407	2,061,319	1,380,000
Grand Total	13,193,535	5,102,739	18,296,274	1,615,000

Revenue Budget 2006/07			18,296,274	
Capital Programme 2006/07				1,615,000

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RISKS AND RESERVES

3.45 The Fire Authority has carefully examined its need for a general reserve and particularly the assumptions on which the need has been assessed. It has also established a number of reserves and provisions, which have helped quantify and clarify the need for a general reserve, and will also help reduce the financial pressure on services in future years. The statement of reserves and provisions is set out below and Members have approved this as a basis for budgeting in 2006/07 and beyond. The approach to establishing reserves and provisions, together with the assumptions about pay and prices, has ensured that robust budgets can be set for the medium term.

Provision or Reserve	Balance 1 April 2006 £000	Expenditure 2006/07 £000	Income 2006/07 £000	Balance at 1 April 2007 £000
Provisions				
Transitional Funding	201	100-	-	101
Equipment Replacement	100	15-	15	100
Reserves				
Retained Service	-	-	-	-
Efficiency	100	50-	-	50
Pensions Liabilities	400	50-	-	350
Bad Weather	250	-	-	250
Capital Reserve	550	340-	72	282
General Balance	791	-	-	791

3.46 The General Balance represents approximately 4.3% of the overall revenue budget and is, therefore, generally in line with Audit Commission recommendations regarding levels of reserves.

SUMMARY

3.47 In setting its revenue budgets for 2006/07 to 2008/09, SWFA has taken account of a number of factors as summarised below:

- SWFA received improved grant settlements for 2006/07 and 2007/08;
- In responding to the Government's consultation on the grant settlement, SWFA highlighted a number of areas where the council tax payers of Shropshire and Telford and Wrekin continue to be penalised through the revised funding system - namely, through lack of recognition of the impact of sparsity, through the massive negative impact of 'flooring', and through significant losses from unexplained 'previous years' amendments';
- The improvement in grant settlements offered SWFA the opportunity to set a nil increase in precept for 2006-07;
- The need to take into account efficiencies made through their IRMP and for substantial investment in the Retained Service, however, required a precept increase for 2006/07 of 4.5% and for 2007/08 of 4%. This approach was widely supported by all political parties on SWFA;
- Consultation with the public and stakeholders also provided widespread support for such an increase;
- In continuing to drive its longstanding strategic aims for the Service, SWFA manages its budgets through five separate departments each with its own delegated budget responsibility; and,
- SWFA has established a number of reserves and provisions, which have helped quantify and clarify the need for a general reserve, and will also help reduce the financial pressure on services in future years.

SECTION 4

Value for Money Strategy

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DELIVERING VALUE FOR MONEY - METHODOLOGIES

4.1 The Authority has a number of methodologies and structures for promoting and delivering value for money. These are summarised below:

Prudential Review

4.2 The key methodology is the Integrated Risk Management Planning process, led by a Working Group of key Members of the Authority. This is at the heart of delivering wide-ranging innovation to the way the Service is managed and delivered. It looks at fundamental issues and as such is likely to deliver the largest shifts in use of resources through examining staff deployment, use of property and the vehicle and appliance fleet.

4.3 The results of the IRMP Working Group's reviews are fed into the budget process each year following appropriate consultation with stakeholders and the public.

Authority Policy

4.4 The Authority regards the objective of providing value for money as a key part of its culture and two of its policies reflect this:

- The ambition that service developments should be expected to be funded from efficiencies. This is built into financial planning for the next three years.
- An open approach to delivery of the Government target for efficiencies for the Fire Service as a whole.

4.5 Although the target is acknowledged as a national average, and not all authorities will be able to make 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:

On-going efficiencies	<u>2005/06</u> £000	<u>2006/07</u> £000	<u>2007/08</u> £000
2004/05 Final	167	167	167
2005/06 Target (Revised)	243	236	236
2006/07 Target	-	308	308
2007/08 Policy Target	-	-	179+
	<u>410</u>	<u>711</u>	<u>890+</u>
National Target Disaggregation	<u>210</u>	<u>630</u>	<u>890</u>

4.6 The £179,000 plus policy target for 2007/08 is the balance needed to fund £890,000, i.e. the national disaggregated target. Efficiencies would not, however, be restricted to this, and equally, if efficiencies fell short after exhaustive work, then this would not be regarded as a failure in itself.

Comparisons and Benchmarking

- 4.7** The main thrust is through using best practice as demonstrated in the examples emerging from the Authority's annual efficiency statements. Apart from those generated directly by the Authority, partnership working through the West Midlands Regional Management Board alerts us to local opportunities and experience.
- 4.8** The Authority also 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.
- 4.9** Finally, the Authority examines each year, the variations in costs as shown in the CIPFA Fire Service Statistics. Members then expect 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.

Growth and Savings during the Budget Process

- 4.10** As a result of the policy of funding growth from efficiencies, the Authority will continue the current practice of examining the scope for efficiencies within the national target. Officers will bring forward potential cost reductions, together with any service implications for Members to consider as part of the budget process, and, if necessary, formally consult with the public.

Base Budget Reviews

- 4.11** Since 1999, the 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 progress 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 reducing budgets in a formal way. This could be either as a result of realism, i.e. events outside the Authority's control, or as a result of work by officers to obtain efficiencies, i.e. savings with no reduction in service.

Effective use of IT

- 4.12** The 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.

Effective Corporate Procurement Mechanisms

- 4.13** The 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.
- 4.14** Recent examples include contracts with Images at Work, which have replaced the need to hold stock and provided incentives to drive down costs or limit price increases.

Achieving Economies through Joint Working

- 4.15** The 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.

Customer Feedback

4.16 The Authority has been highlighted as having an effective annual consultation process with the public on IRMP 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, e.g. dealing with and helping reduce road traffic collisions.

Scrutiny

4.17 The 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

4.18 The Authority uses internal audit to evaluate its internal control systems, including those 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 systems are accurate so that informed management decisions can be taken.

4.19 Internal audit also questions current practices, and suggests improvements. This is helped by the employment of internal audit services from Shropshire County Council, who can bring examples of good practice particularly in the operation of common systems, e.g. creditors and payroll.

Performance Management

4.20 The Performance Plan sets out 5 aims and 17 corporate objectives leading to shared priorities and primary aims within them. 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 Authority.

4.21 The shared priorities and primary aims are also embedded in the Business Department structure and set out in their Business Plans. This enables the Authority to focus its efforts and resources on achieving its targets, measured by the key performance indicators, as well as meeting shared priorities.

Organisational Structure

4.22 The 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 Business 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.

The Authority believes that this infrastructure is necessary in order to secure value for money across all activities.

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SECTION 5

Overview of Capital Investment Plan 2006-09

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CAPITAL INVESTMENT PLAN

- 5.1** SWFA's Medium Term Financial Plan is led by the work of Integrated Risk Management and the desire to use capital investment to achieve best value services within that context. The key to this is to identify where fire appliances would best be located, taking into account both current and future risks.
- 5.2** Within that overarching objective is firstly the need to deal with the issue of the Brigade Headquarters and the associated services housed on the same site, together with the location of appliances within Telford to ensure they are most effective. The second important matter is the maintenance of the existing asset stock and particularly the replacement and/or reconfiguration of the vehicle fleet. Finally, the Authority needs to deal with technological change and innovation, ensuring that best value is maintained – whether that be in management systems or new equipment to deal with incidents.

Proposed Capital Investment Plan

- 5.3** Summarised below by Business Group is the proposed investment plan. Details of the projects and schemes can be found in the Budget Book.

	2006/07	2007/08	2008/09
	£000	£000	£000
Strategy and Performance	185	50	310
Human Resources and Development	50	30	30
Resources	1,380	1,295	2,015
Service Delivery		150	
	<u>1,615</u>	<u>1,525</u>	<u>2,355</u>

- 5.4** The most significant elements of SWFA's investment plans are as follows:
- Maintaining existing facilities at Shrewsbury, Telford and at retained stations, followed by improving the Service's efficiencies and effectiveness at both Telford in 2007/08 and Shrewsbury the year after;
 - Renewing appliances, as required by the fleet replacement policies derived from best value studies;
 - Investing in prevention which is one of the key service development focuses; and
 - Maintaining training facilities consistently throughout the period.

Government Support

- 5.5** Government support for capital historically has been low. Prior to introduction of the Prudential System in 2004/05, borrowing was limited to about £300,000 a year. This was in the context of one replacement appliance costing about £170,000. The consequence was a reliance on leasing, particularly operational leasing to obtain vehicles and equipment.
- 5.6** The Combined Fire Authority, therefore, inherited a large leasing cost from Shropshire County Council in 1998/99, when it was created, although, in common with other CFAs, no debt, which remained with the County Council.

- 5.7** The Government supports Fire Authority capital investment by providing capital grants, but mainly through making an increase in revenue grant, which can then be used to underpin increased borrowing costs arising where capital expenditure is financed from loan. Although such grant aid is slightly above levels of borrowing approved under the previous capital regime, i.e. equivalent to about £400,000 of capital expenditure, this is insufficient to meet current and predicted future investment needs.
- 5.8** SWFA will, therefore, be making use of prudential borrowing, including leasing, whilst being alert to the opportunity to use capital receipts, direct revenue/capital resources, or potentially private finance or other collaborative funding. In the case of the latter, this is likely to be in partnership within the region.

SWFA's Investment Approach and Strategy for Resource Allocation

- 5.9** All projects are subject to an investment appraisal, which tests whether the schemes are really required to deliver service priorities and strategies economically and efficiently. Only when robust testing of the project appraisal and business case for each scheme has been completed is it included in the Authority's budget and service plans and allocated to a management department for delivery.
- 5.10** Information on existing assets is used to determine budget allocations for capital maintenance in order to sustain and modernise existing service levels effectively. This is particularly relevant to fleet management and the maintenance and upgrading of retained stations.
- 5.11** New investment will always be led to a large extent by the Integrated Risk Management process, including public consultation. Key to this is the strategy towards redeploying effectively the services provided from Brigade Headquarters. Currently, attention is being paid to effective upgrading and maintenance of standards but without risking unnecessary expenditure, which might prove redundant, subject to future developments, e.g. the affect of control room regionalisation. Another key issue will be the approach to delivering effective services in Telford, where concern is to ensure that appliances are positioned most effectively to cover risks to homes.

Capital Resources

- 5.12** IRMP and its implication for Shrewsbury and Telford, the need to renew and replace existing assets plus other investment needed to deliver the Authority's programmes, will mean that capital investment will exceed the likely amounts supported by the Government, or provided from disposing of assets. SWFA is, therefore, proposing to make additional use of prudential borrowing in its 2006/09 plan. It is clearly welcome that the new prudential regime gives the Authority freedom to integrate fully its revenue and capital planning. The Authority is, however, also very conscious of the impact this may have in building up revenue consequences in future years when capping is a real risk.
- 5.13** The three-year revenue and capital plan adopted by the Authority does appear feasible in terms of the prudential indicators, known other commitments, including inflation, and current understanding of likely Government grant settlements. The Authority has, however, taken what it considers to be a prudent step in establishing a capital reserve, which it hopes will make its capital investment more likely to be achievable.

Its investment plan resourcing can be summarised as follows:

	2006/07 £000	2007/08 £000	2008/09 £000
Prudential borrowing			
- Support by government	411	411	411*
- Balance	864	1,034	1,652
	1,275	1,445	2,063
Capital Reserve	340	80	292
Capital Receipts	-	-	-
Revenue	-	-	-
Grants and other external funds	-	-	-
	1,615	1,525	2,355

* Circular FRS58-2005 only shows 2006/07 and 2007/08.

Loan

5.14 Affordable borrowing is estimated at £1,275,000 in 2006/07. The plans for borrowing across the three-year plans are currently considered affordable. The Authority is conscious of the opportunity to undertake leasing, either operational or finance leasing, and expects the whole-life costing of alternatives between borrowing and leasing to be undertaken for all major fleet renewal or replacement. In previous years cost differences have been marginally in favour of borrowing, which, together with the operational benefits of outright ownership, have resulted in a move towards borrowing or revenue funding and away from leasing.

5.15 Section 5 of the Plan sets out the treasury strategy that supports the estimated borrowing and Appendix A to the Plan details the prudential indicators for capital expenditure and treasury management.

Capital Receipts

5.16 Services can be improved or replaced by using capital receipts arising from associated property or land to fund a new or updated facility. Although no such receipts are currently shown, the Authority is mindful of the opportunity costs of owning underutilised assets and is constantly re-evaluating its asset base. In particular, the Authority is aware of the potential value of its Headquarters site, although the cost of replacement (particularly as the site and buildings are substantially debt free) will present funding challenges.

Grants and External Funding

5.17 At present no capital grants or external funding are anticipated, although monies for New Dimension work has been forthcoming at relatively short notice in previous years. The Authority is also conscious of the opportunity to obtain external revenue support from sharing its facilities, although initiatives with other emergency services have not come to fruition. Close regional working may however, offer some opportunities in future or, indeed, enable capital receipts to become available.

Capital Reserve and Revenue

- 5.18** In 2005/06 the Authority established a capital reserve largely through windfall gains from firefighter pension provisions, which became redundant with the changes to funding the new arrangements. The reserve will be supplemented by future windfalls and by replacement contributions for assets funded from the reserve.
- 5.19** The key objective of the reserve will be to deal with major future changes coming from IRMP but it can also be used for small, one-off investments, where borrowing may not be appropriate, such as IT and other systems innovation.

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SECTION 6

Treasury Strategy 2006 to 2009

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TREASURY STRATEGY

- 6.1 The Authority recognises the importance of Treasury Management to the economy and efficiency of its finances. It also recognises that delivering quality services in this area requires expertise and skills that cannot be delivered cost effectively in-house.
- 6.2 SWFA, therefore, employs Shropshire County Council to manage its treasury functions, who have in turn appointed external advisors to support. The Authority has also linked its appointment of bankers to that of Shropshire County Council in order to benefit from efficiencies in tendering, cash flow management and investment.

Long Term Borrowing

- 6.3 At 31 March 2006, long-term borrowing to fund capital expenditure was £4 million. This reflects the fact that outstanding debt incurred before 1 April 1998 was retained by the predecessor authority, Shropshire County Council. Initially debt grew to reflect a policy of maximising the use of capital approvals based upon the revenue costs being met from revenue support grant and, therefore, being broadly affordable within the overall grant settlement. In addition, extensive use of operational leasing was used to replace fire appliances and other parts of the fleet, which continued the policy of the former Authority. This was largely dictated by the low level of borrowing approvals and the lack of alternative sources of funding, such as capital receipts. Any windfall revenue has, however, been used to replace leasing, where this has come available.
- 6.4 With the new Prudential Code, the Authority has been able to use Prudential borrowing instead of leasing, when this was either financially neutral or beneficial and also delivered service advantages, such as flexibility or reduced administrative costs. The Authority will continue with this policy, borrowing if possible from the Public Works Local Board (PWLB).

Short Term Investments

- 6.5 Since April 2004/05 the Authority has been able to retain surpluses and create reserves and provisions. This has meant that its daily surplus cash balance has risen.
- 6.6 The main concern in investing surplus funds is security, and the Authority will only lend to those institutions whose credit ratings are acceptable both to Shropshire County Council and itself. Key secondary concerns are liquidity and yield or return. Use has, therefore, been made of money market funds, which allow relatively small daily balances to be pooled and invested at significantly higher rates than could be achieved directly.
- 6.7 The Treasurer maintains a list of agreed counterparties to ensure that borrowers are acceptable, which comprise banks, building societies, local authorities and money market funds. Shropshire County Council's Treasury Management Practices are also monitored and the Authority's own practices reviewed regularly.

Prudential Indicators

- 6.8 The Authority recognises its legal obligation to comply with the Prudential Indicator regime and code, and that this gives it the essential information during the budget

process as to whether its investment plans are affordable, prudent and offer value for money. The three-year capital investment plan is, and will in future be, checked for its sustainability.

Strategy Proposals

6.9 Long-Term Borrowing

- **Active Debt Management**
The Treasurer, with advice from Shropshire County Council, will consistently review opportunities for debt rescheduling, if this will deliver annual savings.
- **Timing of Borrowing**
Borrowing is currently at historically low rates. In general, therefore, timing of borrowing will be matched to capital investment, although advice about borrowing in advance or later during years will be evaluated;
- **Periods of Borrowing**
The current policy of borrowing for up to 30 years from the PWLB will be maintained, bearing in mind the maturity profile established through the Prudential Indicators.
- **Fixed or Variable Borrowing**
Under current circumstances, SWFA will borrow at fixed rates. If rate patterns change, then variable rate borrowing may prove advantageous and would be considered then.

6.10 Leasing

All funding of vehicles and fleet will be annually appraised to ensure that leasing does not offer potential benefits. These will be evaluated against costs and disadvantages of leasing before a final decision is taken.

Short Term Investment

- 6.11** SWFA would not invest for more than 12 months given the current level of balances and the need to ensure liquidity. The situation will, however, be reviewed in order to secure any future increased yields from longer-term lending.
- 6.12** Given the paramount importance of security of investments, investment will be limited to those banks, building societies, public authorities and money market funds that are acceptable to Shropshire County Council and the Treasurer of the Fire Authority.

Treasury Management Practice – Credit and Counterparty Risk Management

- 6.13** The Authority is aware of the need to invest prudently. The investment guidance issued by the Office of the Deputy Prime Minister and the department for Communities and Local Government, including the need to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes will, therefore, be followed.

Governance Arrangements

- 6.14** The budgets for long-term borrowing and short-term investment are part of the Executive Business Department. The Treasurer is lead officer for treasury matters. Decisions are taken by the Authority.
- 6.15** Shropshire County Council, advised by Sector Treasury Services, provides Treasury Management Services and advice. Its practices are monitored and the Authority's own Treasury Management Practices updated regularly.

Performance Measurement

- 6.16** The CIPFA Code requires performance measures to be set. These are:
- Debt Average Rate measures the average interest rate of the debt portfolio each year; and
 - Investments. The interest rate achieved is compared with the average 7 day loan rate to ensure that returns are maintained, despite the short-term nature of some available cash balances.

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SECTION 7

Budget Risk Assessment

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BUDGET RISK ASSESSMENT

The Budget Risk Assessment that led to the current disposition of reserves, provisions and balances is as follows:

Risk	Probability (High, Medium, Low)	Impact on 2006-09	Scope to Mitigate Risk
Demand/Demography Issues			
1. Growth in population	H	L	Part of IRMP analysis using FSEC. Built into medium-term plans
2. Weather conditions and impact on the Retained Service – drought/flood	M	M	Create a budget based on annual averages and use a reserve to receive under-payments and meet over-payments
Funding Issues			
3. Cash flow. Impacts of changes in grant funding, e.g. top-up grant for pensions	L	L	Maintain and monitor cash-flow forecasts
4. Uncertainty over specific grants, e.g. New Dimensions or joint arrangements, such as shared costs of Regional Management Board (RMB)	M	M	Constantly monitor the situation to update risk appraisals. Lobby for continuing or bettering the existing financing
5. Available reserves and provisions. Risks of dealing with major one-off events and/or uneven incidents of expected expenditure	M	M	From a position of no reserves in April 2004, build up a general reserve based on an assessment of risk, and create more specific reserves and provisions, where this is appropriate

Risk	Probability (High, Medium, Low)	Impact on 2006-09	Scope to Mitigate Risk
Funding Issues continued			
6. Firefighter pension costs. The new arrangements may present unexpected budget issues. Ill-health and injury awards will also fall unevenly	H/M	M	Closely monitor new budgets, establish specific reserves, manage down potential ill-health retirements and ensure health and safety processes are followed to minimise injury awards
7. Capping. A major issue directly affecting service plans, as well as leading to potential re-billing costs	L	H	Ensure precept increases are judged in the context of potential capping levels, currently 5%. Also pay attention to notional calculations and possible use of expenditure increases in tandem with precept rises.
Specific Departmental Risks			
8. Efficiencies. Ensure efficiencies are achieved, especially those through the IRMP process	L	L	Although only included in the budget if deemed deliverable, monitor to ensure no events change the situation. Incorporate into ongoing budget monitoring
9. Transport. Vehicle accidents are an unavoidable hazard	L-M	L-M	Ensure adequate insurance is in place both for vehicles and personnel. Also, provide a sufficient reserve for risks not insured, such as premature lease settlements

Risk	Probability (High, Medium, Low)	Impact on 2006-09	Scope to Mitigate Risk
Specific Departmental Risks continued			
10. Operational Risks. Especially technological or supply problems with IT, Telecoms equipment etc.	M	M	Ensure sufficient reserve, but develop and cost business continuity plans, including alternative sources of supply
11. Financial Control. Risks of unplanned overspend and fraud	L	L	Maintain and update financial control systems. Ensure a risk based audit plan is in place and its recommendations are followed
12. Capital Funding. Failure to deliver capital receipts, grants, contributions. Ensure the affordability of borrowing at levels currently above those accepted for grant purposes	L	L	Only commit to expenditure when funding is properly secured. Ensure financial regulations are complied with, especially regarding RMB projects. Ensure Prudential Guidelines are produced, agreed and monitored.
Costs and Prices			
13. Inflation assumptions prove wrong	M	M	Ensure an adequate, realistic provision is made by the Authority, when it establishes its provision for unknown changes to pay and prices. Involvement of Resources Department in negotiating locally or through regional or national purchasing organisations and Human Resources on staffing issues

Risk	Probability (High, Medium, Low)	Impact on 2006-09	Scope to Mitigate Risk
Costs and Prices continued			
14. Pensions. Contributions to both the Local Government Pension Scheme (LGPS) and now the Firefighters' Scheme may be volatile	L	L	Ensure actuarial advice and change is planned in consultation with the LGPS administrators and built into the medium term plans
15. Health & Safety. Throughout all departments	M	M	Ensure investment is available to meet identifiable risks
New Legislation			
16. The position on Retained Service pensions prior to 1 April 2006	H	H	Keep in touch with the employers' representatives and be ready to work with the Government, if this becomes a major issue following the House of Lords' decision
17. Fire Control Arrangements. The cost implications of moving to a Regional Control in 2008/09	H	H	Monitor and respond to consultation. This could cause difficulties unless the Government can be pressed to accept its responsibilities under the "New Burdens" principle

APPENDIX A

Prudential Indicators

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Appendix A – Prudential Indicators

Affordability

1. Estimate of capital expenditure

Actual	2004/05	£1,188,000
Provisional Actual	2005/06	£828,000
Estimate	2006/07	£1,615,000
	2007/08	£1,525,000
	2008/09	£2,355,000

2. Estimate of capital financing requirements (underlying need to borrow for a capital purpose)

Capital financing requirement at 31 March

	2004/05 Actual £000	2005/06 Actual £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000
Capital Financing Requirement at 31 March	2,805	2,805	3,429	4,862	6,121
Annual increase in need to borrow		624	1,433	1,259	1,998
	<u>2,805</u>	<u>3,429</u>	<u>4,862</u>	<u>6,121</u>	<u>8,119</u>

In the light of current commitments and proposed plans reflected in the budget forecast, net borrowing by the Authority is not expected to exceed the capital financing requirement.

3. Estimate of ratio of financing costs to net revenue stream

Actual	2004/05	1.3%
Provisional Actual	2005/06	0.8%
Estimate	2006/07	1.6%
	2007/08	2.3%
	2008/09	3.1%

4. Estimates of the incremental impact of capital investment decisions on the council tax (over and above capital investment decisions taken in previous years)

Impact on Band D

	2006/07	2007/08	2008/09
	£	£	£
2006/07 Budget	0.62	1.35	1.35
2007/08 Programme		0.23	0.98
2008/09			0.42
	<u>0.62</u>	<u>1.58</u>	<u>2.75</u>

5. Operational Boundary for External Debt

The operational boundary for debt is determined having regard to actual levels of debt, borrowing anticipated in the capital plan, the requirements of treasury strategy and prudent requirements in relation to day-to-day cash management. This level of debt is monitored by the Treasurer and managed by Shropshire County Council on a daily basis. The boundary may be exceeded but the reasons must be identified and reported as soon as possible to Members and the Authority.

2005/06	2006/07	2007/08	2008/09
£000	£000	£000	£000
4,137	5,275	6,720	8,985

6. Authorised Limit for External Debt

The authorised limit includes additional allowances, over and above the operational boundary to provide for unusual cash movements. It is a statutory limit set by the Authority.

2005/06	2006/07	2007/08	2008/09
£000	£000	£000	£000
6,908	8,154	9,413	11,411

Prudence

7. Compliance with CIPFA Code of Practice for Treasury

The Treasurer ensures compliance through Treasury Management Principles and Practices of the Authority and that of the supplier of Treasury Management Practices in the County Council.

8. Upper limits of fixed interest rate and variable rate exposure

Borrowing

	2005/06	2006/07	2007/08	2008/09
Fixed interest rate exposure	100%	100%	100%	100%
Variable rate exposure	20%	20%	20%	20%

Investment

Fixed interest rate exposure	100%	100%	100%	100%
Variable rate exposure	20%	20%	20%	20%

9. Upper limits for maturity structure of borrowings

	Upper Limit	Lower Limit
	%	%
Under 12 months	30	0
12 months to 24 months	30	0
24 months and within 5 years	30	0
5 years and within 10 years	30	0
10 years and above	100	70

10. Upper limit for principal sums invested for periods longer than 364 days

Nil

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APPENDIX B

Glossary of Terms

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Appendix B – Glossary of Terms

Abbreviation	Definition
AC	Audit Commission
AES	Annual Efficiency Statement
BVPI	Best Value Performance Indicator
BVR	Best Value Review
CFA	Combined Fire Authority
CFOA	Chief Fire Officers' Association
CFS	Community Fire Safety
CIPFA	Chartered Institute of Public Finance and Accountancy
COMAH	Control of Major Accident Hazards
CPA	Comprehensive Performance Assessment
FRA	Fire and Rescue Authority
FRS	Fire and Rescue Service
FSEC	Fire Service Emergency Cover
FSS	Formula Spending Share
IRMP	Integrated Risk Management Plan/ning
IT	Information Technology
LGA	Local Government Association
LGPS	Local Government Pension Scheme
MTFP	Medium Term Financial Plan
ODPM	Office of the Deputy Prime Minister
PFI	Private Finance Initiative
PI	Performance Indicator
PWLB	Public Works Local Board
RMB	Regional Management Board
RSG	Revenue Support Grant
SFRS	Shropshire Fire and Rescue Service
SR02	Spending Review 2002
SR04	Spending Review 2004
SSA	Standard Spending Assessment
SWFA	Shropshire and Wrekin Fire Authority
SWG	Settlement Working Group
WMRMB	West Midlands Regional Management Board