

**Buckinghamshire
and Milton Keynes
Fire & Rescue
Authority**

Medium Term Financial Plan

2007/8 –2009/10

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MEDIUM TERM FINANCIAL PLAN 2007/8 – 2009/10

1. INTRODUCTION

1.1 This is Buckinghamshire and Milton Keynes Fire & Rescue Authority's three year Medium Term Financial Plan covering the financial years 2007/8 to 2009/10. It is prepared in support of the modernisation agenda of fire and rescue services that was introduced in the Fire and Rescue Services Act 2004 and detailed in National Framework documents.

1.2 Continuous improvement in the service is central to the Authority's vision:

Making you safer, by working together to reduce death, injury and damage to property, the environment and our heritage from fire and other emergencies. This will be achieved by balancing the provision of prevention, protection and response services.

In fulfilling its vision the Authority's current key priorities have been reviewed and there are three strategic aims which are:

- Intervene Effectively: respond effectively, efficiently, and safely to emergency and safety incidents;
- Improve Community Safety: reduce the incidence and severity of fire and related risks facing the community;
- Build Resilience: develop a sustainable, efficient and effective service for the community.

These strategic aims are in turn supported by seven objectives which are:

- Optimise the deployment of emergency personnel and resources based on the risk profile of the community we serve;
- Minimise the harmful effects of emergency incidents to life, the environment, property, the economy and our heritage;
- Minimise the number of deaths and injuries arising from fire, transport and other civil emergencies;
- Reduce the number and impact of fire and other emergency incidents;
- Contribute to the development of stronger, more self-sufficient and cohesive communities;
- Develop and maintain a healthy, competent, highly motivated and flexible workforce that appropriately reflects the community it serves;
- Ensure that Buckinghamshire Fire & Rescue Service delivers value for money to the community it serves by ensuring that financial and other resources are properly deployed and accounted for.

1.3 Since the Authority was created in April 1997 as a result of the reorganisation of Local Government it has demonstrated its efficient use of resources and sound financial management in the delivery of services. The continuous development of three-year financial plans will provide a sound platform for future decisions on expenditure.

2. EXECUTIVE SUMMARY

- 2.1 In updating the three year financial plan, the Authority uses a planning process, which incorporates integrated risk management planning, community safety planning and other aspects of service delivery. In addition the Authority has developed an effective strategic risk management process, which identifies key risks and what controls are needed to be in place to manage these risks. A series of workshops was held during November which reviewed our risks and set three main aims for the organisation, supported by seven main objectives. The financial implications arising from these planning processes have fully integrated into the annual budget requirements. These plans have implications for future years and the Medium Term Financial Plan provides the financial framework within which budgeting and funding decisions are being made. The updated IRMP has been written and is available on the Authority's website.
- 2.2 The development of the financial framework takes into consideration a number of influencing factors, which are summarised below and covered in more detail in the following pages.
- i) **National Context** -the Authority has to consider the overall resourcing constraints set out by the Government. The end of the 2004 CSR and the possible implications for the tightening of spending in the public sector in the next three years have been taken into account in updating this Medium Term Financial Plan.
 - ii) **Service Pressures and Objectives** -in recent years the Fire and Rescue Service has come under much scrutiny and the introduction of the Fire and Rescue Services Act 2004 represents the most comprehensive reform of the statutory framework for more than 50 years. The Government regularly produces a National Framework, which sets out the Government's expectations for the Fire and Rescue Service priorities and objectives, which are then interpreted into local priorities and objectives. This Authority has also sought to respond to weaknesses highlighted in the Comprehensive Performance Assessment carried out by the Audit Commission in 2005.
- 2.3 Following consideration of these guiding factors estimates of financial impact are incorporated in the revenue and capital plans. The estimates for future years will be refined as more detail emerges. At present the estimates are based on the most reliable current information, but it is recognised the information will change over time.
- 2.4 The Authority budget has been historically low in comparison to other similar areas and the council tax precept was increased by 6.38% in setting the 2006/7 revenue budget in order to provide funding to address the lack of capacity identified by the Audit Commission in 2005. The overall cost per head of population for 2006/7 was £32.21, the sixth lowest in the country. The budget set for 2007/8 has increased council tax increase by 4.95%. At £52.33, this is the fifth lowest Band D council tax for combined fire authorities where the average Band D is £59.43.

3. NATIONAL CONTEXT

3.1 Budget planning must take place within the context of the national economic and public expenditure plans. This part of the plan sets out the broad assumptions used for preparing the budget and medium term financial plan.

- i) The Office of the Deputy Prime Minister now regularly reviews and publishes a **Fire and Rescue National Framework**, which sets out the expectations on a local, regional and national basis. It indicates timetables for achievement and focuses on implementation of modernisation for Fire and Rescue services
- ii) Sir Peter Gershon undertook an efficiency study as part of the Spending Review 2004 and identified a target level of efficiency gains for Local Government of £6.45 billion by 2007/2008. The study also applied to the Fire and Rescue Service and the Office of the Deputy Prime Minister (ODPM) has assumed its own efficiency target for the Service of £105m by the end of 2007/2008 equivalent to around 5% of total 2004/2005 expenditure. These efficiency gains are to be retained locally for reinvestment in front line services in accordance with the principles of the Gershon Review. This Authority has set a target of £1.15m efficiency gains by the end of 2007/8 to ensure it contributes adequately to the national objective.
- iii) Following the Local Government Act 2003 the Authority became a precepting Authority setting its first ever precept for 2004/2005. This change improved the transparency and accountability surrounding the cost impact of the Service on **Council Tax** payers. This allows the Authority to take into consideration Government announcements on the need to minimise council tax increases. In 2005/6 and 2006/7 the Government set expectations that average increases be less than 5% and it has powers to limit increases of individual authorities if it consider these excessive. The Authority chose to increase its council tax precept by 6.38% in 2006/07 in order to provide capacity to address some of the weaknesses identified by the Audit Commission in 2005. The increase for 2007/08 has been 4.95%.
- iv) The Government introduced **three-year settlements** for revenue and capital, commencing 2005/6, to strengthen the ability to plan over an extended period and provide the opportunity for improved investment. The level of settlement increase proposed for the 3 year period following the spending review 2004 was:

2005/6	2.7%
2006/7	3.3%
2007/8	3.8%

The Revenue Grant calculation method has changed once again for 2006/7 and along with other changes, such as pensions, makes comparison with earlier years more difficult. The net effect has been calculated by Government to ensure minimum grant increases match the three-year settlement. This has assumed reduced financial needs and the announcement in December 2005 indicated revised increases of:

2006/7	1.5%
2007/8	2.7%

The Authority is awaiting the outcomes of the next Comprehensive Spending Review which will be announced in the autumn of 2007 and has made some working assumptions in order to set the three year financial plan to 2009/10.

- v) The **Fire-fighter's Pension Scheme** was 'unfunded' which means that all pension expenditure, whether lump sums or regular monthly payments, were met directly from the Authority's revenue budget, as no investment fund existed to which such costs could be charged. It was originally believed that the pensions burden would reach a point of equilibrium where costs were matched by the regular contributions from fire-fighters but improvements in health and safety and the improved lifespan of the general population have meant that this point has never been reached. The position was likely to reach a peak in the next few years when changes to recruitment patterns in the early 1970s fed through. The Government introduced significant changes which took effect from 6 April 2006. A fire-fighter's Pension Fund has been created and contributions from the employee and the employer are paid into the fund monthly and pension liabilities are met from this fund. The shortfall, previously met from the Authority's revenue budget, is now met by the Department for Communities and Local Government.
- vi) Significant changes have been made to the way in which Local Government can borrow to fund its **capital investment** following the Local Government Act 2003, which replaced of the credit approvals system with a prudential regime. This change gives authorities the power to borrow without the need for Government consent provided they can afford to service the debt and the repayments. As part of the Local Government Finance Settlement each year the Government indicates the amount of supported capital expenditure each authority can expect to receive, that is, an amount is factored into the revenue support grant to fund the interest charges on an amount of capital borrowing. The figure for 2007/08 is £637k. Although this change has given greater freedom to invest in the Authority's infrastructure than ever before, the Authority is required to take a prudent view of the liabilities it undertakes for borrowing and factor this into the medium term financial plan.
- vii) The Authority continues to pursue opportunities to access **other sources of funding** for the delivery of its service. Currently agreement has been reached to gain Performance Reward Grant from involvement in Buckinghamshire County Council's Public Service Agreement. In addition, there are specific grants awarded to the Authority from the Department of Communities and Local Government each year. The grants announced for 2007-08 are:

New Burdens work (Regional Control Centres)	£121k
Innovation Fund (Community Safety)	£40k
Home Fire Risk initiative	£96k

Further grant funding is expected for the Urban Search and Rescue crewing grant (2006/07 £720k) but this has not yet been announced.

- viii) The Fire and Rescue Services Act 2004 repealed the authorisation under the Fire Services Act 1947 which allowed Fire and Rescue Authorities to charge a profit for certain services which they provided on a commercial basis, unless undertaken through a company. Authorities are however, allowed to charge and charges must be limited to cost recovery. Finance and General Purposes Committee (30 March 2007) has reviewed our position adopted a revised policy for services which the Authority will charge for in the future. The charges will be set out in a revised operational circular note which will be available to the public on the website.

4. SERVICE PRESSURES

- 4.1 Fire and Rescue Services are in the process of undergoing fundamental changes to the way in which the service is delivered. Since the late 1990's the service has been shifting the emphasis away from the reactive approach to a more proactive culture. The Fire and Rescue Services Act 2004 supports the change in emphasis and replaced the Fire Services Act 1947. The new Act recognises and expands the rescue role of the service as well as the newer challenges of preventing fires and making communities safer. There is now a duty to promote fire safety, rescue people from road traffic accidents and respond to other types of emergency, such as flooding. Each Fire and Rescue Service has prepared an **Integrated Risk Management Plan** that is updated at regular intervals. The Integrated Risk Management Plan assesses the local needs, within a national framework, and expresses the service improvement in action plans. The Medium Term Financial Plan is focussed on providing the financial resources to achieve the outcomes described in the Integrated Risk Management Plan.
- 4.2 In addition to the service-specific legislative changes other developments need to be taken into account in the coming years. Many of these will flow from socio-economic changes including population change, demographic shifts, and the growth in flexible working practices such as home working. The added cost pressure of operating in the South East of England will also influence spending needs for the future.
- 4.3 The following paragraphs seek to assess the impact of these changes over the medium term.
- i) **Community Safety and Risk Management** - the shift of emphasis away from reactive fire fighting to proactive prevention measures continues to be challenging. The challenge is to maintain, and enhance, the emergency response capability whilst targeting prevention programmes that provide improvements in community safety. Significant progress has already been made in arson reduction. A major focus of this approach is to work with other agencies in partnerships, e.g. Crime and Disorder Reduction Partnerships, Local Strategic Partnerships. There are 'rewards' available if preventative programmes can be incorporated into Local Public Service Agreements and Local Area Agreements. Programmes often need to be 'pump primed' in the early stages before any tangible benefit can be delivered.

- ii) **A fully fledged emergency service** -the Government and the public expect a wide-ranging and comprehensive response to emergencies. The Fire and Rescue Services Act 2004 and the Civil Contingencies Act 2004 make this a clear duty. Fire and rescue authorities, in recognition of the needs of a 21st century service, have encouraged the statutory change. A significant area for increased activity involves national resilience. This is defined as ‘the ability to manage disruptive challenges, such as terrorist attacks, chemical, biological, radiological or nuclear (CBRN) incidents or major flooding that can lead to or result in crisis’. Much of the Authority’s approach to this issue is through regional working within the South East with the majority of the revenue funding provided by Government. In future years it is anticipated that the Authority will progressively need to support this activity within its own resources.
- iii) **Developing People** – there is a clear recognition that, as part of the improvement process, the skills and capabilities of our employees will require significant attention. This is being delivered through the Integrated Personal Development System, which is an extensive change for the service. This new approach requires resourcing and, as well as additional funds for training, the Authority needs to invest in technology and systems to assist in the delivery of training and in the recording methodology for maintaining information on personnel competencies. Workforce development also embraces the health and welfare of personnel, as well as equality.
- iv) **Working with others** -partnership working is now seen as essential to the achievement of the Authority’s aim and objectives but there are other aspects to partnership working which merit separate reference. As part of the redefinition of roles for delivering the duties under the Fire and Rescue Services Act 2004 it was recognised that some activities were the responsibility of Government, such as setting overall objectives for the Service, some were for local Fire and Rescue Authorities, such as risk management planning, and some were best carried out at a regional level. Working in partnership at regional level has been achieved for many years. This has been placed on a firmer footing by the creation of Regional Management Boards which provide a framework for collaboration and innovation in identifying efficiencies, procurement opportunities, better training and access to specialist services etc. The Regional Management Board for the South East, which is constituted as a Joint Committee under the Local Government Act 1972, has a business plan which contains limited financial data. The work stream for the Regional Control Centre will feature significantly in the forthcoming period and consume staff resources to deliver the project. The Authority continues to need its own control room until the regional control room goes live and this will create its own particular financial and management challenges.
- v) **Improvement Plan and Capacity** – the Comprehensive Performance Assessment of 2005 provided strong evidence that the Service lacked the level of corporate capacity to sustain ongoing and consistent improvement. Some of that capacity has been realised by re-aligning current resources but the rest required investment to ensure the relevant skills were available. This formed part of the Comprehensive Performance Assessment Improvement Plan. The Comprehensive Performance Assessment carried out in the latter half of 2006 has indicated a huge improvement in the organisation and during 2007 the Authority is to participate in the Audit

Commission's re-categorisation pilot programme, the results of which will influence whether it seeks a full re-categorisation audit in late 2007 or 2008.

4.5 **Base Budget Commitments** -The Authority's net budget requirement for 2007/08 is £26.362m. This can be analysed in financial terms over a small number of headings and their impact on future planning considerations is outlined below, in table 1. In preparing the budget for loading into the SAP system for 2007/08 there has been a major review of all the budgets, although not a completely zero based approach which the Audit Commission set as the target in the Comprehensive Performance Assessment 2005. However, it has been achieved by aligning the employee budgets for cost centres with agreed establishment figures. The retained staffing budgets could not be set this way and were set according to the current cost of the establishment with the additional growth funds being added. Other budgets to have been completely reviewed were the car leasing and purchasing budgets and the uniform budgets. Further reviews for the new Property, Procurement and Transport department will be further revised as the functions of the new department evolve.

- i) **Employees** -delivery of the service, particularly fire fighting, relies on having the right number of people available when needed. This is similar to other public service providers and is reflected in the high percentage of budget for staff. For the Authority employee costs amount to £23m or 79% of the gross budget. As a result the impact of pay awards is a significant factor in projecting expenditure. National negotiating bodies determine pay awards and, other than through the Employers' representatives on the negotiating team, the Authority has no direct influence on the outcome. The three year settlement negotiated in 2003 expires in June 2007. The outcome of negotiations for the future settlement is as yet unknown and therefore a planning assumption has been made in setting the budget of a 3% pay award.

The proportion of time spent on emergency response duties is quite small and therefore the only way to maintain skills is by simulation and training. Dealing with emergencies is also often highly dangerous and the need to pay attention to health and safety requirements for fire-fighters is an essential feature of training activities. The figure above includes training costs.

- ii) **Pensions** – As mentioned above pension funding has changed with effect from 6 April 2006. The Authority, however, continues to be responsible for ill-health retirement costs of fire fighters who belong to the 1992 Fire fighter's Pension scheme. The Government will now be funding the Authority for the difference between the employee and employer pension contributions into the fund and the pension liabilities, including lump sum retirement benefits that the Fund pays out. This funding is by way of payment in July in each based on estimates previously submitted and adjusted at year-end to reflect the actual needs.
- iii) **Premises** –rescue crews are located throughout the County to be able to respond quickly to any area. Currently 20 stations are maintained, along with a Headquarters, support office and Control Centre in Aylesbury. These assets require regular maintenance to meet the basic health and safety and welfare considerations of its employees and protect the original investment in the facilities. The premises budgets fund the normal running costs of the buildings (rates, water, electricity, etc) as well as some maintenance funds.

Funds are also held within the capital budgets to fund major repairs and maintenance and refurbishment as well as funds for new build projects when the facilities require replacement from time to time as they reach the end of their economic life, or requirements change.

- iv) **Transport** -a key consideration for the cost drivers of the Fire and Rescue Service is that unlike many other public and local Authority services the main point of service delivery can be anywhere within its area of responsibility and at any time of the day or night. This requires a highly mobile workforce capable of operating in extreme conditions and all terrains. The fire appliances are purchased through the capital programme, but the on going maintenance of these vehicles is provided by our in-house workshop and the costs recharged to the Operations directorate. Furthermore, there are a fleet of lease cars for staff which are also maintained by the workshop. The Authority provides some lease cars to Oxfordshire Fire and Rescue Service, the costs being included in the transport budget and the recharged income reflected in the income budgets.
 - v) **Supplies and Services** -the supplies and services budget contains a wide variety of headings, some relate to the operational activities, such as the uniform and operational equipment budgets, some such as subscriptions to organisations and external audit fees arise as a result of being a stand alone organisation, and others are associated with the running of any organisation, such as printing and stationery, computer costs and subsistence.
 - vi) **Capital Charges** –the figure shown in the table below represents the interest charges for the loans the Authority currently has outstanding.
 - vii) **Central Services** – to support the operation of the Service a range of services are maintained and includes such functions as finance, information technology, administration and procurement and personnel. The majority of these support function costs are staffing costs and included in the employees analysis. There are other central costs however, such as the cost of the Service Level Agreements with Buckinghamshire County Council (for the provision of our Legal Services, Internal Audit and the SAP accounting system) and with Milton Keynes Council (for the provision of our Clerking function) and the budgets held for Audit Fees.
 - viii) **Income** - the Authority will continue to actively pursue sources of external funding streams, e.g. Local Public Service Agreements and Local Area Agreements. The nature of these funds (revenue or capital grant) can make prediction of additional receipts difficult. As these external funds are typically used to finance new initiatives and are offset by equivalent levels of expenditure, the net impact on the Authority's budget is generally neutral and unknown until they are secured. Fees and charges income, which is generated as a result of the sale of goods or services, is set at £1.4m for 2007/08. Grant income
- 4.6 The financial impact surrounding the assumptions relating to these base budget commitments is set out in table 1. The figures shown represent the budgetary growth that will be required in each of the three years.

TABLE 1 - Revenue Budget Commitments			
	2007/08 £'000s	2008/09 £'000s	2009/10 £'000s
Employees	23,097	+745	+807
Premises	977		
Transport	2,318		
Supplies and services	2,364	+30	
Capital charges (interest on debt)	398	+225	+68
Central Services	320		
Income	3,112		
Total	26,362	+1,000	+875

- 4.7 **Efficiency Savings** –The Authority has implemented efficiency improvement measures over many years to reduce pressure to increase budgets and shall continue with these efforts. Reference has been made to the expectations arising from the Gershon Review and the need to report the efficiency gains in the form of an Annual Efficiency Statement. The efficiency target for fire and rescue services is expressed as a national total and the Authority has set local targets that will ensure it contributes appropriately to the national target. Government has currently set a national target up to the end of financial year 2007/8 of £105m for English Fire and Rescue Authorities. The Government has indicated its intention to continue to press local government to deliver efficiency savings beyond March 2008. The Authority is also aware that in future years there is every likelihood that it will need to find real cash savings to achieve a balanced budget within a capping limit, which the Government has suggested will be the case. As part of the Medium Term Financial Plan the Authority has identified areas that it wishes to examine further to deliver structured approach to future savings and efficiencies. These are set out in Annex A.

5 CAPITAL

- 5.1 **Capital and Revenue Investment Programme** -Due to the longer-term nature of capital expenditure and the different funding mechanism governing capital it is a requirement that the capital budget is shown separately to the revenue budget. The capital expenditure requirements that are anticipated over the three years period in Table 2.

Table 2- Medium Term Capital Budget 2006 -2009			
	2007/08 £000	2008/09 £000	2009/10 £000
Premises			
Beaconsfield – new fire station & USAR	3,000	1,235	65
Wycombe – replacement fire station	350	1,100	700
Amersham - refurbishment	280		
Repairs & Maintenance	420	420	430
TOTAL PREMISES	4,050	2,755	1,195
Information and Communications Systems			
Hardware & software	100	100	115
Fuel management system	45		
Asset Management system	150		
TOTAL TECHNOLOGY	295	100	115
Operational Vehicles & Equipment			
-Pumping Appliances	555	570	580
-Special Appliances			
-Operational equipment	325	290	320
TOTAL VEHICLES AND OPERATIONAL EQUIPMENT	880	860	900
TOTAL CAPITAL			
Funded from:			
-Borrowing	4,787	2,255	1,300
-Revenue contributions			
-Capital receipts	10	1,460	910
-Capital grant	428		
	5,225	3,715	2,210

6. FORECAST MEDIUM TERM REVENUE BUDGET

- 6.1 This sets out the Authority's revenue budget strategy for the next three years and shows the predicted impact on the council tax. It captures all of the forecasts and assumptions set out throughout this document, including the revenue implications of the capital budget. There are likely to be a number of changes as the assumptions change to fact, but as they currently stand they provide a sound basis for planning future years' resource allocations and budgets.
- 6.2 **Forecast Formula Grant Settlements and Changes to the Council Tax Base** -A key factor in setting the overall framework for the Authority's medium term financial plan is the level of future Government Formula Grant settlements. As the Formula Grant accounts for approximately half of the Authority's funds used to meet its budget requirement, the rest being met from council tax, the financial settlement is of major significance. The Lyons report has been issued but the Government appears disinclined to make any radical changes. In the short term there would appear to be few changes that will affect the current working assumptions contained below: it seems likely that council tax capping will continue, that on-going efficiency savings will be required and that the proposed introduction of additional council tax bandings will not take place within the scope of the three year plan.
- 6.3 Each year the council tax base typically increases as a result of increased residential accommodation within the area. This has a direct impact on the council tax as more people contribute to the overall precept. This means that Band D Council Tax level can be set lower, for the same amount of expenditure. No demographic growth has been factored into the council tax growth assumptions modelled since this could be offset by increased demand. The number of council tax Band D properties is notified to the Authority in January each year. There has been a working assumption that the Authority will be allowed to continue to raise council tax to the current capping limit of 5% and the increase for 2006/07 has been built into the funding assumptions for 2008/9 and 2009/10.
- 6.4 **Medium Term Revenue Budget** -The changes described above have been factored into the calculations in the overall revenue summary in Table 4.
- 6.6 This medium term view of the budget and its funding has been developed to provide a financial representation of the Authority's plans and priorities over the next few years. It is strongly influenced by the direction set out nationally in the National Framework, as well as by the Authority's own vision for the future. These aspects have been taken from various sources, such as the Integrated Risk Management Plan, and property developments which the Authority is undertaking.
- 6.7 Although many of the assumptions and figures supporting the forecasts within the medium term financial plan will change as plans evolve and details become clearer, they will continue to reflect the financial implications of the Authority's vision for safer communities.

Table 3 - Forecast Funding Increase			
	2007/08 £'000	2008/09 £'000	2009/10 £'000
Formula Grant (RSG& NNDR)	11,226	11,226	11,226
Council Tax (increase based on 4.95% increase p.a.)	14,972	15,713	16,491
Transitional Grant	164		
Total Funding	26,362	26,939	27,717
% Increase in funding	+4.9%	+2.2%	+2.8%

Table 4 -The Medium Term Revenue Budget 2007/08 – 2009/10			
	2007/08 £'000	2008/09 £'000	2009/10 £'000
Opening Revenue Budget	25,140	26,362	26,939
Net cost of borrowing	-17	225	65
Pressures and Developments	1,427	775	805
Savings	-188	-423	-92
Net Revenue Budget Requirement	26,362	26,939	27,717
Increase in budget requirement	1,222	577	
Funded from:			
Revenue Support Grant	11,226	11,226	11,226
Transfer in From Reserves	164		
Precept	14,972	15,713	16,491
Band D Council Tax	52.33	54.92	57.64
Increase in Band D Council Tax	+4.95	+4.95	+4.95