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The Medium Term Financial Plan – Revenue and Capital 2009/10 to 2011/12

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Lead Officer(s): Cynthia Changer, Treasurer

1. Purpose

- 1.1** To present the Revenue and Capital Medium Term Financial Plan 2009/10 – 2011/12 to members for consideration.

2. Recommendations

Members are asked to:

- 2.1** Approve the Medium Term Financial Plan including the Revenue and Capital budgets for 2009/10 as set out in Annexes A and B;
- 2.2** Approve an increase in the council tax for 2009/10 of 4.99%, thus increasing the council tax for Band D from £54.95 to £57.69 (an increase of £2.74 per Band D property) with an annual review thereafter; (Council Tax band table set out in Annex C);
- 2.3** Approve that the Invest to Save ear marked reserve be increased from £100k to £500k;
- 2.4** Approve that an ear marked reserve of £250k be created for the settlement of the part-time workers back dated pay award;
- 2.5** Agree that the resultant balance in the general reserves after the above adjustments be maintained.
- 2.6** Agree to limit borrowing for the capital programme be limited to £2m in 2009/10 and 2010/11 and thereafter, reduces to a capping limit of £1.5m.

3. Issues and Choices

- 3.1** Under Section 25 of the Local Government Act 2003 I am required to report to members on:
- a) the robustness of the estimates made for the purposes of the calculations of the budget and,
 - b) the adequacy of the proposed financial reserves.

Robustness of the Budgets

- 3.2** The Fire Authority is now in the second year of a very difficult Government Grant settlement which limited the increase in grant funding to 1% in 2008/09 and 0.5% in 2009/10 and 2010/11. The Fire Authority has joined with other Fire Authorities which had a similar level of settlement to lobby the Government but to date with no success. The government funding increase from 2008/09 to 2009/10 for RSG and Business rates is £56,689. The government also funds the Urban Search and Rescue function and provides some grant funding for the development of the Firelink and FireControl projects with grant funding. This funding is in line with the grants announced last year.
- 3.3** The downturn in the economy has had an adverse effect on the housing development market and the indicative growth in the number of Band D properties received from the district councils and Milton Keynes Council is an increase of 0.7% for 2009/10 and 0% for 2010/11 and 2011/12. Against this economic background the Fire Authority has approached this budget setting rigorously.
- 3.4** The funding available is set out below:

	<u>2008/09</u> £	<u>2009/10</u> £	<u>2010/11</u> £	<u>2011/12</u> £
Council Tax (assumes 4.99% increase year on year)	15,914,480	16,825,230	17,665,179	18,545,959
Govt Grant	11,337,864	11,394,553	11,451,526	11,508,784
Reserves	200,803			
Total	27,453,147	28,219,783	29,116,705	30,054,743

- 3.5** The funding is significantly short of the required budget without the Authority making considerable savings. Furthermore, the Fire Authority is required to contribute to the national fire efficiency savings target for the current CSR07 period (2008/09 to 2010/11) of £110m – our share being £1.2m. These savings must be cashable savings to qualify. The Audit Commission has recently published its national report “Rising to the Challenge” which is a survey of the progress that nationally the Fire Service has made in meeting the modernisation agenda since the 2003 agreement. Apart from a few notable exceptions, the Audit Commission highlights that limited progress has been made.
- 3.6** The formulation of the budget and this update of the Medium Term Financial Plan has allowed for all known costs and commitments and best estimates of inflation and other matters that are likely to impact on the budgets. The plan is expressly linked to the Integrated Risk Management Plan and the service’s ambitions to deliver quality fire and rescue services and robust prevention and protection services to the communities we serve. Due to the financial settlement we have received and the efficiency savings required, significant cashable savings over the next three years have been factored in to the budget as well as some counter-balancing growth to ensure the reliability of our service delivery. The effect of the current economic climate and inflation levels have been factored in to the budget and these have impacted particularly on the expected level of interest earned on the cash balances for the forthcoming period.

- 3.7** The Capital programme (Annex B) has been reviewed extensively. It includes provision for repairs and maintenance of the fire stations, replacement fire appliances and specialist vehicles, IT equipment and protective clothing replacement and other equipment.
- 3.8** The Fire Authority will benefit from a capital grant allocation from Government for 2009/10 and 2010/11 totalling £1,461,582. This is a welcome addition to resources and means that the Authority will need to borrow less to fund the Capital Programme. It also enables a provision for the purchase of smoke detectors and domestic sprinkler systems.
- 3.9** The proposed Capital Programme has been through a number of scrutiny processes within the organisation to arrive at the recommendations. Officers have prioritised the works required in accordance with health and safety, equality issues and repairs and maintenance requirements.
- 3.10** The revenue impact of the Capital Programme must be taken into account both in agreeing the capital programme and in setting the revenue budget. This includes not only the cost of borrowing, but the provision to repay debt and the calculation for the Minimum Revenue Provision. There is a separate paper recommending the basis for the calculation of the Minimum Revenue Provision. The revenue impact of the MRP is included in the Revenue budgets and is based on the recommendation in that paper.
- 3.11** Due to the revenue impact, which is set out below, I am recommending that borrowing be limited to £2m in 2009/10 and 2010/11 and thereafter, reduces to a capping limit of £1.5m. As can be seen from the table below, the “capital charges” associated with the capital programme increase as a percentage of the budget from 2.74% to 4.21% in the relevant three year period.

	<u>2009/10</u> £	<u>2010/11</u> £	<u>2011/12</u> £
Council Tax	16,825,230	17,665,179	18,545,959
Govt Grant	11,394,553	11,451,526	11,508,784
Total	28,219,783	29,116,705	30,054,743
Borrowing Capital Programme	2,000,000	2,000,000	1,500,000
Interest Charges - New Cumulative costs	81,800	163,000	225,700
PWLB Charges - interest only existing loans	280,022	270,415	270,415
MRP	412,161	607,324	768,995
Total Capital Charges	773,983	1,040,739	1,265,110
Available Revenue Budget	27,445,800	28,075,966	28,789,633
Capital Charges as % of Total revenue budget	2.74%	3.57%	4.21%

- 3.12** As a consequence, strict criteria for priorities for the Capital Programme must be applied. There is very little capital budget provision for routine repairs and maintenance and should there be any major issue with any one or more of the Authority’s buildings there is no spare capacity proposed in the budget. Further borrowing or use of reserves would be the only options.

3.13 The Authority must take cognisance of outstanding capital loans due for repayment over the next few years. These are set out in the table below:

Debt repayment schedule

<u>Repayment Date</u>	<u>Amount £</u>
28 September 2009	335,000
01 August 2012	300,000
01 August 2013	302,000
16 March, 2016	515,000
15 May 2016	368,000
05 May 2018	585,000
14 May 2022	620,000
01 June 2030	626,000
15 January 2053	2,174,000
01 February 2056	627,000
Total to Date	6,452,000

3.14 Members have previously been informed that there is currently no provision for the repayment of existing debt other than £335k which was set aside from a previous revenue underspend. The paper explaining the Minimum Revenue Provision recommends to members that the Authority approves setting aside underspends to an earmarked reserve and 50% of capital receipts when they are realised to make provision for debt repayment.

3.15 The scrutiny of both the revenue and capital budgets and the underlying assumptions have been through a number of groups:

- All cost centre managers at Group Manager level and above have scrutinised their budgets and commented to the Group Manager (Revenue);
- Adjustments have been made to the base where budgets were no longer required or the based needed adjustment;
- Inflation figures have been revised following initial work in August 2008 and are now based on the Treasury data as at November 2008;
- A thorough review of all cost centres and the staffing establishment has been conducted and agreed with the Operations Directorate, other cost centre managers and the HR department and both ACOs;
- A review has been conducted on the average costs of retained fire fighters pay over the last 18 months and a funding agreed with the Operations Directorate to fund 226 posts at 100% cover factor. This is an increase of £140k for 2009/10 with a further £90k factored in for 2010/11 to achieve a full complement of 238 retained fire fighters at 100% cover;
- Senior Officers have reviewed the budgets on a number of occasions as the budgets have been developed in the Chief Officers Forum;

- Lead members have been involved in a number of challenge workshops starting back in September 2008. A number of refinements have been made following their input and at their request the savings required to balance the budget have been allocated across all the cost centres on a pro-rated basis. All non operational cost centre managers have been involved with identifying their share of savings with the Operations Directorate leading on identifying where the savings would be delivered by Response services.
- The budgets have been reviewed by the lead member for Finance and on 14 January 2009 by the Overview Performance and Audit Committee.

3.16 There are a number of areas in the budgets where there is a “risk” factor. There is little contingency in the recommended revenue and capital budgets and therefore any significant variances would rely on the use of reserves. The review of reserves set out in Annex E shows where our reserves might be called upon. These are listed below:

- The inflation factors used are our best estimates available in December 2008 from Treasury sources. Given the significant fluctuation in inflation over the last year there is a risk attached to the inflation assumptions which are set out in (Annex D);
- The savings assumptions built in to the budget are prudent assumptions of achievable savings without compromising service quality. Any significant variances would require use of reserves;
- The pay award which is nationally agreed and applied with effect from 1 July each year is as yet unknown but is based upon the nationally agreed range (2.3% for 2009/10);
- The borrowing costs for the capital programme are based on the borrowing rates which are prevalent at December 2008;
- The capital programme includes a provision for repairs and maintenance of the buildings but no contingency for untoward events. Uninsured events would rely in the short term on the use of reserves;
- The operational activity variance is funded for the normal range. No allowance has been made in the budget for unusual spate conditions;
- The Authority has a robust approach to risk management across all areas and we have a good record of managing our insurable risks and health and safety within the organisation. Uninsured losses would need to be funded from reserves;
- The reliability of the Quint appliance (combined aerial appliance) is still uncertain. However, the remaining asset life of this appliance is nine years and therefore it is not due for replacement and no allowance has been factored in to the budget for its replacement;
- Other key factors which could affect the budget are the deliverability, timing and impact of national projects – Firelink and FireControl. A provision has been factored in to the budgets for 2010/11 and 2011/12 of

£150k and £350k for these two projects. Until such time as better information is available, officers and members need to ensure a prudent approach to the effect of these projects is reflected in the budgets.

- The costs of the Long Term Capability Management function (the Urban Search and Rescue vehicles and equipment servicing, maintenance and replacement) are not yet known and nothing has been factored in to the budgets.
- Accounting and reporting standards in the public sector are being revised with the requirement to move to International Financial Reporting Standards by 2010/11. Significant work with staff and systems will be required over the next two years to meet the required standards with some parts being implemented in 2009/10 and the full requirement in 2010/11. No provision is included within the budget for this additional work.

Adequacy of the Reserves

3.18 The Authority holds a number of reserves. There are currently three ear marked reserves and the General Fund Reserve. This has been reduced during the course of 2008/09 by (£890k) as a result of the Authority decision to cease the development of the Pyebush site in Beaconsfield. Furthermore, I am recommending an increase of the Invest to Save reserve for pump priming savings initiatives from £100k to £500k. £171k will be needed to fund the implementation of the Vision FX mobilising system (approved by the Executive in September 2008). A decision to invest in shared support services will also require funding from the Invest to Save reserve.

3.19 I am also recommending the creation of an earmarked reserve to provide for the settlement of the pay dispute regarding the part time workers court case. The Industrial Tribunal found in favour of the retained staff in 2008 and it was agreed that a nationally negotiated settlement would be reached. All Fire Authorities are now awaiting the calculation of the back pay. An agreement was expected in September 2008 but to date nothing has been agreed. I am recommending the creation of an ear marked reserve in the sum of £250k based on the current information available.

3.20 The Authority agreed to use £201k of the General Fund reserve to support the Revenue budget for 2008/09.

3.21 The ear marked reserves and general reserves are as follows:

Reserve	Purpose	Opening Balance 1.4.2008 £k	Closing balance 31.3.2009 £k
General reserve	General reserve – to provide for unbudgeted events. An assessment of the risks and the likelihood and impact of these is set out in Annex E	3,421	1,881
Debt repayment reserve	To provide for repayment of PWLB loans	335	335

Invest to Save Reserve	To provide pump priming for projects that will deliver savings (business case required)	100	500
Control Room reserve	To provide funding for unseen events and retention payments for the Regional Control room project	50	50
Part time workers pay reserve	To provide for the back pay for retained fire fighters when a settlement is reached (was due September 20080)	0	250
Total		3,906	3,016

The difference between opening and closing balances is the amount of reserves used to write off the capital expenditure at Pyebush.

Conclusion

- 3.22** The process for the formulation of the budgets, together with the level of challenge, provides reasonable assurance of their robustness.
- 3.23** The level of the Authority's reserves, after the proposed adjustments, provides a reasonable working balance to cushion the impact of unexpected events and uneven cashflows. The provision of earmarked reserves is adequate to meet the known and anticipated liabilities.

Contact details for author

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REVENUE BUDGET

CC Group 4	CC Group 5	Sum of 2008/09 Budget	Sum of New Budget 2009/10	Sum of New Budget 2010/11	Sum of New Budget 2011/12
SF-UAA Operations	Response	17,134,602.43	17,330,568	17,584,886	18,202,299
	Operations Support	2,469,334.57	2,605,182	2,787,606	2,984,587
SF-UAA Operations Total		19,603,937.00	19,935,750	20,372,493	21,186,886
SF-UAB Risk	GO5 Area Manager Performance & Planning	1,265,106.00	1,292,781	1,259,203	1,286,685
	HR	550,363.40	567,735	574,069	578,893
	Safety	1,842,835.00	1,900,326	1,943,159	1,987,410
SF-UAB Risk Total		3,658,304.40	3,760,842	3,776,432	3,852,987
SF-UAC Chief Fire Officer	GO53 Communications & Consultation	152,708.00	156,386	159,934	163,596
	GO7 Area Mgr Property Procurement & Transport	1,185,807.00	1,249,012	1,285,368	1,324,127
	CFO	743,567.60	785,359	787,855	805,608
	Finance	481,532.00	495,138	500,672	504,813
	Corporate & Democratic Core	685,742.00	1,063,313	1,193,212	951,616
	Capital Financing	941,549.00	773,983	1,040,739	1,265,110
SF-UAC Chief Fire Officer Total		4,190,905.60	4,523,191	4,967,781	5,014,870
		27,453,147.00	28,219,783	29,116,705	30,054,743
		27,453,147.00	28,219,783	29,116,705	30,054,743
Funding Available			28,219,783	29,116,705	30,054,743

REVENUE BUDGET

ALL FIGURES ARE IN WHOLE POUNDS (£)

		Data						
CC Group 4	CC Group 5	Sum of 2008/09 Budget	Sum of 2009/10 Inflationary Cost	Sum of 2009/10 Committed Expenditure	Sum of 2009/10 Efficiency Saving	Sum of 2009/10 Service Reduction	Sum of 2009/10 Increased Income	Sum of New Budget 2009/10
SF-UAA Operations	Operations Support	2,469,335	53,031	100,000	-18,000		474	2,605,182
	Response	17,134,602	442,576	-14,291	-560,000			17,330,568
SF-UAA Operations Total		19,603,937	495,607	85,709	-578,000		474	19,935,750
SF-UAB Risk	GO5 Area Manager Performance & Planning	1,265,106	27,730	7,830		-21,000		1,292,781
	HR	550,363	11,554	60,000	-12,000			567,735
	Safety	1,842,835	42,665	29,030	-13,124		-1,080	1,900,326
SF-UAB Risk Total		3,658,304	81,949	96,860	-25,124	-21,000	-1,080	3,760,842
SF-UAC Chief Fire Officer	Capital Financing	941,549	0	321,143				773,983
	CFO	743,568	17,945			-23,912		785,359
	Corporate & Democratic Core	685,742	10,484	385,489	-3,625			1,063,313
	Finance	481,532	12,054		-10,222			495,138
	GO53 Communications & Consultation	152,708	3,678					156,386
	GO7 Area Mgr Property Procurement& Transport	1,185,807	56,568	104,698	-60,959	-71,954	-53,769	1,249,012
SF-UAC Chief Fire Officer Total		4,190,906	100,729	811,330	-74,806	-95,866	-53,769	4,523,191
Grand Total		27,453,147	678,284	993,899	-677,930	-116,866	-54,375	28,219,783

REVENUE BUDGET

ALL FIGURES ARE IN WHOLE POUNDS (£)

		Data			
CC Group 4	CC Group 5	Sum of New Budget 2009/10	Sum of 2010/11 Inflationary Cost	Sum of 2010/11 Adjustments	Sum of New Budget 2010/11
SF-UAA Operations	Operations Support Response	2,605,182	54,402	128,022	2,787,606
		17,330,568	395,407	-141,089	17,584,886
SF-UAA Operations Total		19,935,750	449,810	-13,067	20,372,493
SF-UAB Risk	GO5 Area Manager Performance & Planning	1,292,781	27,077	-60,654	1,259,203
	HR	567,735	12,335	-6,000	574,069
	Safety	1,900,326	42,833		1,943,159
SF-UAB Risk Total		3,760,842	82,244	-66,654	3,776,432
SF-UAC Chief Fire Officer	Capital Financing	773,983	0	266,756	1,040,739
	CFO	785,359	17,496	-15,000	787,855
	Corporate & Democratic Core	1,063,313	9,237	120,662	1,193,212
	Finance	495,138	11,334	-5,800	500,672
	GO53 Communications & Consultation	156,386	3,548		159,934
	GO7 Area Mgr Property Procurement& Transport	1,249,012	36,357		1,285,368
SF-UAC Chief Fire Officer Total		4,523,191	77,971	366,618	4,967,781
Grand Total		28,219,783	610,025	286,897	29,116,705

REVENUE BUDGET

ALL FIGURES ARE IN WHOLE POUNDS (£)

		Data			
CC Group 4	CC Group 5	Sum of New Budget 2010/11	Sum of 2011/12 Inflationary Cost	Sum of 2011/12 Adjustments	Sum of New Budget 2011/12
SF-UAA Operations	Operations Support	2,787,606	60,622	136,359	2,984,587
	Response	17,584,886	410,148	207,265	18,202,299
SF-UAA Operations Total		20,372,493	470,769	343,624	21,186,886
SF-UAB Risk	GO5 Area Manager Performance & Planning	1,259,203	27,481		1,286,685
	HR	574,069	12,824	-8,000	578,893
	Safety	1,943,159	44,250		1,987,410
SF-UAB Risk Total		3,776,432	84,555	-8,000	3,852,987
SF-UAC Chief Fire Officer	Capital Financing	1,040,739	0	224,371	1,265,110
	CFO	787,855	17,753		805,608
	Corporate & Democratic Core	1,193,212	10,264	-251,860	951,616
	Finance	500,672	11,525	-7,384	504,813
	GO53 Communications & Consultation	159,934	3,661		163,596
	GO7 Area Mgr Property Procurement& Transport	1,285,368	38,759		1,324,127
SF-UAC Chief Fire Officer Total		4,967,781	81,962	-34,873	5,014,870
Grand Total		29,116,705	637,286	300,751	30,054,743

MEDIUM TERM FINANCIAL PLAN 2009/10 - 2011/12

	2009/10	2010/11	2011/12
3 Year Capital Programme	Proposed Budget	Proposed Budget	Proposed Budget
<u>New Build</u>			
Beaconsfield Fire Station	-	125,000	-
Wycombe Fire Station	175,000	-	-
<u>Planned Maintenance</u>			
General Maintenance	120,000	110,000	115,000
Broughton Fire Station	650,000	329,000	-
Legionella Testing/Purification/Monitoring	20,000	20,000	20,000
Great Holm - boiler/mech replacement	-	255,000	210,000
Bletchley	100,000	500,000	
<u>Fire Appliances & Equipment</u>			
Fire Appliances	615,000	937,000	649,000
Fire Appliance Equipment	115,000	135,000	115,000
BTV/OSU + Command Unit	200,000	-	-
Fire Equipment	215,000	200,000	201,000
Wide Area Flooding PPE	120,000	-	-
PPE Uniforms	100,000	100,000	100,000
IT Equipment	100,000	100,000	100,000
Smoke Alarms	96,000		
Domestic Sprinkler Installations	20,000		
Community Support Facilities	25,000		
TOTAL ANTICIPATED SPEND	2,671,000	2,811,000	1,510,000
<u>Capital Receipts</u>			
Sale of Old Fire Appliances	- 10,345	- 10,073	- 10,000
CAPITAL GRANT - Initial 2 Years	- 660,655	- 800,927	
TOTAL EXPECTED RECEIPTS	- 671,000	- 811,000	- 10,000
NET CAPITAL PROGRAMME	2,000,000	2,000,000	1,500,000
ANTICIPATED BORROWING	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,500,000</u>

Rates at 22/12/08

30 Year PWLB Rate	4.09%		
35 Year PWLB Rate		4.06%	
23 Year PWLB Rate			4.18%
Interest Charges on Borrowed monies	81,800	81,200	62,700
<u>Cumulative</u> Interest Charges	<u>81,800</u>	<u>163,000</u>	<u>225,700</u>

Council Tax Levels

Band	Council Tax Rates 2008/09	Council Tax Rates 2009/10
	£	£
A	36.63	38.46
B	42.74	44.87
C	48.84	51.28
D	54.95	57.69
E	67.16	70.51
F	79.37	83.33
G	91.58	96.15
H	109.90	115.38