



Financial Strategy

2020-21 to 2024-25



The principles of financial strategy

WHAT IS A FINANCIAL STRATEGY

A strategy is about how organisations translate their long-term goals into the actions they undertake on a day-to-day basis. A financial strategy is therefore the link between the organisation's long-term service objectives and its financial capacity. BMKFA's long-term service objectives are set out in the [Public Safety Plan](#) and [Corporate Plan](#).

A financial strategy will set out:

- **where the organisation is now** – the current financial position, including assets, liabilities, reserves and the main sources of income
- **where it would like to be** – how the finances will be developed over the period, including planned level of reserves, the balance of income from different sources and/or the development of new income streams
- **how it plans to get there** – what actions will be taken to achieve the financial objectives

WHY A FINANCIAL STRATEGY IS IMPORTANT

A financial strategy sets out how an organisation will finance the implementation of its long-term objectives. Without a financial strategy there is a risk that the long-term objectives may remain unfulfilled. A financial strategy helps organisations to consider the feasibility of different options in terms of affordability and financial sustainability.

As well as being essential to longer-term planning, a financial strategy also provides an effective framework for medium and short-term financial plans. Each planning horizon contributes in different ways to the effective financial management of an organisation, as shown in the following table:

	Short term	Medium term	Long term
Nature	Budget	Financial plan	Financial strategy
Timeframe	Annual	2-5 years	3-10 years or more
Focus	Accountability	Performance	Transformation
Unpredictability	Risk	Risk/uncertainty	Uncertainty
Financial techniques	Estimating	Forecasting	Scenario building
Level of detail	High	Medium	Low

Due to the current uncertainty created by the global COVID-19 pandemic, it is considered that attempting to set a ten-year strategy would be overly optimistic. Therefore, for the purposes of this strategy long-term is considered to be up to five years. This will be kept under review as the situation develops, and the strategy will be updated as and when necessary.

Developing a financial strategy

AIMS OF THE FINANCIAL STRATEGY

The primary aim of a financial strategy is to enable the delivery of the organisation's overall strategy.

Factors that need to be considered include:

- The nature, level and balance of the organisation's sources of income
- The organisation's exposure to volatile income streams
- The organisation's cost base, especially its overhead costs
- The financial structure and staffing of the organisation
- The organisation's financial management policies, systems and processes
- The organisation's relationships with key financial stakeholders

Another important factor to consider when developing a financial strategy is the organisation's financial autonomy i.e. the extent to which it is able to influence its own activity and funding (e.g. through generating income or setting the Council Tax rate) as opposed to having to perform certain activities or having less control over the funding it receives.

As well as the benefits noted on the previous page, a financial strategy also benefits the organisation in a number of other ways.

[Table 3.1: Aims of the financial strategy, Thinking Ahead: Developing a Financial Strategy 2018 Edition © CIPFA]

<p>Helping to scrutinise, challenge and improve the organisation's overall strategy</p>	<ul style="list-style-type: none"> • Exploring how the organisation's strategy can be achieved from a financial perspective • Identifying potential difficulties or contradictions in the organisation's strategy and its implementation • Acting as a practical constraint or moderating factor on the organisation's strategy
<p>Improving the organisation's financial resilience</p>	<ul style="list-style-type: none"> • Helping to maintain and improve the organisation's financial solvency and/or liquidity • Increasing the value and diversity of income from public, commercial and other sources • Enhancing the organisation's ability to manage financial risk effectively
<p>Enhancing the organisation's financial capacity and capability</p>	<ul style="list-style-type: none"> • Helping to elucidate key financial principles within the organisation, e.g. balanced budgets, limits to borrowing, use of reserves • Providing clarity around the cross-subsidy of different activities • Promoting financial awareness across the organisation • Acting as a basis for monitoring the financial health of the organisation • Demonstrating financial probity and accountability
<p>Helping the organisation to make better use of its resources</p>	<ul style="list-style-type: none"> • Informing the allocation of resources to departments, teams and activities

	<ul style="list-style-type: none"> • Helping to generate funds for future investment • Promoting and demonstrating the achievement of value for money
Co-ordinating financial activity across the organisation	<ul style="list-style-type: none"> • Acting as a financial reference point for the organisation • Helping to co-ordinate financial and other activities across the organisation • Enabling the flexibility required to respond to changing circumstances or to short-term opportunities

THE APPROACH TO DEVELOPING A FINANCIAL STRATEGY

The financial strategy needs to address three key elements:

- Where the organisation is now
- Where it would like to be
- How it plans to get there

ANALYSING WHERE THE ORGANISATION IS NOW

As noted earlier in this document, it is important that a financial strategy starts with an appraisal of the organisation's current financial position and of the financial challenges it faces. The table below shows the issues that have been considered:

[Adapted from *Figure 3.1: Examples of factors that could impact on the organisation's ability to attain its financial goals and achieve financial sustainability, Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]:

Performance	People
<ul style="list-style-type: none"> • Nature, level and sources of income • Reliance on individual sources of income • Cost base • Level of overhead costs • Ability to generate a surplus • Financial assets and liabilities • Nature and level of reserves • Ability to service borrowing 	<ul style="list-style-type: none"> • Structure of the finance function • Nature and level of staffing • Staff skills and expertise • Succession arrangements for key staff • Relationships with elected representatives (where relevant), the governing body and senior managers • The status of the chief financial officer within the organisation
Governance	External
<ul style="list-style-type: none"> • Financial expertise of the governing body • Financial and related policies • Financial management systems and processes • Political priorities and policy commitments 	<ul style="list-style-type: none"> • The organisation's reputation for effective financial management and performance • Relationships with key financial stakeholders • Changes to government regulations or guidance • Changes in service user demand or profile • Other changes in the external environment

Each of these issues has been considered with reference to a number of sources, including internal policies and documents, audits, inspections and The CIPFA Financial Management Code [Consultation Version] (see Appendix A).

PERFORMANCE

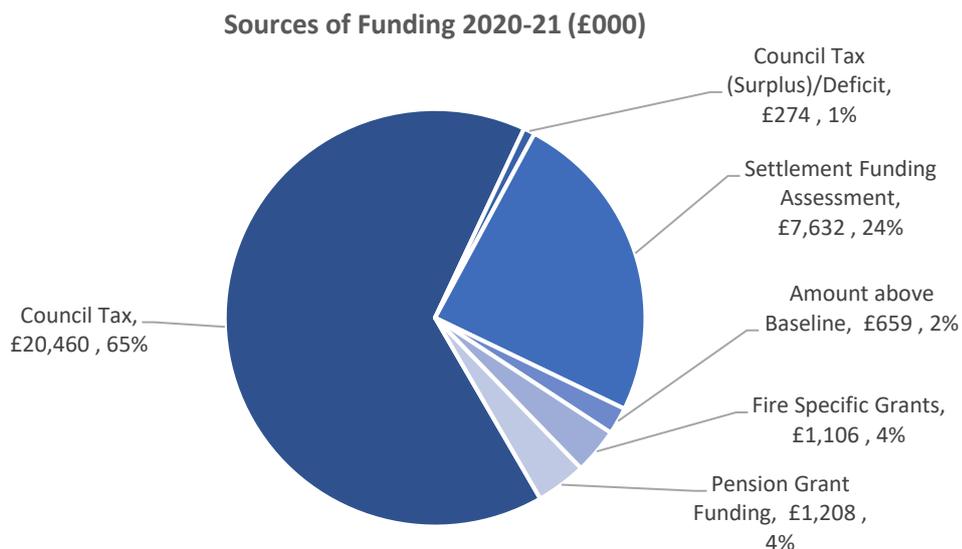
Nature, level and sources of income

The Authority classifies income into two broad categories:

- Funding
- Other Income

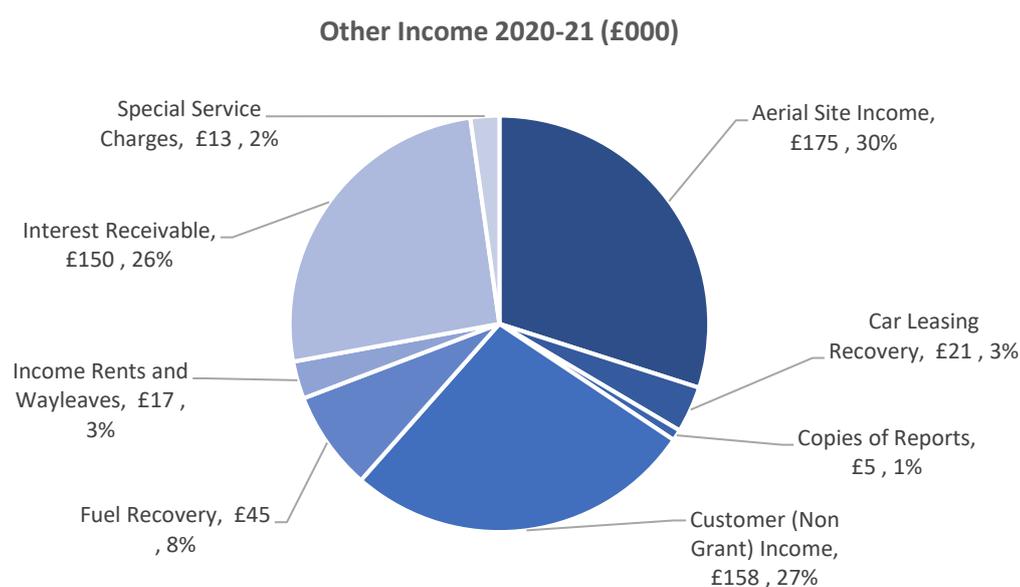
Funding for the service comes from a number of sources, comprising amounts generated through local taxes as well as some specific grants from Central Government.

- Council Tax – this is the one source of funding that the service can influence directly, albeit increases in the amount we can charge are subject to a referendum limit;
- Settlement Funding Assessment (SFA) – this is our share of business rates and revenue support grant. The baseline amount of this is determined by Central Government, although a share of local growth above the baseline can be retained by the Service;
- Fire Specific Grants – currently we receive specific funding for National Resilience (Urban Search and Rescue) as well as Airwave (radio system);
- Pension Grant Funding – from 1 April 2019, the cost of employers’ pension contributions toward unfunded public sector schemes increased significantly due to changes in the discount rate. The Government funded the majority of this increase through a specific grant for 2019-20. It was originally noted that this grant was for one year only, but it has now been confirmed it will continue into 2020-21 (but no confirmation beyond then).



Other income relates to a number of specific activities undertaken, but three main sources make up over 80% of the total budget for 2020-21:

- Aerial site income – the income received from telecommunications companies for locating equipment at the top of a number of our drill towers throughout the area;
- Customer (Non Grant) Income – this consists predominantly of recharges of costs to other authorities for joint working or shared contracts e.g. co-responder
- Interest receivable – the amount earned on cash invested with banks and building societies through our in-house treasury management function



After the approval of the budget for 2020-21, a number of one-off funds have since been received:

- Coronavirus (COVID-19): emergency funding for local government (£606k in 20-21, plus £90k received in 19-20) – this is a funding package for local authorities to help address the range of COVID-19 pressures they face
- Fire Protection Board Funding (£60k) – to support services' work on ensuring fire safety in high-rise residential buildings over 18 metres tall
- Protection Uplift Funding (£124k) – to bolster work targeting other higher risk buildings
- Grenfell Infrastructure Grant (£46k) – this funding contributes towards delivering outcomes against the relevant findings from the Grenfell Phase 1 inquiry and infrastructure operational improvements.

Currently, these are all one-off funding allocations, although as part of the sector's submission for the Comprehensive Spending Review, it has requested that the last three allocations are continued into 2021-22 and beyond.

Reliance of individual sources of income

The total of 'other income' for 2020-21 is less than £600k, while total funding (excluding one-off funding announced after 1 April 2020) is forecast to be just

over £31.3million. Approximately two-thirds of our funding comes from Council Tax. Although increases are subject to referendum limits, it is generally the most stable and predictable funding source. The SFA makes up about 25% of our funding, and although it is subject to some year-on-year fluctuations, over the medium-term it is relatively consistent.

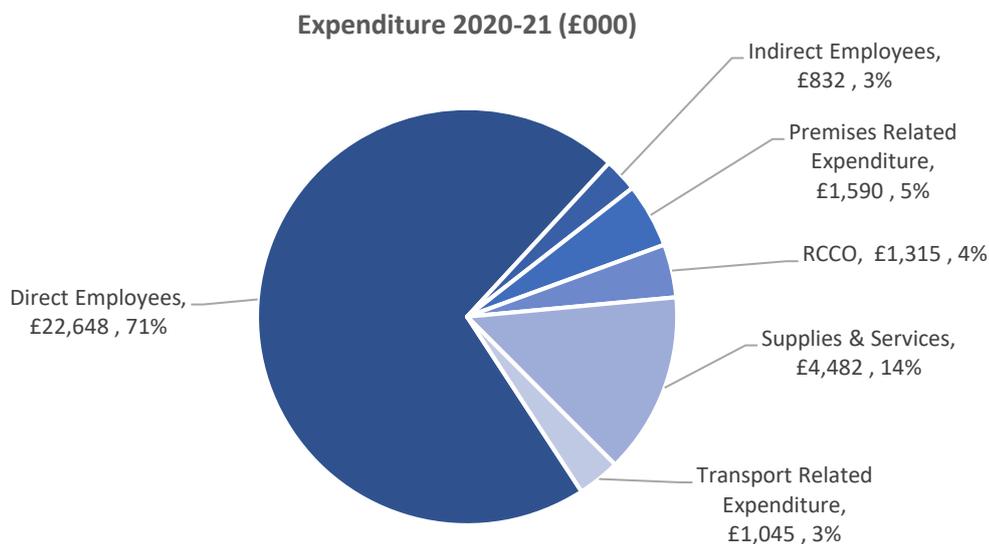
Although specific grants and pension funding together only make up about 8% of our funding, these are still significant and most susceptible to being reduced. The pension grant funding is especially uncertain, given that it was only originally confirmed for one-year.

Cost base

Costs for the service are categorised into six main categories:

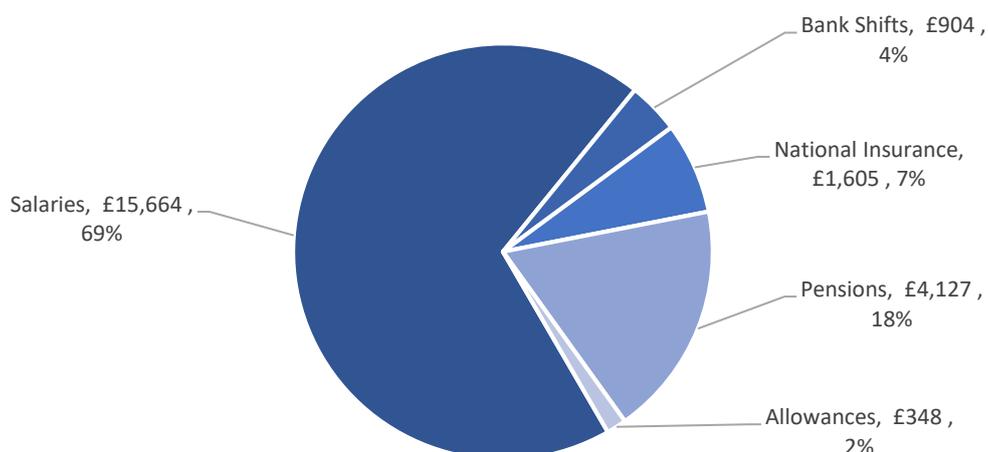
- Direct Employees and Indirect Employees – direct costs comprise salaries and on-costs whereas indirect costs include items such as training, occupational health etc. Together these make up almost 75% of our cost base;
- Premises related expenditure – all property related costs. These are broken down further within the ‘Level of overhead costs’ section;
- Supplies and services – anything not specific to another category. These are also broken down further within the ‘Level of overhead costs’ section;
- Transport related expenditure – includes the cost of maintaining our fleet and workshops facility;
- Revenue Contribution to Capital (RCCO) – this is the amount set aside from our revenue budget to fund the capital programme.

The budget for each of these areas is shown in the chart below:



The budget for direct employee costs is shown on the following page. Of note, is the fact that pensions costs make up 18% of these costs, at a total of over £4.1million. This is a significant amount and there is a risk that this will increase further over the medium to longer term, especially given the as yet unquantified impact of the McCloud/Sargeant ruling.

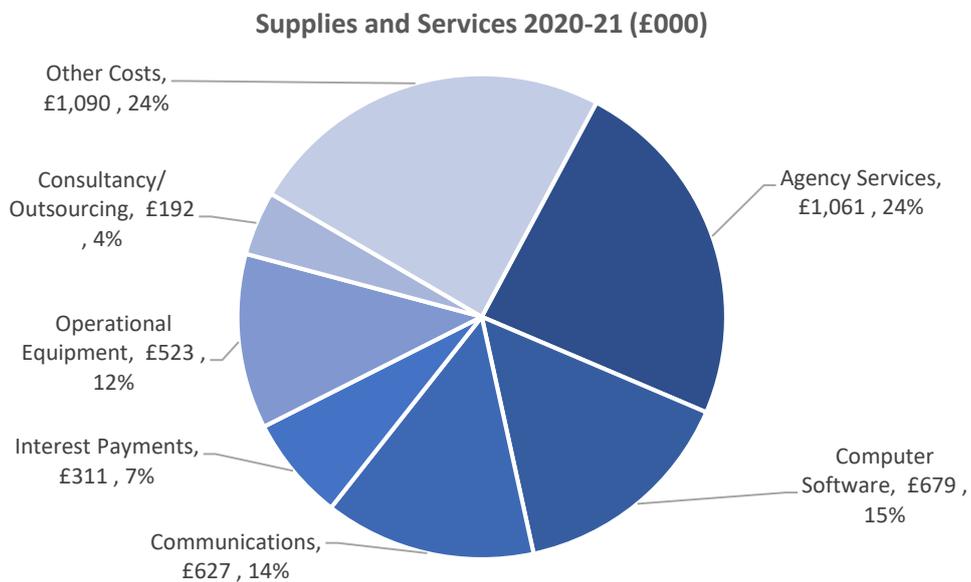
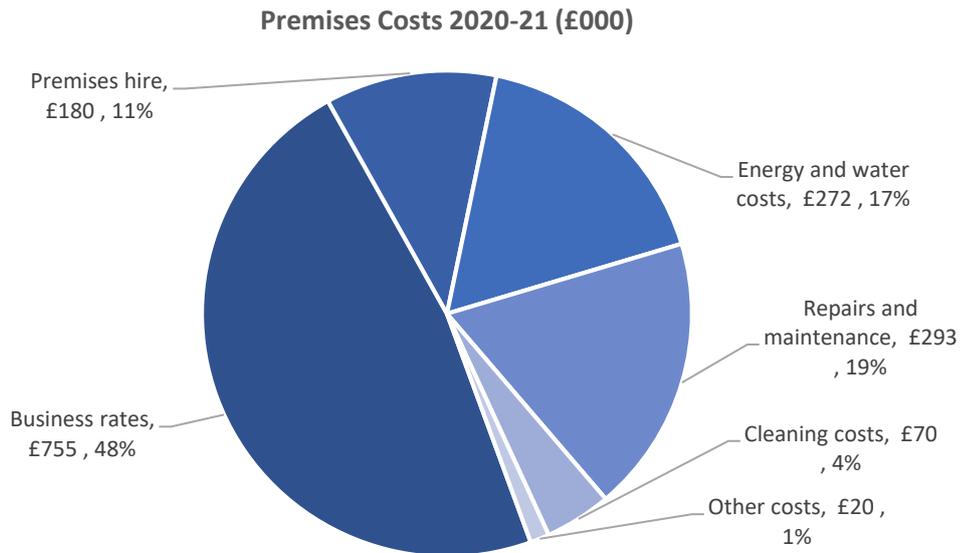
Direct Employee Costs 2020-21 (£000)



Level of overhead costs

Overheads are primarily contained within premises related expenditure and supplies and services:

- Premises related expenditure – almost half of the total cost relates to business rates. The only way to reduce this figure (other than via a successful ratings appeal) is to reduce the amount of properties that we occupy. This would also reduce the cost of repairs and maintenance (almost 20% of the total), especially if older premises were to be disposed of, as well as reducing cleaning and energy costs.
- Supplies and services – the biggest single item of expenditure is agency services, the majority of which relates to our share of the cost of the Thames Valley Fire Service Control Room. This method of provision is significantly less expensive than each service having a dedicated control room. Taken together, software and communications costs account for about 30% of expenditure. Other significant categories are shown over the page. Interest payments will reduce slowly as existing borrowing matures (there are currently no plans for additional long-term borrowing, although it does remain a fall-back option in a reasonable worst case scenario).



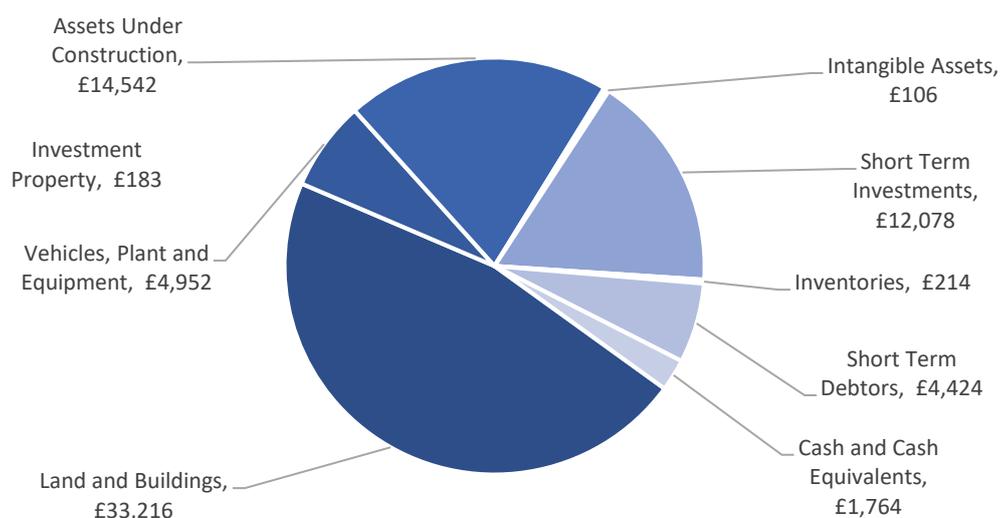
Ability to generate a surplus

The Service does not aim to generate a surplus. Recent underspends have generally been within a few percent of the budget for the year.

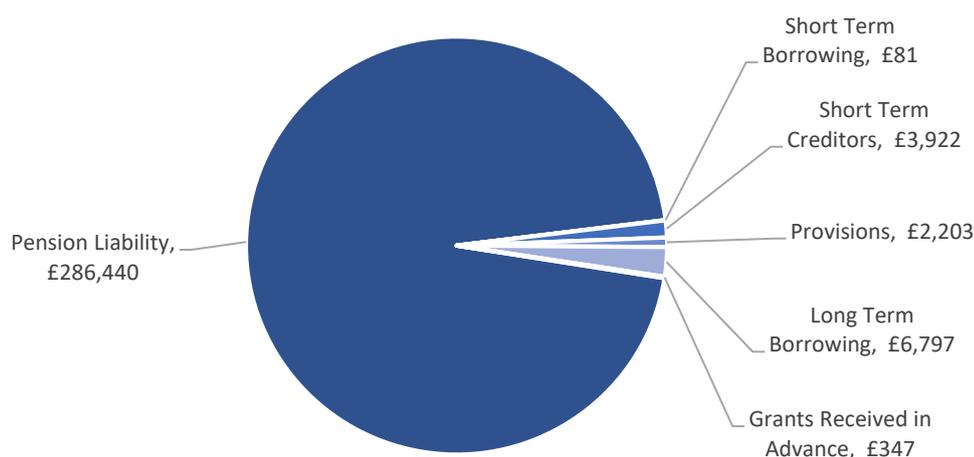
Financial assets and liabilities

The financial assets and liabilities as at 31 March 2020 are shown in the charts over the page:

Financial Assets as at 31 March 2020 (£000)



Financial Liabilities as at 31 March 2020 (£000)



Roughly half the value of our financial assets is in land and buildings (although it should be noted that this is an accounting valuation, not a market valuation). The short-term investments and cash and cash equivalents (c.£14m) compared to the long-term borrowing (c.£7m) show that the Service has a healthy net cash position. However, we are unable to repay this borrowing early due to the substantial early repayment charge that would apply.

Total liabilities far outweigh total assets, although this is due to the significant pension liability shown on our Balance Sheet. Effectively, the Pension Funds are in deficit by c.£286m compared with what is needed to pay the pensions of current scheme members, and the effect is to reduce the overall net worth of the Authority by that amount. However, statutory arrangements for the funding of the deficit, whereby the deficit will be made good by employer contributions over

the remaining working life of employees as assessed by the scheme's actuaries, mean that the financial position of the Authority remains viable.

Nature and level of reserves

Details of reserves are shown within the Reserves Strategy on pages 29 to 36.

Ability to service borrowing

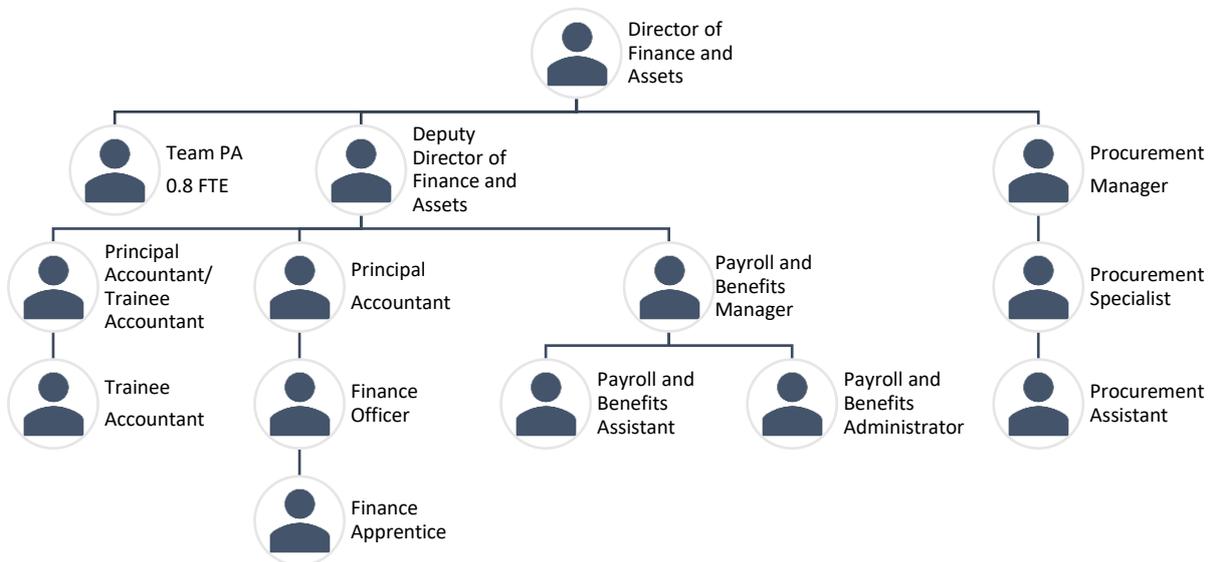
The Prudential Code was established to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

Details of the Prudential Indicators demonstrating compliance with the Code are approved annually by the Fire Authority and can be found here - https://bucksfire.gov.uk/documents/2020/03/120220_item7b_prudential_indicators_minimum_revenue_position.pdf/

PEOPLE

Structure of the Finance Function

The structure of the Finance function (including the Procurement and Payroll functions) is shown in the chart below (all roles 1 FTE unless stated):



Nature and level of staffing

The team is currently fully established, except for the Procurement Specialist post. This post has proved difficult to recruit to.

Both the Director and Deputy Director roles also have responsibility for areas outside of the Finance function (including Property, Fleet, Programme Management Office, ICT, Data and Communications).

The team won the award for “Finance Team of the Year - Local Services” at the Public Finance Innovation Awards 2018. The judges commented that “Finance teams across the local government sector are continuing to operate effectively – and with passion – in challenging circumstances. Buckinghamshire and Milton Keynes Fire Authority achieved a lot with a small team through collaboration and flexibility.”

Staff skills and expertise

Staff within the finance function are well trained, and all finance staff either have obtained or are working towards obtaining a professional qualification (e.g. CIPFA/ACCA/AAT etc.)

Training is provided to staff outside of finance as part of the Station Manager development programme, which aims to equip staff with the skills to manage their budgets effectively.

Succession arrangements for key staff

A comprehensive succession plan is presented to the Executive Committee on an annual basis. Due to the personal nature of the information contained within it, detailed arrangements are not repeated within this document.

The succession plan has been demonstrated to have worked extremely well over the past five years. Within that time, staff have been promoted internally to the positions of Director of Finance and Assets, Deputy Director of Finance and Assets, two Principal Accountant positions and one Trainee Accountant position.

Relationships with elected representatives, the governing body and senior managers

The Authority has appointed a Lead Member for Finance and Assets, Information Security and IT. The Lead Member is briefed regularly by the Director of Finance and Assets, as is the Chairman of the Authority and the Chairman of the Overview and Audit Committee. The Director of Finance and Assets is a member of the Senior Management Team.

The status of the Chief Financial Officer within the organisation

As noted above, the Chief Financial Officer is a member of the Senior Management Team and is able to exercise the duties set out in on page 28.

GOVERNANCE

Financial expertise of the governing body

Our self-assessment against the CIPFA Financial Management Code has identified the need to undertake a review of the skillsets of elected members and offer further training if required.

Financial and related policies

The Authority has approved Financial Regulations, which are the regulatory framework within which the financial affairs of the Authority operate. The approved Financial Instructions provide additional detail to achieve compliance with the Financial Regulations and the system of internal control.

Financial management systems and processes

The finance system used is Integra, which was brought in to replace SAP in April 2017. This newer system is more suited to our needs and has made processes more efficient.

Payroll is processed using the iTrent system. After Payroll was moved from HR to Finance, a series of process optimisation meetings were undertaken. However, these appear to have lost momentum and there still remains an opportunity to improve the end-to-end process for paying staff.

The Core Financial Controls audit reviews our financial systems and processes on an annual basis. The most recent audit found that substantial assurance can be placed on the operation of these controls.

Political priorities and policy commitments

The Financial Strategy must be consistent with the Public Safety Plan, which is the Authority's commitment to the public.

EXTERNAL

The organisation's reputation for effective financial management and performance

Externally, the two key organisations that review our financial management and performance are Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and Ernst & Young LLP (EY).

Within their [inspection report](#) HMICFRS noted that they "have serious concerns as to whether Buckinghamshire FRS has the resources it needs to meet its foreseeable risk. As a result of the financial position the service finds itself in, it doesn't have enough operational firefighters to resource its prevention and protection functions and crew the minimum number of fire engines it says it needs."

However, they also noted that "in one sense, it is highly efficient: it has an innovative deployment model which, if better funded, would be a cost-effective way of keeping people safe." According to HMICFRS, the firefighter cost per person per year for Bucks Fire is £17.38 versus the national average of £22.08. This correlates with previous [benchmarking reports](#) [p.21] that show the Service is one of the most efficient services in England and Wales when measured on net expenditure per 1,000 population.

The summary of their findings concluded with the statement that "Overall, we would like to see improvements in the year ahead, but without increased funding, it is difficult to see where progress can be made."

In their Audit Results Report for 2018/19 EY concluded that ""In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Relationships with key financial stakeholders

Other than local residents and businesses, the key financial stakeholder for the Service is Central Government. The Director of Finance and Assets is a member of the National Fire Chiefs Council (NFCC) Finance Sub-Committee, which is also attended by a representative of the Home Office.

Changes to government regulations or guidance

The most significant change that will impact on the Authority during this period is the impact of the Sargeant pensions ruling. This will not only increase the cost of employer pension contributions but will also be an administrative burden. A dedicated resource will be required to manage any remediation process.

Sir Tony Redmond has published an [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#). This contains a number of recommendations, most notably in relation to external audit. It is likely that the level of work undertaken by external audit will continue to increase, as will the audit fees and the amount of internal staff time required to support the year-end audit process and reporting requirements.

The Grenfell Tower Inquiry was created to examine the circumstances leading up to and surrounding the fire at Grenfell Tower on the night of 14 June 2017. The Phase 1 report was published in October 2019. One-off grant funding has been provided during 2020-21 (see page 5) to contribute towards the implementation of recommendations contained in the report. The Phase 2 hearings are currently in progress.

Changes in service user demand or profile

The Public Safety Plan deals extensively with the level of demand on our Service, as well as the changing demographic factors that influence the profile of demand.

Other changes in the external environment

Infrastructure projects within our area will require us to review a range of potential risks and identify any additional training, equipment and vehicle requirements.

COVID-19 has already had an impact on the way we work and will continue to do so into the future. The possible financial impact on the service is considered with the scenario planning section on pages 21 to 24.

SWOT

[Figure 2.1: SWOT matrix, Thinking Ahead: Developing a Financial Strategy 2018 Edition © CIPFA]

Attributes internal to the organisation	STRENGTHS	WEAKNESSES
Factor determined by the external environment	OPPORTUNITIES	THREATS
	Help the organisation’s ability to achieve its objectives	Hinder the organisation’s ability to achieve its objectives

Strengths	Weaknesses
<ul style="list-style-type: none"> • Significant percentage of funding comes from Council Tax • Excellent budgetary and other internal controls • Low capital financing requirement – could borrow more if required (either internally or externally) • Reserves sufficient in line with current risk assessment • Experienced and well qualified Finance team with succession planning well embedded • Dedicated Lead Member provides support and challenge 	<ul style="list-style-type: none"> • Low Council Tax Band D equivalent – referendum limit as a percentage relatively more restrictive. • Large reliance on temporary/one-off grant funding • According to HMICFRS we do not currently have the resources to fully meet all the risks within the Public Safety Plan • Limited scope for further savings without impacting on the delivery of services and public safety
Opportunities	Threats
<ul style="list-style-type: none"> • Increased working from home provides opportunity to review the size of the estate • Further opportunities for collaboration following completion of the Blue Light Hub • Improve efficiency of end-to-end payroll processes and links with HR 	<ul style="list-style-type: none"> • Fall in council tax and business rates income due to COVID-19 • Comprehensive Spending Review deferred for a further year creating additional uncertainty. Overall level of funding may decrease. • Treasury Management income reduced significantly due to decrease in the base rate • Increased cost of pensions and administrative burden • Pay increases above budgeted amount – although has been relatively stable in recent years

SUMMARY

The table below uses the analysis to summarise our current position:

Performance	People
<ul style="list-style-type: none"> • Council Tax is a significant proportion of funding, however still heavily reliant on non-local sources of funding with low certainty over future levels • Efficient in terms of cost per firefighter and net expenditure per head of population • Excellent budgetary and other internal controls • Over-borrowed but unable to repay loans early. Borrowing costs are not overly burdensome. Capacity to borrow more if required. • Sufficient reserves but uncertain future levels due to uncertainty over future funding streams 	<ul style="list-style-type: none"> • Sufficient number of finance staff • Qualified and experienced Finance team. • Succession planning demonstrated to be working well. • Dedicated Lead Member provides support and challenge • The Chief Finance Officer is a member of the Senior Management Team.
Governance	External
<ul style="list-style-type: none"> • Financial expertise of non-Finance staff and elected Members needs to be formally reviewed • Up-to-date and proven financial policies • Efficient finance system and processes, although scope to improve the end-to-end process for payments to staff • MTFP consistent with Public Safety Plan and Corporate Plan 	<ul style="list-style-type: none"> • Reputation for delivering an efficient service, but concerns about effectiveness due to insufficiency of resources to fully support the activity in the Public Safety Plan • Strong representation on stakeholder groups • Unknow impact of key legislation regarding pensions • Potential changes in user demand and/or profile as detailed in the Public Safety Plan • Further uncertainty due to the COVID-19 pandemic

WHERE THE ORGANISATION WOULD LIKE TO BE

Having analysed where the organisation is now, the financial strategy needs to determine where the organisation would like to be. In doing so, it needs to consider the following three key factors:

- The organisation's current **financial capacity, capability and performance** (as summarised on the previous page)
- The organisation's overall **strategic aims**, as well as any specific strategies to achieve these aims
- The **external environment** and any anticipated changes



As well as addressing the organisation's strategic aims, the finance function will also need to address developments that are not covered within the strategic plan (for example streamlining of processes and implementation of new technology). It will always need to ensure that its core processes such as accounts payable, accounts receivable and payroll continue to function effectively.

The external environment in which public services operate can be highly challenging and dynamic. Aspects of the environment that may influence where the organisation wants to be from a financial perspective include:

- Funding cuts and government austerity drives
- Restrictions on fees that can be charged to service users
- Requirements to improve efficiency or to demonstrate value for money
- Policy changes (e.g. business rates retention)
- Changes in the cost of borrowing
- Pay caps, pay increases and change in employment taxes
- Demographic changes among service users

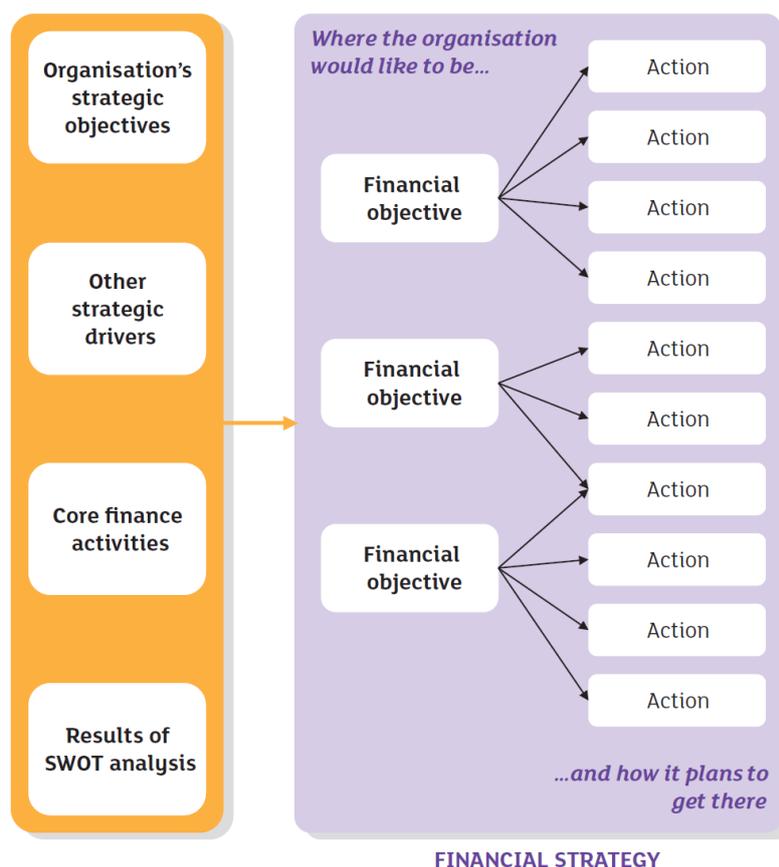
Would like to be:

Performance	People
<ul style="list-style-type: none"> • Able to increase Council Tax above the current limit of 2% • Other grant funding to be brought within our core Settlement Funding Assessment (SFA) • Increased expenditure on front-line staff as a percentage of total expenditure • Further reduced overhead costs by reducing the size of the estate • No additional borrowing and have repaid deals that have matured • Reserves maintained at current levels 	<ul style="list-style-type: none"> • Minor change to staff structure to incorporate dedicated pensions expertise • No overall increase in the number of Finance, Procurement or Payroll staff • Retain existing staff expertise, knowledge and skills as far as possible • Continue to work closely with Lead Member • The Chief Finance Officer remains a member of the Senior Management Team.
Governance	External
<ul style="list-style-type: none"> • Non-Finance staff and elected Members assessed as having a high level of financial expertise • Policies updated to reflect changes in legislation and best practice • Systems and processes further optimised, especially with regards to the end-to-end processes for payments to staff • Programme Management Office supports Finance and the wider organisation to deliver transformational change through an efficient internal governance system. 	<ul style="list-style-type: none"> • HMICFRS note improvements to efficiency in their report. Ratings for efficiency and effectiveness both improved to "good" • Influence within the NFCC and with Home Office secures a good funding settlement for the Service • Pensions remedy fully implemented • Finances able to respond to changes in user demand/profile • Ensure external partners maintain the same high standards of conduct with regard to financial administration and corporate governance that apply throughout the Authority and that they contribute to the achievement of the Authority's objectives

AGREEING HOW THE ORGANISATION PLANS TO GET THERE

Having determined where the organisation would like to be, it then needs to determine a number of financial objectives to achieve this aim. These objectives will then be divided into a number of actions. An overview of this process is shown in the figure below:

[Figure 3.5: Translating the organisation’s overall aims and strategies into a financial strategy, *Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]



IMPLEMENTING THE STRATEGY

The following table sets out the activities that will move the organisation towards where it would like to be. References in (brackets) refer to the self-assessment against the statements of standard practice (see Appendix A).

Year	Activity	Target/outcome
2020-21	<ul style="list-style-type: none"> Continue to lobby for an increase in the Council Tax Referendum Limit and for other grants to become part of the Settlement Funding Assessment Value for Money (VFM) initial review by external provider Review estate footprint Review of Partnership arrangements (F3) Establishment of Programme Management Office (E3) Recruit Pensions Officer 	<ul style="list-style-type: none"> Maintain or enhance firefighter numbers and substantiate temporary protection staff Identify areas for improvement in relation to other fire services Reduction in overhead costs Ensure partners have high standards and contribute to our objectives Better oversight of key corporate projects to support transformation Dedicated expertise to support implementation of legislative changes
2021-22	<ul style="list-style-type: none"> Review of system requirements and processes and upgrade/replace system Review of budget monitoring and performance reporting arrangements (E2, K3, R2, R3, R5, S1) Review skillset of non-Finance staff and elected Members (B3) 	<ul style="list-style-type: none"> Improved efficiency (also compliance with procurement regulations as current contract ends 31 March 2022) Improved reporting and compliance with CIPFA FM Code Improved compliance with CIPFA FM Code
2022-23	<ul style="list-style-type: none"> Repeat and review VFM exercise Review of Charging Policy and support review of unwanted fire signals as per the Corporate Plan Review of ethical financial management (B6) 	<ul style="list-style-type: none"> Identify areas for further improvement Explore opportunities for further efficiencies Improved compliance with CIPFA FM Code
2023-24	<ul style="list-style-type: none"> Complete any outstanding items from above 	
2024-25	<ul style="list-style-type: none"> Zero-based budget in preparation for Public Safety Plan 2025-30 	<ul style="list-style-type: none"> Reset any budgets that may have 'drifted' over time.

Scenarios for long-term financial planning

THE AIMS OF SCENARIO PLANNING

At a time of political and economic uncertainty, it is essential that longer-term financial strategies are based on scenarios, rather than on forecasts based on the continuation of the current environment. Scenarios are not predictions of the future, but plausible visions of the future.

Scenarios allow decision makers to test the viability of financial strategies to deal with possible future states. They consider a wider range of possibilities than simple forecasts and can also cope with potential abrupt changes such as changes in Government policy.

USING SCENARIOS TO INFORM LONG-TERM PLANNING

The financial strategy should ensure that the service is able to achieve its strategic aims in each of the plausible scenarios it has identified. Where a scenario necessitates a particular course of action, this should be integrated into the financial strategy, including monitoring mechanisms to ensure that appropriate action is initiated as and when required.

In order to be resilient, a financial strategy must be suitable, feasible and acceptable for each of the scenarios identified. There are a number of questions that the management team can ask itself to establish this is the case.

Suitability of the strategy

[Table 4.2: Suitability of the strategy, *Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]

Rationale	Is there a clear case for action?
Proportionality	Is the (cost of the) strategy proportionate to the (benefit of the) objectives to be achieved?
Effectiveness	To what extent will the strategy support the achievement of the organisation's strategic aims?
Impact	Are there any unintended consequences? Are costs and benefits equitably distributed?

Feasibility of the strategy

[Table 4.3: Feasibility of the strategy, *Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]

Capability	Will it be possible to implement and manage the strategy?
Accountability	Can clear accountabilities be established and aligned with incentives?
Affordability	Is the strategy affordable, and does it provide value for money against alternatives?
Risk	Can risks be identified and either mitigated or allocated and managed?

Control	Are there clear success measures and mechanisms for prompt feedback and learning?
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Acceptability of the strategy

[Table 4.4: Acceptability of the strategy, *Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]

Legitimacy	Is the strategy supported by those with the authority and influence to legitimise action?
Participation	Has there been sufficient stakeholder participation and engagement in the development of the strategy?
Buy-in	Is there sufficient support from both internal and external stakeholders?
Equality	Has an explicit equalities assessment been carried out?
Probity	Are the actions set out in the strategy legal and within the organisation's powers?

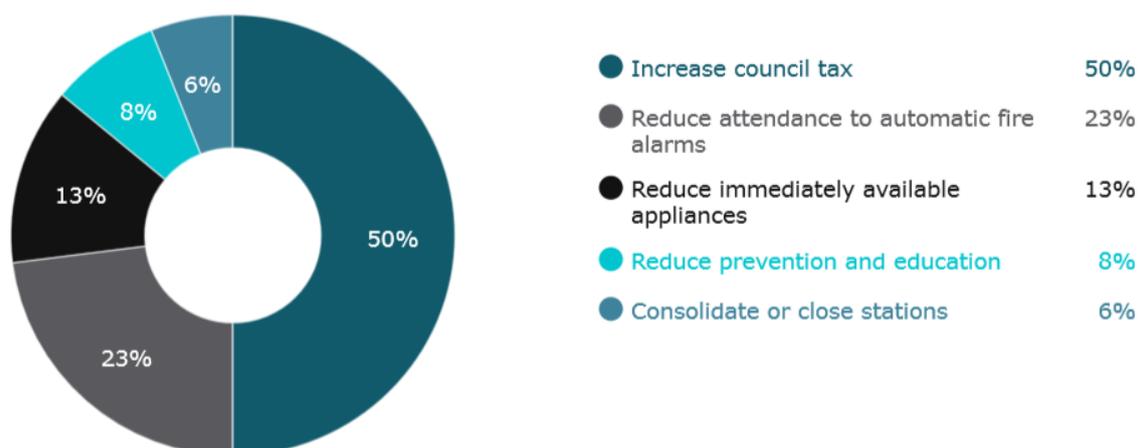
The two recommendations arising from HMICFRS's cause for concern within their inspection report (see also page 13) are that:

"At the earliest opportunity, the service should:

- ensure it has the capacity and capability to support its activity in its public safety plan; and
- consult with the people of Buckinghamshire and Milton Keynes on options to have the most effective and efficient response against the financial environment in which it operates."

The first bullet point was addressed (as far as possible given budgetary constraints) by implementing a zero-based budget approach when setting the budget for 2020-21 (see also page 26). This allowed the Authority to add an additional twenty firefighter posts to the wholetime establishment. The development of this Financial Strategy further addresses this recommendation over the medium to longer-term.

The consultation exercise was carried out while developing the Public Safety Plan 2020-25. Some possible strategies to meet future challenges were outlined to participants. These were based on the assumption that we will have done everything possible to make savings from 'back office' functions and that our service would receive no additional Government money with which to provide services. Participants were asked to allocate 100 points between the options, and their responses are summarised on the following page.



There was a clear preference amongst those consulted that the Authority should seek to increase council tax, where a one-off increase of £5 to the base amount was favoured. While the second preference was to reduce attendance to automatic fire alarms, it is unlikely this would produce significant savings. The least preferred option was to consolidate or close stations, although the reduction of immediately available fire appliances was preferred to any reduction in prevention and education activity.

Participants were also asked to rank some other possible strategies in the event of us receiving more Government money or raising additional funds ourselves through increased council tax levels. The overall ranking across all five focus groups was as follows:

- 1. Make on-call firefighting more attractive**
- 2. Keep existing stations and assets**
- 3. Recruit more firefighters**
- 4. Enhance protection (to be fit for the post-Grenfell environment)**
- 5. Upgrade crewing levels at stations**
- 6. Deliver additional services such as co-responding**
- 7. Ensure fairer urban versus rural service provision**

Scenarios

The scenarios considered are:

- Optimistic – if the Council Tax Referendum Limit was increased to allow the Authority to increase Council Tax by £5, rather than the current 2% limit.
- No Change – as per the MTFP approved by the Authority in February 2020
- Pessimistic – reduction in Council Tax and settlement funding assessment
- Reasonable Worst Case – as per the Pessimistic Scenario, plus the loss of specific grant funding for pensions and USAR.

For each scenario, the Strategy outlines a range of additional funding available to invest (+ve) or further savings to be found (-ve).

Possible Responses to Scenarios

In addition to the recommendations within the HMICFRS report, a further area for improvement was noted in that “The Service should use sound financial management to ensure all additional costs such as pensions liability are accounted for and that there is a contingency plan”.

The following potential responses to the financial scenarios address this area for improvement, as well as supporting the recommendation to have the most effective and efficient response against the financial environment in which we operate.

All the amounts shown below are highly dependent upon how quickly Council Tax and business rates receipts recover, as well as the amount of support that Central Government may provide to offset local losses. Therefore, the Authority will seek to avoid changes that are substantially irreversible in the short-term (e.g. closure of a station) as far as possible. However, reserves are finite and can only be used to fund any shortfalls for a limited period of time.



Optimistic Scenario (+£500k)

- Substantiate temporary fire protection staff
- Increase firefighter numbers to increase availability and resilience
- Continue to explore ways of increasing on-call recruitment
- Also undertake some of 'No Change' solutions to allow further investment in the above



'No Change' Scenario

- Reduce office footprint and adopt flexible working for office based staff
- Re-profile property maintenance and vehicle replacement programmes
- Potential outsourcing/sharing of some support functions
- Short-term use of reserves to balance budget



Pessimistic Scenario (-£1.7 million)

- As per Current Forecast scenario plus
- Reduce bank shift availability in line with degradation plan. This will reduce appliance availability at some locations on certain days/times.
- Removal of second pump from one or more wholtime stations



Reasonable Worst Case Scenario (-£4 million)

- As per Pessimistic scenario plus
- Closure of one or more fire stations
- Cessation of national Urban Search and Rescue capability

Medium and short-term financial planning

TURNING THE STRATEGY INTO ACTION

The previous section looked at longer-term financial plan and how to deal with future uncertainty. As well as having a long-term view, the financial strategy should also be used as the basis to prepare plans for the medium and short-term.

THE MEDIUM-TERM FINANCIAL PLAN (MTFP)

The MTFP is the translation of the organisation's financial strategy into the near future. It also links the organisation's plans for service delivery to the financial strategy. Therefore, the MTFP cannot be just a financial document, but needs to be integrated with service planning, risk management and asset management plans.

The development of the MTFP may highlight a gap between the funding available to an organisation and the level of risk and demand that it faces. This gap needs to be narrowed through either increasing income, reducing activity or improving efficiency (or indeed a combination of these three).

THE BUDGET AS AN INSTRUMENT OF FINANCIAL CONTROL

The annual budget has three main purposes:

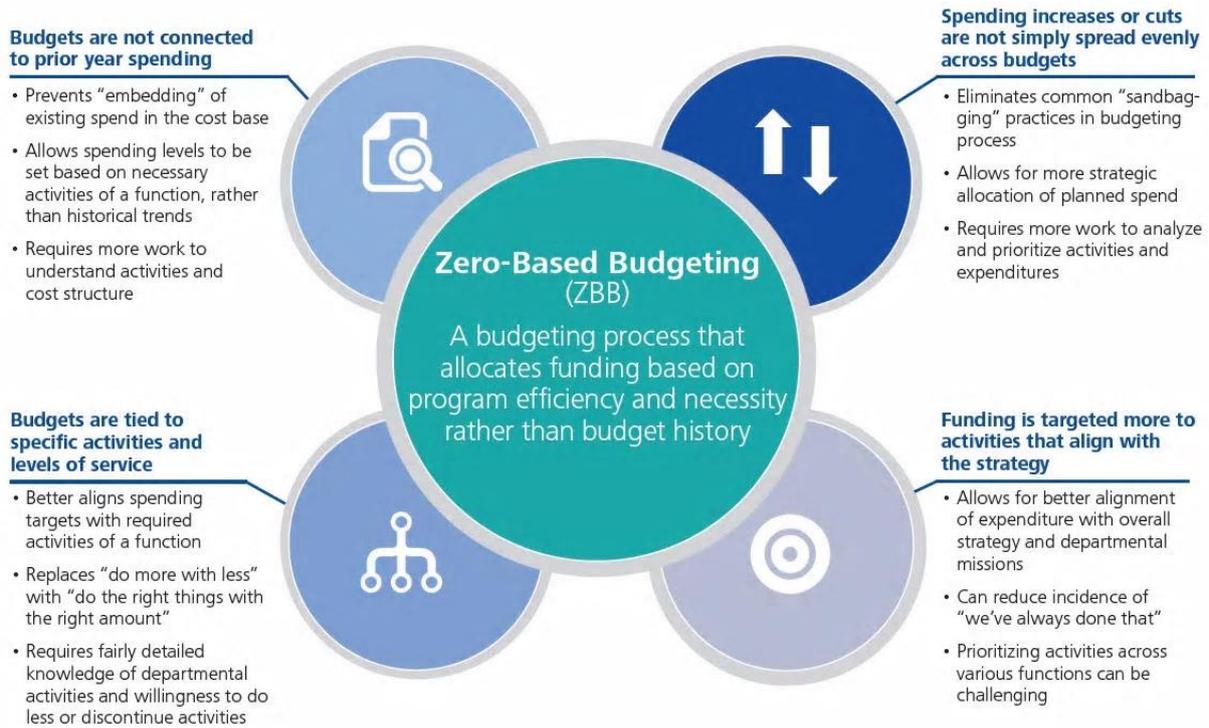
- To allocate financial resources across the organisation
- To co-ordinate the use of these resources in the delivery of services
- To monitor the use of these resources over the year

The budget is derived by dividing the high-level financial objectives from the financial strategy and MTFP into smaller components that are then assigned to individual business units to act on.

Zero-based budgeting (ZBB)

In contrast to the traditional incremental approach to budgeting where budgets are included in the plan for the next year simply because they were in the previous year’s budget, ZBB requires everything in the budget to be considered and justified. The figure below summarizes the advantages (and disadvantages) of the ZBB approach:

Explaining Zero-Based Budgeting Copyright © 2015 Deloitte Development LLC



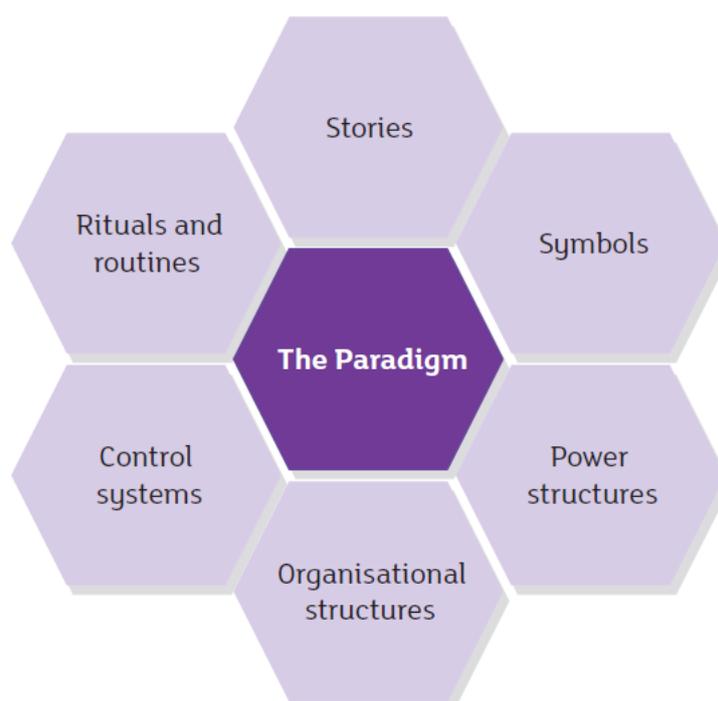
ZBB isn’t something that should be enacted every year, but in the same ways strategies and plans benefit from a periodic refresh, ZBB provides an opportunity to check on a periodic basis that budgets are well aligned to strategic objectives.

Financial Leadership

THE IMPORTANCE OF STRONG FINANCIAL LEADERSHIP

In all organisations, the organisational culture plays a key role in determining what is important to the organisation and, consequently, what gets done and what does not. In the Fundamentals of Strategy (Johnson G et al) the model of the cultural web is proposed, which shows six elements that contribute to the organisation's overall cultural paradigm.

[Figure 6.1: The cultural web, *Thinking Ahead: Developing a Financial Strategy 2018 Edition* © CIPFA]



A culture of effective financial planning is an essential prerequisite for the delivery of the financial strategy. This means, for example, that:

- Organisational structures need to be aligned with financial management structures and reporting lines
- Control systems need to monitor performance and prevent and/or highlight any issues
- Long-term financial planning needs to be embedded within the organisation and engaged with across departments
- The achievement of financial aims and budgets is something that should be expected
- Those responsible for developing and delivering the financial strategy, medium-term financial plan and annual budget need to have the power to do so.

The commitment to financial planning needs to come from and be promoted by those in leadership roles throughout the organisation.

THE ROLE OF THE ORGANISATION'S GOVERNING BODY

The *International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014) states clearly that:

The governing body should ensure that its decisions further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources.

Compliance with this duty can be demonstrated by the approval of a robust financial strategy, which aligns resources available to the organisation's strategic objectives. The governing body should also be involved in the strategic planning process.

THE ROLE OF THE SENIOR MANAGEMENT TEAM

The Senior Management Team have a key role in establishing a culture where effective long-term financial planning is valued. It has a crucial role in aligning the services delivered with the resources available, as this is something that can not be achieved by the finance function working in isolation. The Senior Management Team should also seek to lead, promote and be actively involved with the strategy development and implementation process.

THE ROLE OF THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer has a critical role to play in developing and implementing the financial strategy, as well as creating a culture that values effective financial planning. CIPFA's *Statement on the Role of the Chief Financial Officer in Public Service Organisations* (CIPFA, 2011) sets out clearly that:

The Chief Financial Officer in a public service organisation:

- *Is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest*
- *Must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and*
- *Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.*

This financial strategy document will support the Chief Financial Officer in discharging these requirements effectively.

Reserves Strategy

INTRODUCTION AND BACKGROUND

Section 42A of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

STRATEGIC CONTEXT

There are a number of reasons why a Local Government Authority might hold reserves, these include to:

- Mitigate potential future risks such as increased demand and costs
- Help absorb the costs of future liabilities
- Temporarily plug a funding gap should resources be reduced suddenly
- Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax
- Spread the cost of large scale projects which span a number of years.

Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term. Due to the fact that funding for future Capital Projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as the Capital programme progresses.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

There are two different types of reserve, and these are:

- Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.
- General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

In addition to reserves the Authority may also hold provisions which can be defined as: a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

RISK ASSESSMENT TO DETERMINE THE ADEQUACY OF THE GENERAL RESERVE

A well-managed multipurpose authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, the Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

The Authority has set its Prudential Indicator for the General Reserve at 5% of annual budget which is a commonly used benchmark across the Fire Sector. At the start of 2020-21, the General Reserve represented 4.8% of the Authority's net revenue budget. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator would only be considered if there was significant variance or if resources were earmarked to another project.

The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

A risk assessment of the adequacy of the Authority's General Reserve will be carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the current financial

year, 2020-21, has been prepared as part of the budget setting process and is shown on pages 32 to 33.

ANNUAL REVIEW OF EARMARKED RESERVES

The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy.

As part of the annual review of reserves 2019-20, Earmarked Reserves are presented in broad categories and analysed as outlined below.

Apprentice Reserve

This reserve is held to fund the additional cost of recruiting new apprentices (although to date this has been funded by year-end underspends). This reserve would fund periods of over establishment and be topped-up in years where we are under established.

Continuing Projects Reserves

This reserve has been created to cover any future costs on a number of large scale projects currently being undertaken by the Authority.

COVID-19 Reserve

This reserve is held to fund future expenditure requirements during the coronavirus (COVID-19) pandemic.

Future Funding Reserve

This reserve is held to meet known funding requirements within the medium term financial plan and to fund projects from underspends in the previous year.

Revenue Contribution to Capital Reserve

This reserve represents funding set aside to contribute towards future capital expenditure in order to mitigate the need to fund the expenditure through additional borrowing.

Usable Capital Receipts Reserve

This reserve receives monies from the sale of capital assets and uses these monies towards the purchase of new assets.

Control Room Reserve

This reserve contains the renewals fund used to replenish the Joint control room assets. This is not shown in the chart on page 34 as the funds are held by Oxfordshire County Council on behalf of the three Thames Valley Services, but accounting regulations dictate it is shown in our Statement of Accounts (our share of the balance as at 31 March 2020 was £534k).

RISK ASSESSMENT OF THE ADEQUACY OF GENERAL RESERVES

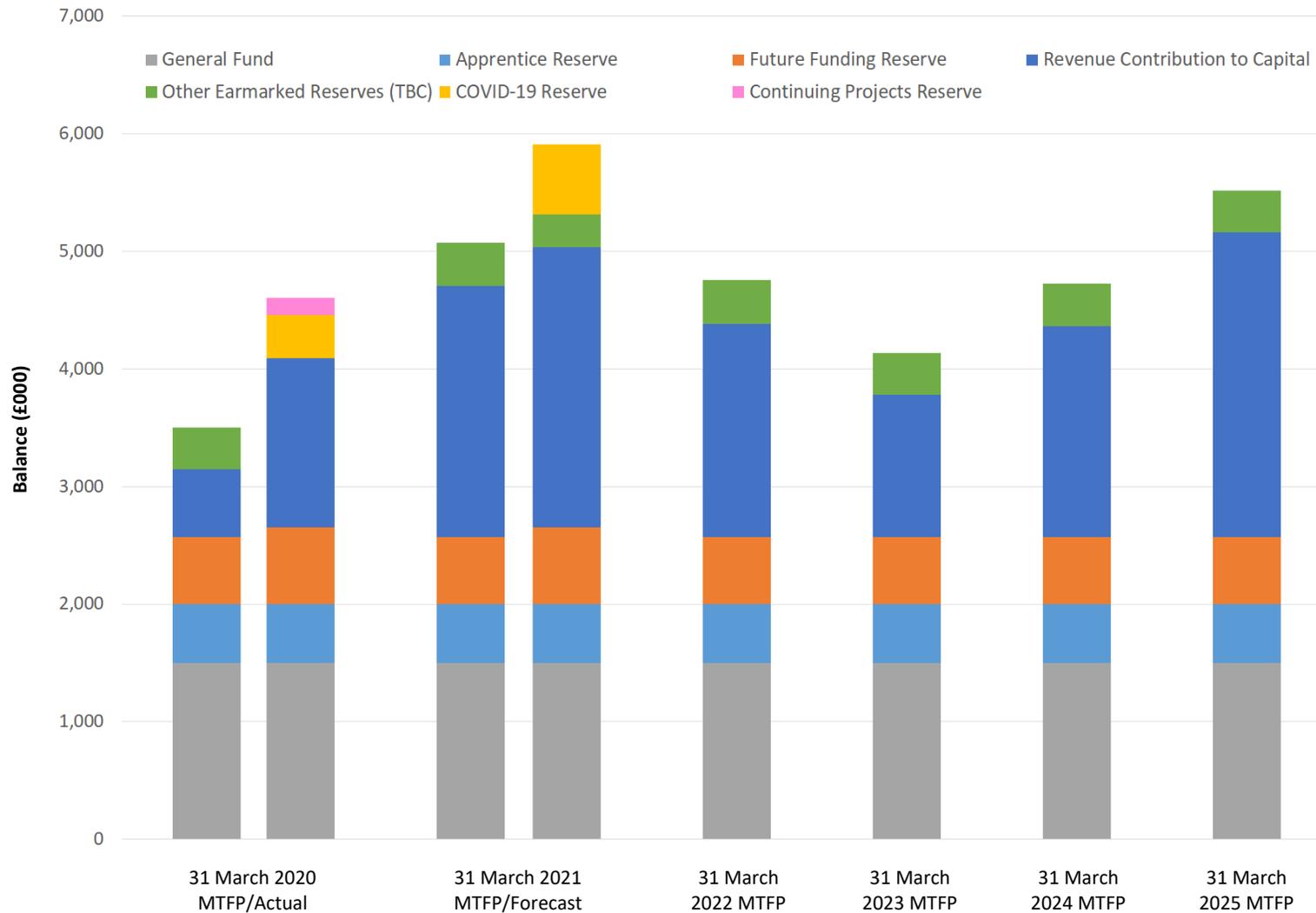
The table below shows the calculation of the amount required to be held in the General Fund.

Budget Assumptions	Financial standing and management assessment/impact	Comments	Amount Required £000
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc.). Rises in the prices of some commodities, eg fuel, highlight the relevance of using a number of inflation rates in the budget and financial strategy, and considering whether general reserves are adequate to deal with unexpected increases. Volatility in the financial markets also points to the need to consider investment and borrowing risks and their impact on income.	Pay inflation is a significant risk if increases above 2% are not funded centrally. The amount required is based on an additional 1% award.	300
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management including the robustness of the medium term plans. Authorities will also need to take into account changes in the property market, and adjust estimates and assumptions for reserves accordingly.	This amount is based on 5% of the total estimated capital receipts within the capital programme	100
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.	An amount has been set aside to help fund any recommendations that may come from the Grenfell Tower inquiry or the McCloud/Sargeant judgement	200
The treatment of planned efficiency savings/productivity gains	The strength of the financial information and reporting arrangements. The authority should also be in a position to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.	A key future efficiency within the Medium Term Financial Plan is the property saving associated with consolidating our current property portfolio. This is the amount required if planned savings are delayed by one year.	100

Budget Assumptions	Financial standing and management assessment/impact	Comments	Amount Required £000
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and department/directorate level. Risk management measures in relation to partnerships, including consideration of risk allocation. Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.	This amount is based on 15% of the total estimated expenditure on the capital programme for 2020/21. There is a specific risk in relation to vehicles and potential increases in import tariffs.	200
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority's insurance arrangements to cover major unforeseen risks. When considering insurance cover, the structure of the cover as well as the overall level of risk should be taken into account. Risk assessments should be used when balancing the levels of insurance premiums and reserves.	The insurance excess is set at £5,000 for the majority of claims. There is a risk that there may be a large number of high value claims. This value assumes ten claims over £5,000 in any one year.	50
The general financial climate to which the authority is subject	External factors, such as future funding levels expected to be included in Spending Reviews and expected referenda principles and limits, will influence an authority's ability to replenish reserves once they have been used. Any plans for using reserves will need to consider the need and ability of the authority to replenish the reserves, and the risks to which the authority will be exposed whilst replenishing the reserves.	There are risks to the continuation of the fire specific revenue grants that the Authority currently receives, covering Urban Search and Rescue (USAR), Firelink (control room communication links) and pension grant funding. This amount is based on 10% of the specific grants receivable for 2020/21. An additional £250k has been included due to additional risks posed by Covid-19	550
Total Required			1,500

PROJECTED RESERVE BALANCES OVER MEDIUM TERM FINANCIAL PLAN PERIOD

The chart below shows balances forecast in the MTFP approved in February 2020 vs. actual/latest forecast balances.



Of the amounts on the previous page, the following reserves and forecast year-end balances could be used to meet a potential funding deficit in 2021-22:

- Apprenticeship Reserve (£500k)
- COVID-19 Reserve (£595k)
- Future Funding Reserve (£651k)

This gives a total potential one-off use of reserves to allow the Authority time to implement necessary actions of circa £1.75m. (It is anticipated that a significant portion of the reserves currently forecast as 'other earmarked TBC' will be required to be placed into a Protection reserve as they relate to specific funding so would not be available for other purposes). Should an amount higher than £1.75m be required the Authority could also look to utilise some of the Revenue Contribution to Capital Reserve and reprofile the capital programme.

EXTRACT FROM NATIONAL FRAMEWORK REFERENCE RESERVES

Reserves

- 5.7 Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
- 5.8 Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- 5.9 Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:
- how the level of the general reserve has been set;
 - justification for holding a general reserve larger than five percent of budget; and
 - details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.
- 5.10 The information on each reserve should make clear how much of the funding falls into the following three categories:

Annex 1

- a) Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- b) Funding for specific projects and programmes beyond the current planning period.
- c) As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)