

**Hampshire Fire and Rescue Authority**

**09 February 2011**

**Item 10**

**Budget 2011/12**

**Report by the Treasurer and Chief Officer**

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**1 Introduction**

1.1 This report is an updated version of that presented to the Finance and General Purposes Committee last month. It now reflects their recommendations, the feedback from the budget consultation meetings with the public and the changes to the taxbase and the overall position in the billing authorities' collection funds.

**2 Summary**

2.1 The Authority agreed a draft budget at its last meeting, but in advance of the local government finance settlement. It was based on acceptance of the Government's 'council tax freeze offer' which provides a grant (equivalent to a 2.5% council tax increase for 2011/12) in each of the four years of the spending review.

2.2 The provisional settlement was announced on 13 December and confirmed on 31 January and the Authority received increases in formula grant for 2011/12 and 2012/13. Neither the capital funding settlement for fire and rescue authorities or details of the new fire funding grant (rolling-up the current specific grants) have been announced. This causes some uncertainty in setting both the 2011/12 revenue and capital budget and in agreeing the medium term financial strategy and four-year capital programme. As such the report proposes that the Authority will agree the budget for 2011/12, assuming current levels of specific grant will continue in the new fire funding grant, and that the current capital programme will be maintained in 2011/12.

2.3 The unexpected formula grant increases for 2011/12 and 2012/13 add to our uncertainty over the scale of grant cuts for 2013-2015. It is still expected that, overall, fire and rescue authorities will have a 25% reduction over the four-year settlement period. These uncertainties have influenced our latest assessment of the Authority's financial risks and have led to the proposal to increase the general balance and to restore, and where possible build, earmarked reserves.

**3 Recommendations**

1. That the revenue budget for 2011/12 as set out in Appendix 2c be approved.

2. That the Capital Programme for 2011/12 set out in appendix 6 be approved.
3. That the recommendations set out in appendix 8 covering the Treasury Management Strategy, associated Prudential Indicators and the Policy on Minimum Revenue Provision be approved.
4. That the total budget requirement for the general expenses of the Authority for the year beginning 1 April 2011 be £68,674,000.
5. That the Authority's basic council tax for the year beginning 1 April 2011 be £61.38.
6. That the Authority's council tax for the year beginning 1 April 2011 for properties in each band be:

Band A	£40.92	Band E	£75.02
Band B	£47.74	Band F	£88.66
Band C	£54.56	Band G	£102.30
Band D	£61.38	Band H	£122.76

7. That Precepts be issued totalling £38,900,960.96 on the billing authorities in Hampshire, requiring the payment, in such instalments and on such dates set by them and previously notified to the Authority, in proportion to the taxbase of each billing authority's area as determined by them which are set out below:

Basingstoke and Deane Borough Council	64,655.00
East Hampshire District Council	48,332.33
Eastleigh Borough Council	44,368.15
Fareham Borough Council	42,796.00
Gosport Borough Council	27,595.10
Hart District Council	37,967.18
Havant Borough Council	42,925.00
New Forest District Council	73,047.60
Portsmouth City Council	59,914.90
Rushmoor Borough Council	31,671.86
Southampton City Council	66,644.00
Test Valley Borough Council	45,875.00
Winchester City Council	47,980.46
Total	<u>633,772.58</u>

## 4 Settlement outcomes

4.1 The draft local government funding settlement was announced by the Department of Communities and Local Government (CLG) on 13 December 2010 with the final announcement on 31 January 2011. The final settlement was just £2,000 less than the provisional figures announced in December. So far as formula grant is concerned, the main points to note are:

- Fire and rescue authorities had been told to expect 'back-loaded' grant reductions of 25% over the next four years. But Hampshire, and five other combined fire authorities, unexpectedly received marginal increases in grant settlements for the first two years.
- For 2011/12 our grant will increase by 0.23%, and for 2012/13 by 2.57%. This is after applying 'damping' (the method used by the Government to limit the effect of grant changes from year to year).
- On average, single-purpose fire and rescue authorities saw their formula grants cut by 5.83% in 2011/12 and by 0.45% in 2012/13 (a total of about 6.5% reduction).
- The detailed settlement covers just the first two years of the four-year spending review period. The scale and timing of formula grant reductions for the second two years have not been announced. This is because the Government intends to review and implement a new formula for grant distribution from 2013/14. This makes it difficult for us to be confident in our medium-term financial planning.
- The council tax freeze grant for 2011/12 was confirmed. In agreeing the Draft Budget report at the Fire Authority on 8 December, members agreed to set a zero per cent council tax increase for 2011/12 in return for additional Government grant equivalent to a 2.5% council tax increase.

4.2 On capital funding, the position is even less clear. Although the information for individual local councils has been announced, the details for fire and rescue authorities have not. At the time of preparing this report, all we know is that there will be a total of £70m capital grant available in 2011/12 and that details on how this will be allocated have yet to be announced.

4.3 CLG also announced that, from 2011/12, a new 'fire funding grant' will replace the existing four specific grants. The value of these grants to us in 2010/11 totalled £1.1m and are used to fund expenditure on the operation of 'Urban Search & Rescue' (USAR)/'New Dimension' vehicles. Again, at the time of preparing this report, the details have not been made available.

4.4 Because we remain uncertain about: (a) capital and specific grant allocations for 2011/12, and (b) the scale and timing of formula grant reductions in 2013/14 and 2014/15 – a number of assumptions have been made in preparing this budget:

- That the new 'fire funding grant' in 2011/12 will be at the same cash level as the current specific grants for operating USAR/New Dimension vehicles. If there are

reductions in grant, then we will need to reduce our spending proportionately.

- That the draft capital programme for 2011/12, reported to the Authority in December, goes ahead as planned. But there are risks. Any funding shortfall – resulting from reduced Government grant allocations and the value / timing of capital receipts – would need to be met from increased revenue contributions and/ or from reserves.
- That, in anticipation of the significant ‘back-loaded’ reductions in Government grant from 2013/14, the need to make significant on-going savings remains. These will need to come mainly from reductions in staffing costs. The two corporate objectives: ‘Efficient and Flexible Crewing’ (EFC), and the comprehensive ‘Staff Review’ will identify the scope and timing of the reductions that will need to be made.
- That the opportunity be taken, over the next two years, to increase reserves and balances in line with assessed risks and future pressures. This will put the Authority in a better position to deal with the scale of the grant reduction and also the one-off, up-front, costs associated with making staffing reductions.

## **5 Changes to the draft budget**

- 5.1 A number of changes have been made to the draft budget presented to the Authority in December 2010. If we receive any details about the new ‘fire funding grant’ and capital grant position then it will be presented at the meeting.
- 5.2 The cost of operating the new national radio scheme (Firelink) transfers from CLG to fire and rescue authorities from next year. This is unavoidable growth. The cost in 2011/12 will be £135,000 and the full-year cost from 2012/13 will be £183,000. The costs will be index-linked to changes in the Retail Price Index (RPI) thereafter. These costs have reduced by £100,000 p.a. compared to the figure included in the report to the Finance and general Purposes Committee as the costs of the existing system (which are already in the base budget) will no longer be incurred have been deducted.
- 5.3 The provision for general inflation has been increased to take account of higher gas prices and has also been reviewed to reflect lower inflationary increases on grants. This increases the budget by £46,000 for 2011/12.
- 5.4 These increases can be offset by the unallocated cashable efficiency gains of £485,000 made in 2010/11 which are ongoing. It should be noted that, of these, £261,000 arise from the Staff Review and have been delivered early.
- 5.5 The cost of implementing the new ‘FireWatch’ management information system is now estimated to be £1.24m with ongoing costs of £325,000 p.a. Payments made in 2010/11 will be funded from general underspendings already allocated to the scheme. The estimated costs of £400,000 in 2011/12 and £325,000 from 2012/13 can be accommodated by virements from existing budgets (a combination of the e-focus IT budget and the provision in the base budget for any ongoing costs of equal pay claims, both of which are no longer required).

## Council tax collection fund and taxbase

- 5.6 The final returns have now been received from the billing authorities on their collection fund surpluses/ deficits for years prior to 2011/12. Overall, these show a surplus of £440,000 which is allocated to the Authority. This is a one-off sum and can only be taken into account in 2011/12. It is therefore prudent to use this to increase reserves. This has been included in the overall revenue surplus referred to in paragraph 7.3. This sum is by far the largest the Authority has ever received and should not be taken as any indication of what may be received in future years.
- 5.7 The final taxbase figures have now been received from the billing authorities. There is a small increase in the taxbase which has improved the financial position by £255,000 and in addition to increasing the council tax freeze grant by £6,000.

## 6 The current year: 2010/11

- 6.1 The latest budget monitoring report reported to the Finance and General Purposes Committee last month forecast that there will be an underspend of just under £1m. Given the uncertainties over future capital and revenue funding, it is proposed that the Authority should restore, and where possible build, its 'capital reserve' and enhance its 'grant reduction' reserve. In addition, it has been assessed that the general unearmarked balance should be increased by £500,000 (see paragraph 9.1). It is therefore proposed that £500,000 of the anticipated 2010/11 underspending should be allocated to increase the general balance, and £500,000 to increase the capital payments reserve (to offset the loss in 2010/11 of the expected LPSA2 reward grant contribution). Any further savings that might arise could be added to the grant reduction reserve. However this decision can be left until June when the Final Accounts are approved - and by which time the position on capital funding will be clearer.

## 7 Budget requirement 2011/12

- 7.1 This table summarises the adjustments to the draft base budget (previously agreed by the Authority on 9 December 2010) over the next four years and takes account of the issues described above:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Base budget as reported to HFRA last month	68,182	68,576	69,111	69,746
Changes to inflation provision	46	20	-6	-32
Latest estimate of base budget	68,228	68,596	69,105	69,714
FireLink	135	183	183	183
Less council tax freeze grant	-973	-973	-973	-973
Less efficiencies identified in 10/11	-485	-485	-485	-485
Latest estimate of required budget	66,905	67,321	67,830	68,439

- 7.2 Appendix 1 sets out the details of the base budget calculation and Appendices 2a and 2b outline the medium-term revenue base budget for 2011/12 to 2014/15 with 2a assuming no council tax increase in any year whilst 2b assumes a 2.5% increase each year from 2012/13. Appendix 2c sets out the detailed budget for 2011/12.
- 7.3 For 2011/12 we are anticipating a surplus of £1,769,000 (as set out in Appendix 4). This can be added to reserves. It is recommended that £440,000 (a sum equivalent to the council tax collection fund surplus), be added to the grant reduction reserve; and that £1,329,000 (the balance of the surplus) be added to the capital payments reserve. This is in line with the proposals to build reserves.

## 8 Medium term financial strategy

- 8.1 The medium term financial strategy must reconsider the potential reductions in formula grant over the four years of the spending review period. Although the Authority has been fortunate in receiving unexpected increases in grant of 2.8% in the first two years this purely down to the implementation of the current funding formula.
- 8.2 We know from the spending review announcements that the settlement for fire and rescue authorities would be back-loaded and that grant reductions would be 25% over four years. Given that - across the board - fire and rescue authorities have seen grant reductions of about 6.5% in the first two years, it would be reasonable to expect reductions averaging 18.5% in the second two years. We can only speculate at this stage on what the new grant allocation formula (from 2013/14) will actually mean for Hampshire. For planning purposes, it was considered prudent to assume grant reductions of 9.25% in 2013/14 and in 2014/15 when the updated budget was presented to the Finance and General Purposes Committee and the budget consultation meetings. One of the outcomes of those meetings was to reconsider the potential worst case scenario for the MTFs, and the assumption of the grant reductions in 2013/14 and 2014/15 should be increased to 12.5% in each year (i.e. a total of 25% given that the Authority has not seen its grant reduced in 2011/12 or 2012/13).
- 8.3 At its last meeting, the Authority agreed to consult on budget options assuming: (a) a council tax freeze over the three years 2012/13 to 2014/15; and, (b) increases of 2.5% in each year. There were no particular concerns raised about levels of council tax increases in future years assuming any increases were in the range of 0 – 2.5%, Notes from the budget consultation meetings are in appendix 9.
- 8.4 The cumulative funding gap for the four year period 2011/12 to 2014/15 under each scenario is set out in full in Appendices 4 and 5 and summarised in the table below:

	2012/13	2013/14	2014/15
	£000	£000	£000
Funding surplus (+) /gap (-) assuming <b>2.5%</b> increase in council tax	2,640	-630	-3,500
Funding surplus (+) /gap (-) assuming <b>0%</b> increase in council tax	1,670	-2,600	-6,500

8.5 The proposals for reducing expenditure – as set out in the original draft budget report – remain critically important. The two corporate objectives: ‘Efficient and Flexible Crewing’ (EFC), and the comprehensive ‘Staff Review’; together with any new savings proposals will need to identify how the funding gap can be dealt with. The aim is to identify how expenditure on staffing can be reduced by 15% by 2014/15. It is accepted that these reductions will involve significant upfront implementation costs (occurring mostly within 2012/13). Work will continue to develop these savings plans and report them to the Authority with a detailed assessment of the implementation costs and timing.

## **9 Level of reserves and general balance**

### **General balance**

9.1 The detailed work re-assessing the Authority’s major financial risks has now been undertaken. The analysis is summarised in Appendix 3. Given the assessment of the increased risks in the current financial climate, it is recommended that the level of general reserves be increased from £2m to £2.5m from 2011/12, funded from the anticipated 2010/11 underspend (see also 6.1 above). The public consultation supported the building up of reserves during these two relatively good years in the light of the difficult budget position ahead, recognising it as good business sense.

### **Specific reserves**

9.2 The Authority also has specific reserves to provide for future spending. These are:

- ‘Improvement and sustainability reserve’. This is used to help deliver in-year value for money improvements, and to ‘pump-prime’ environmental initiatives. The expectation is that the level of the reserve will be largely maintained by reinvesting any tangible efficiency gains from actions which the reserve has funded. This is expected to total £2,295,000 at the end of 2010/11 (having been increased to cover the FireWatch project), As there is now unlikely to be a call on this reserve in 2010/11, it is proposed that it be maintained at this level in 2011/12 to deal with any unfunded costs arising from the need to implement an alternative new command and control system. [Note: Now that the Regional Control Centre (RCC) project has been scrapped, there will be a need to implement a new and/or interim system from 2013/14 when our current system becomes obsolete. The extent of Government funding to assist fire and rescue authorities deal with the consequences of the scrapping of the RCC project is currently unclear. However, we will work collaboratively with other partner organisations to find a cost-effective long-term solution]. The base budget does include a £100,000 contribution to this reserve from the IT budget (resulting from the IT overspend in 2010/11). Given that the level of this reserve does not need to increase, it is recommended that this contribution be made to the capital payments reserve.
- ‘Capital payments reserve’. This provides an essential resource for the capital programme and helps to reduce the need for borrowing. It had been hoped to add the 2010/11 LPSA2 grant of £500,000 to this reserve; however as Members will be aware, this was cancelled by the Government. Given the uncertainty over future

capital funding both from Government grant and through capital receipts it is proposed that a contribution of £500,000 is made from the underspends being delivered in the current year. The balance on this reserve would be £745,000 at the end of 2010/11. Paragraph 11.2 below sets out the potential for a significant capital funding shortfall for 2013-15.

- 'Grant reduction reserve'. This was established in the current year in anticipation of the expected Government grant reductions in future years. The budgeted contribution in 2010/11 to this new reserve is £607,000. The proposed contribution in 2011/12 (referred to in paragraph 6.3) would bring the balance to £1,120,000 at the end of 2011/12.

9.3 The table below sets out a summary of the proposals in relation to the general balance and reserves:

	General Balance £000	I&S Reserve £000	Capital Paym'ts Reserve £000	Grant Red'n Reserve £000	E/arked u/spend Reserve £000	Total £000
<b>Balance 31.3.10</b>	<b>2,000</b>	<b>2,295</b>	<b>926</b>	<b>340</b>	<b>441</b>	<b>6,002</b>
Budgeted contribution 2010/11			245	340		585
Less estimated use in 2010/11			-926		-441	-1,367
Proposed addition in this report	+500		+500			1,000
<b>Estimated balance 31.3.11</b>	<b>2,500</b>	<b>2,295</b>	<b>745</b>	<b>680</b>	<b>0</b>	<b>6,220</b>
Proposed contribution from IT budget			100			100
Proposed contribution from council tax surplus				440		440
Proposed contribution from budget surplus			1,329			1,329
Less estimated use in 2011/12			-745			-745
<b>Estimated balance 31.3.12</b>	<b>2,500</b>	<b>2,295</b>	<b>1,429</b>	<b>1,120</b>	<b>0</b>	<b>7,344</b>

## 10 Capital

10.1 No changes have been made to the proposed capital programme presented to the Authority in December and this is reproduced as Appendix 6. However, given the unclear position on Government support in financing the programme, it is recommended that the Authority approve only the 2011/12 capital programme and that the programme for 2012/13 onwards remains - at this stage - an indication of the Authority's capital proposals. Once the capital settlement is clear then the forward capital programme will be reviewed and brought to the Authority for approval later in the year.

## 11 Capital financing

11.1 The financing of the capital programme has been reworked following the grant announcement. The following assumptions have now been made:

- There will be no supported borrowing allocation from 2011/12 onwards. This removes revenue costs associated with borrowing of £39,000 from the draft budget presented to the Authority last month for 2011/12 which rose to £1,303,000

by 2014/15.

- That this Authority's share of the £70m capital grant available nationally will be £2.4m which assumes a taxbase allocation.
- All potential capital receipts have now been incorporated
- That a contribution of £500,000 is made to the capital payments reserve from the 2010/11 underspend as set out in 6.1.

11.2 The proposed financing is set out in detail in Appendix 7. It can be seen that, with the above proposals, that there is a shortfall in funding of £0.3m in 2013/14 and £0.8m in 2014/15. As explained above, once the capital settlement is known, the capital programme will be reviewed in the light of available funding.

## **12 Treasury Management Strategy**

12.1 The Authority is responsible for approving the annual treasury management strategy which includes some specific recommendations. The Strategy is set out in Appendix 8. In the past, the Authority has separately approved the prudential indicators and the methodology for calculating the minimum revenue provision. These are now incorporated within the treasury management strategy document.

12.2 The treasury management strategy has been reviewed in the light of the appointment of treasury management advisers, Arlingclose, by the Treasurer, for the Authority. The strategy for borrowing previously focused on the new capital financing requirements of the capital programme and the replacement of maturing loans. Going forward the intention is to take a more active approach to managing the portfolio of existing borrowing looking for opportunities which may arise in an environment of changing interest rates to refinance some borrowing to offer improved revenue costs of capital financing. Consequently, the prudential indicators related to borrowing limits have been reviewed to set reasonable upper limits and yet enable flexibility within delegated powers for the Treasurer to secure any opportunities which do arise.

12.3 The strategy reflects the changed capital financing environment for the Authority with the move to capital grant from supported borrowing. It is necessarily reflecting the proposal to the Authority to approve the capital programme for 2011/12 only and as a planning framework for the forward three years pending the detail of the capital settlement. The settlement is likely to trigger a review of the forward capital programme and thus the capital financing requirements.

12.4 For investments, the strategy takes account of the budget proposal to build reserves for use in the forward years, recognizing the potential for longer term investment opportunities.

## **13 Supporting our corporate aims and objectives**

13.1 One of the Authority's priorities is to manage resources (staff, buildings and IT systems) in a cost-effective way. The unprecedented pressures on our budget for the foreseeable future will demand that current and future corporate objectives focus on driving down costs. Any new initiatives are likely to be on the basis of investing to save.

## **14 Risk analysis**

14.1 The Authority's Strategic Risk Register includes: 'Failure to plan and react to the implications of Comprehensive Spending Review'. A number of current and proposed controls are described. The better than expected formula grant settlement for the first two years, will enable the Authority to increase reserves and balances to help mitigate the impact of significant grant reductions from 2013/14. Appendix 3 deals specifically with the assessment of financial risk.

## **15 People impact assessment**

15.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998, and the Race Relations (Amendment) Act 2000.

15.2 Any proposals for reductions in staffing and any other savings initiatives will be subject to specific people impact assessments.

## **16 Consultation**

16.1 Formal consultation on the budget took place on 13 January 2011. Because the Authority has agreed not to increase council tax in 2011/12 (in return for a specific grant from the Government equivalent to a notional 2.5% increase in council tax), consultation focused on the Authority's medium-term financial strategy. The feedback has been referred to throughout the report and is attached as appendix 9.

## **17 Background papers**

17.1 The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

None

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.

## List of Appendices

Appendix 1	Calculation of the base budget
Appendix 2a	Outline revenue base budget 2011/12 – 2014/15 assuming 0% council tax increases from 2012/13 (green)
Appendix 2b	Outline revenue base budget 2011/12 – 2014/15 assuming 2.5% council tax increases from 2012/13 (green)
Appendix 2c	Detailed revenue budget 2011/12 (green)
Appendix 3	Assessment of the Authority's financial risk and the levels of reserves and balances needed (2011/12)
Appendix 4	Budget planning model – assuming 0% council tax
Appendix 5	Budget planning model – assuming 2.5% council tax
Appendix 6	Proposed capital programme 2011/12 – 2014/15 (yellow)
Appendix 7	Financing of capital programme 2011/12 – 2014/15 (yellow)
Appendix 8	Treasury Management Strategy (lilac)
Appendix 9	Feedback from budget consultation meetings