

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 7

29 July 2011

Medium-term financial strategy: update

Report by the Treasurer

Contact: Sarah Pook Telephone: 01962 847045

1 Summary

- 1.1 The main issue for our medium-term financial strategy is continuing uncertainty about the future of central government funding. Although the Authority received a higher than expected grant settlement for 2011/12 and 2012/13, we do not know the scale of reduction in grant for 2013/14 and 2014/15. For planning purposes we have assumed a reduction of 12.5% in each year. A number of projects are underway that will reduce expenditure in line with this assumption. Also, the Authority has previously agreed to increase its levels of reserves to mitigate the potential detrimental impact of any higher than anticipated reductions in grant from 2013/14. The 'final accounts' and 'budget monitoring' reports (also on this agenda) show that there is scope to support the cost of change and ensure delivery of expenditure reductions further increase reserves and balances from planned underspending in the current year.

2 Recommendation

- 2.1 That the Committee considers and comments on the issues and assumptions made in this review of the Authority's medium-term financial strategy, setting the framework for the preparation of the draft budget in December 2011.

3 Introduction and background

- 3.1 The medium-term financial strategy was last considered by the Authority at its meeting on 9 February 2011 as part of the 2011/12 Budget report. It reflected on:
- the spending review announcement that the settlement for fire and rescue authorities would be back-loaded and that grant reductions would be 25% over four years; and,
 - the unexpected increase in grant of 2.8% in the first two years (2011/12 and 2012/13) for the Authority set against average reductions across all fire and rescue authorities of 6.5%.

As such, the worst case scenario for the strategy was an assumption that the grant reductions for the Authority in 2013/14 and 2014/15 would be 12.5% in each year (a total of 25%) on the basis that the Authority has not had its grant reduced in 2011/12 or 2012/13.

3.2 The strategy has been developed making the following assumptions:

- pay awards of 1% from 2013/14
- price inflation of 2.5% per annum
- pension payments continuing at 2.5%
- a capital programme based on the Authority receiving the same level of supported borrowing as in 2010/11
- continuing the policy of making revenue contributions to capital schemes (base of £730,000 each year with a small reduction of £22,000 in 2012/13 reflecting the costs of selling assets).
- council tax increases in future years in the range 0 to 2.5%.

These assumptions indicated the following surpluses/deficits in funding over the next three years:

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

3.3 Capital was (and remains) less clear with the late announcement of capital grant for 2011/12 only. Because of this, the Authority approved only a one-year programme. The assumption was that there will be no supported borrowing from 2011/12 onwards. The Authority therefore approved a contribution of £500,000 to the capital payments reserve from the anticipated 2010/11 underspend. Work is underway to review the capital programme proposals for the authority for the coming three years and the current position is set out in this report. The Capital grant announcement for 2012/13 has not been made yet, the capital programme and proposed financing will be brought forward with the draft budget in December 2011.

4 Review of the assumptions in the medium-term financial strategy

2010/11 outturn

- 4.1 The final accounts report for 2010/11 (also on the agenda) shows that a significant underspending that has been achieved. Some of the underspend is on-going and attributable to the early action taken to freeze recruitment in anticipation of implementing future staff review proposals.
- 4.2 The underspending provides the opportunity to enhance levels of reserves. The report proposes:

- an increase in the general balance to £2.5m which is in line with the risk assessment carried out in setting the 2011/12 budget;
- an increase in the grant reduction reserve of £500,000 which, when combined with the previously planned contributions in 2010/11 and 2011/12 will provide sufficient to cover the potential cost of the voluntary redundancy scheme; and,
- a contribution of £1.19m to the capital payment reserve in view of the uncertainty about future capital funding sources.

2011/12 forecast outturn

- 4.3 The budget monitoring report (also on this agenda) indicates a potential underspend of £1.7m. This will put the Authority in a better position to deal with any higher than expected reductions in grant and provide some limited opportunities to progress some 'invest to save' projects.
- 4.4 Also on the agenda, is a progress report on reducing energy costs and impact on the environment. The report sets out opportunities in the short- and medium-term to invest to make both revenue savings and carbon reduction. The short-term projects are addressed in the monitoring report. They include basic heating system improvements at Service Headquarters and voltage optimisation. The longer-term projects include replacement of the boiler / heating system at Headquarters and the potential to install Solar Photovoltaic systems (Solar PV) on Service buildings. These will be considered in the 2012/13 draft budget and future capital programme. It will be possible to fund to at least some of the projects from the 'improvement and sustainability' reserve.

Reviewing the planning assumptions

- 4.5 The planning assumptions need to be kept under review in the lead up to the draft budget in December. Particular areas of concern are around interest rates, inflation and pay and pensions. For pensions the key issue is the outcome of the valuation of the firefighters' scheme and the potential for an increase in employer's contributions. There are mixed messages from the department for Communities and Local Government (CLG) on the scale of any increase and the phasing of it. A 1% increase in employer's contributions would give an additional budget pressure of £300,000.
- 4.6 Looking ahead to the second two years of the settlement, the Local Government Resource Review is expected to be implemented. The consultation document has just been launched with the aim of changing the balance of funding for local authorities, returning local business rates to them and giving the potential for reward from delivering economic growth. At this stage it is unclear exactly how this will operate for a combined fire authorities. But from the announcement on 19 July 2011, it is understood that both the police and fire sectors will receive the level of funding for 2013/14 and 2014/15 that was agreed as part of the 2010 Spending Review; and that funding will not be affected by fluctuations in business rates. We are told that the way fire and police are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. This is somewhat reassuring, but at this stage we still do not know what level of funding we

will receive in 2013/14 and 2014/15.

- 4.7 The 'Green Book' staff budget includes a reduction for turnover representing both period of vacancy between staff leaving and new staff being recruited, and the difference between the top and bottom of the pay grade when a new appointment is made. With staffing costs being reduced by 15% in the implementation of the Staff Review, it is anticipated that these turnover savings will no longer be achievable so it is proposed to consider increasing the green book pay budget by £330,000 (3.8%) to enable full funding of the new establishment.

5 Savings proposals

- 5.1 The proposals for reducing expenditure to address the forecast funding shortfall over the four years of the settlement period are:
- Efficient and Flexible Crewing
 - Staff Review
 - Eight specific efficiency proposals covering:
 - travelling and overtime
 - operational equipment and appliances
 - rationalising emergency response
 - training and development budget
 - emergency catering at incidents
 - networked fire control services
 - selective paging
 - partnership working.
- 5.2 The Efficient and Flexible Crewing project aims to achieve a reduction of 40 firefighters against the current establishment of 628 by the end of Year 4 (with an anticipated saving of £1.4m). Work is also underway to consider reductions of a further 24 firefighters. A 10% reduction in the establishment that would produce an estimated saving of £2.3m by 2014.
- 5.3 The Staff Review proposals as currently drafted, and if implemented in full, would reduce pay costs by over £2.5m (15%) by 2014/15. The proposals are subject to the outcome of consultation with staff and their trades unions representatives.
- 5.4 The eight efficiency projects are at various stages of consideration and implementation. Early estimates suggest the potential to achieve savings totalling about £2m over the next four years. The Financial Challenge Programme Board (chaired by the Chief Officer) is scrutinising each proposal and examining the risks and timescales for implementation. This work will help to determine how confident we can be in meeting the funding shortfall and lead to the development of firm budget saving proposals for the 2012/13 draft budget (presented to the Authority in December 2011).

6 Capital Programme development

- 6.1 We are currently reviewing the capital funding needs of the Service over the next three years – taking into account anticipated reduced funding from central

government. This includes consideration of:

- Vehicle replacement programme and the impact of extending the life of vehicles – 2012/13 and 2013/14 likely to be less than £2m in each year
- Replacement of Basingstoke Fire Station from 2013/14.
- Replacing the obsolete Fire Control system – working with other fire and rescue authorities to provide a networked solution through a joint procurement approach. This should attract some funding from CLG to support the project.
- Solar PV installations
- Headquarters boiler replacement
- Capital receipts [latest position will be reported orally at the meeting].

6.2 A forward capital programme will be developed for the three years 2012/13 to 2014/15 as part of the draft Budget. By that time it is hoped that there will be more detail on the capital grant allocations for 2012/13 from CLG.

6 Supporting our corporate aims and objectives

6.1 One of the Authority's five priorities is to manage resources (our staff, buildings and IT systems) in a cost-effective way and assess activities and any new initiatives to check that our investment in them is worthwhile. Having a robust medium-term financial strategy - that is continually reviewed and updated - is an essential process for the successful planning and management of those resources.

7 Risk analysis

7.1 The main risks arise from uncertainty and the level of confidence in the assumptions made in the strategy. Notably, the future of central government funding and the assumptions about future inflation (pay and prices). The other main risk is our ability to successfully implement the projects for expenditure reduction. To mitigate these risks, the assumptions in the strategy will be continually reviewed in the light of any new information received from Government and elsewhere. Also the Financial Challenge Programme Board will monitor progress on each of the efficiency projects.

8 People Impact Assessment

8.1 There are no issues of concern to report at this stage in developing to strategy. Each project will be subject to its own impact assessment. Therefore, 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.

9 Environmental and sustainability impact assessment

9.1 A number of projects are referred to that aim to reduce the Service's carbon footprint. Each scheme will be assessed in terms of the positive contribution it can make.

10 Resource implications

10.1 There are no significant resource implications in producing and updating the medium-term financial strategy.

11 Background papers

11.1 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.