

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

28 October 2011

Provisional budget 2012/13 – 2014/15

Report by the Chief Officer and Treasurer

Contact: Rob Carr, Treasurer Telephone: 01962 847508

David Howells, Director of Corporate Services Telephone 023 8064 6834

1 Summary

- 1.1 This report considers various budget issues for the next three years together with parameters for setting the 2012/13 budget and council tax. It builds on the position presented in the Medium Term Financial Strategy (MTFS) in July.
- 1.2 The report deals with the three years to 2014/15 representing the final year of the current Comprehensive Spending Review (CSR). Current indications are that funding for fire and police authorities will be fully reviewed during this time and a new regime introduced from 2015/16 onwards.
- 1.3 Expected levels of grant in the last two years of the CSR period remain the biggest unknown factor. Following the unexpected 2.8% increase in our grant settlement for the first two years of the CSR period, recent information attempting to clarify the level of fire grant for the last two years have proved to be unhelpful. It is therefore prudent to assume grant reductions of up to 12.5% in both 2013/14 and 2014/15.
- 1.4 We have set out - in previous reports to the Committee and Authority - our key financial policy aims for the CSR period. We have now updated these and they can be summarised as follows:
 - Focus on improving efficiency and making savings that have the least detrimental impact on our ability to deliver our core services to the public. But given the potential scale of the challenge, we are continuing to thoroughly review the way we manage and deploy all our resources.
 - Plan to underspend in 2011/12 and 2012/13 and carry forward funds to mitigate the difficult position expected from 2013/14.
 - Keep reserves and balances sufficient to match financial risks - including that of uncertainty in the economy.
 - Be mindful of the financial pressures on householders and restrict any council tax increases as much as is practically possible.

- Take into account the impact of increases in general inflation, pay and pension costs in the short and medium term.

1.5 With these policy aims in mind, this report considers the impact on the budget preparation process and recommends some assumptions to be used in forecasting the cost of continuing current levels of service.

2 Recommendations

2.1 That the assessment of funding pressures and planning assumptions set out in this report be endorsed as a basis for preparing the Authority's budget for 2012/13.

2.2 That the government's offer to award a 3% 'council tax freeze grant' [payable for 2012/13 only] be accepted; and, that the draft budget for 2012/13 be developed taking this new grant into account.

2.3 That, given the scenarios set out in section 10 of this report, Members consider what, if any, council tax increase they would be willing to recommend for 2013/14 and 2014/15.

3 Introduction and background

3.1 The medium-term financial strategy was last considered in July 2011 in the context of:

- a back-loaded 25% grant reduction for fire and rescue authorities over the four years of the spending review period; and,
- an unexpected increase in grant of 2.8% we are getting for the first two years (2011/12 and 2012/13) . This compares with an average reduction in grant across all fire and rescue authorities of 6.5%.

So, the worst case scenario for the Authority was an assumption that 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 will not have had its grant reduced in 2011/12 or 2012/13.

3.2 The strategy was developed making the following assumptions:

- pay awards of 1% from 2013/14
- price inflation of 2.5% per annum
- pension payments for which the Authority is responsible 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 – with a baseline of £730,000 in each year (with a small reduction of £22,000 in 2012/13 to take account of the impact of selling assets).
- council tax increases in future years in the range 0% to 2.5%.

3.3 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	(*)	-630	-3,500
Funding surplus (+) / gap (-) assuming 0% increase in council tax *	+2,837	-2,600	-6,500

3.4 (*)The 2012/13 position assumes that the Authority will accept the recently announced 'council tax freeze grant' - the equivalent of a 3% increase in council tax [for 2012/13 only]. This is why an alternative figure has not been provided in the table against a 2.5% council tax increase assumption.

3.5 Because the council tax freeze grant for 2012/13 is payable for one year only, it has no positive benefit for the expected long-term base budget deficit position. But, it would provide a higher level of budget surplus in the year and this can be used to further bolster reserves and deal with any one-off costs in the future.

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

2010/11 outturn

4.1 The final accounts report for 2010/11 showed that a significant underspend had been achieved. Some of the underspend is on-going and is attributable to the early action taken to freeze recruitment in anticipation of implementing proposals in the Staff Review and the Efficient and Flexible Crewing projects.

4.2 The underspend provided the opportunity to enhance levels of reserves and the following allocations were agreed:

- 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 £0.5m 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 Current forecasts indicate a potential underspend of over £2.0m in 2011/12. 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' and environmental improvement projects.

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. Although recent economic changes have signalled a further likely prolonged period of low interest rates, inflation remains very high. Inflation in fuel and energy prices also have an impact on our operational costs; and, there are concerns about assumptions for pay and pensions costs in the medium and longer term.
- 4.6 For pay, the assumption is that the Government's two year pay freeze will remain in place and no provision is made for pay inflation in 2012/13. The recent consultation about increases in employees pension contributions and the continued high level of price inflation – with Consumer Price Index (CPI) now at 5.2% – will undoubtedly generate pressure for increases in 2012/13 and potentially higher than currently anticipated awards from 2013/14 onwards. This is a key risk to the budget strategy and it is suggested that potential pay award increases in excess of those in the strategy are tracked by council tax increases to avoid widening the budget deficit.
- 4.7 For pensions the key issue is the potential for an increase in employer's contributions. The Department for Communities and Local Government has recently confirmed that there will be no increase in the rate for 2012/13, but discussions will take place on the position for future years in due course. A one percent increase in employers' contributions would give an additional budget pressure of around £300,000.
- 4.8 Looking ahead to the second two years of the settlement, the Local Government Resource Review is expected to be implemented. Our response to the consultation supported a position that provided fire and rescue authorities with fixed grant settlements for 2013/14 and 2014/15 – and which would not be subject to any gains or losses arising from the proposed business rate retention scheme. But we did welcome the proposed review of fire and rescue funding which would be implemented from 2015/16.
- 4.9 Recent figures from the Government still indicate that reductions of around 25% will be made in fire grant over the CSR period. Nationally around 6.5% of this reduction has already been made for 2011/12 and 2012/13, although this did not lead to a reduction in grant in Hampshire (see paragraph 3.1 above). It is therefore possible that grant reductions in the last two years of the CSR might only be 19% - rather the 25% worse-case position we are currently forecasting. Much will depend on the final distribution methodology. Budget scenarios around council tax, inflation and grant changes are discussed in more detail in section 10. It would be prudent to still plan for a worse-case position.

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 firefighter posts 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 firefighter posts in case that becomes necessary to deal with reductions in grant. This further reduction in the fire station-based establishment would produce an estimated saving of £2.3m by 2014/15.
- 5.3 The Staff Review proposals as currently drafted, and if implemented in full, would reduce non-fire station-based pay costs by over £2.5m (15%) by 2014/15. The phased proposals are subject to continuing consultation with staff and their trade union representatives.
- 5.4 The eight efficiency projects are at various stages of consideration of 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. It will help us to refine our efficiency proposals for the 2012/13 draft budget (due to be presented to the Authority in December 2011).

6 Capital Programme

- 5.1 The Authority has supported an extensive capital programme over the past three years covering new-build and major repairs to buildings and a full vehicle replacement programme. The current capital programme for 2011/12 to 2013/14 already anticipated loss of capital grant from 2011/12 - funded from a combination of supported borrowing, revenue contributions and capital receipts. The programme and its funding will be reviewed and the proposed capital programme will be presented to the Authority in December. The draft vehicle replacement programme is also on this Committee's agenda.

7 Current and emerging issues and risks

7.1 There are a number of issues with potentially significant financial consequences which we need to keep under review as we continue to prepare the draft budget. Some are difficult to quantify at present, but broad assumptions can be made.

- Implementation of the 'Firewatch' management information system and the risk/cost of any delay.
- Potential upward pressure on pay inflation.
- Current assumptions about staff turnover and the ability to deliver timely savings from the 'Efficient and Flexible Crewing' and 'Staff Review' projects.
- 'Firelink' (the new national radio scheme) and the impact of the transfer of running costs to fire and rescue authorities
- Failure to implement, on time, those corporate objectives aimed at reducing expenditure in the longer term
- Continuing delays in generating capital receipts from the disposal of surplus property (owing to the continued downturn in the property market).

8 Reserves

8.1 The following table sets out the estimated levels of reserves at the end of 2011/12:

	£000
Capital payments	2,501
Improvement & sustainability reserve	2,295
Grant reduction reserve	1,887
General balance	2,500
Total	<u>9,183</u>

8.2 The above position does not include the current year's projected underspend or the effect of the recently announced council tax freeze grant. The position will be reviewed as part of the process to finalise the 2012/13 budget.

9 Council tax

9.1 Current indications are that the council tax base will not increase significantly in 2012/13. In past years this has provided a means of reducing the precept increase which would otherwise have been required, this wasn't the case for 2011/12 and is not forecast to any great extent for the near future.

9.2 The Authority froze council tax in 2011/12 and received additional grant of £0.973m to compensate for the lost income. This grant is expected to continue during the current

Spending Review period, but no assurances have been given that it will continue after this time. The Government have also just announced funding for a further council tax freeze in 2012/13, although the funding source is only one off and will therefore drop out in 2013/14, creating a pressure on the council tax for that year.

- 9.3 In considering the potential level of council tax increase, the Authority needs to take into account the cumulative impact of applying (or not applying) tax increases as set out in the table in paragraph 3.3 and the future impact of the removal of the government's supporting grant in 2014/5. It should also be borne in mind that the forecasts shown in paragraph 3.3 only assume a 1% increase in pay from 2013/14 onwards. There may well be significant pressure on this assumption given the lack of pay awards in recent years, the proposals for additional employee contributions towards pensions and the high levels of inflation currently being experienced.
- 9.4 As indicated above, although the offer of a further council tax freeze grant in 2012/13 is welcome, the Authority needs to take a longer term view on council tax increases as a means of tracking increases in pay and price inflation. It also needs to smooth out the impact of the 'cliff edges' created by the loss of council tax freeze grant.

10 Budget Scenarios and Proposed Strategy

- 10.1 The absence of firm grant figures for the final two years of the Spending Review, makes it very difficult to recommend a firm budget strategy over the medium term. In addition to the reduction in grant funding, there remains uncertainty over fuel / energy inflation, pay inflation and pension costs. The table below shows the budget impact of 1% change in any of the key assumptions in the current forecast:

	£000
Government grant	300
Pay inflation	500
Employers Pension contributions	300
Council tax	390

- 10.2 From a risk point of view, current assumptions around grant reductions are very prudent but these are in effect balanced by potential inflationary pressures that could build up within the budget over the next three years. At this stage therefore it is not proposed to change the bottom line budget deficit predictions in later years.
- 10.3 A worse-case scenario for the Authority would be a full 25% reduction in grant in a financial climate of high inflationary pressures. In this scenario it would be prudent to consider modest increases in council tax from 2013/14 to help track and offset at least some of the inflationary pressures we may face and to smooth out the impact of the council tax freeze grant reductions.
- 10.4 A best-case scenario would be a grant reduction of only 19%, pay awards in line with our assumptions and inflation levels consistent with the Government's planning assumptions. In such a scenario it would be difficult to justify a council tax increase in 2013/14, however, given the potential pressures on pay inflation and the need to

smooth out the loss of council tax freeze grant, there is a case to recommend modest increases in council tax from 2013/14 onwards, which would continue to keep the Authority's financial position one step ahead, rather than being potentially on the back foot in future years and needing to make larger increases in council tax.

- 10.5 Should the grant settlement and inflation position then prove to be favourable, this puts the Authority in the enviable position of being able to plan and improve the delivery of its services and from a position of financial strength. It would provide the potential for future options of zero or low council tax increases while still being able to maintain and hopefully improve the quality of services we deliver.
- 10.6 Members are therefore asked to consider their approach to the budget in 2012/13 and confirm acceptance of the council tax freeze grant in that year and to consider the council tax for 2013/14 onwards in order that this can be taken into account in producing the draft budget for consultation with stakeholders.

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.