

# **Hampshire Fire and Rescue Authority**

**7 December 2011**

**Item 10**

**Draft Budget 2012/13**

**Report by the Chief Officer and Treasurer**

Contact: Rob Carr, Deputy Treasurer Telephone:01962 847508  
David Howells, Director of Corporate Services Telephone 02380 626833

## **1 Summary**

- 1.1 The draft budget is based on the strategy approved by the Finance and General Purposes Committee at its meeting in October. The strategy takes into account the anticipated reduction in Government grant for the last two years of the Comprehensive Spending Review period; and, the announcement of a further year of council tax freeze grant for 2012/13 (payable for that year only).
- 1.2 For 2012/13 the focus is on continuing to deliver efficiencies that will reduce the base budget in line with projections for later years. For the subsequent three years (2013-2016) a baseline budget scenario is described as part of our medium-term financial strategy (MTFS). This is based on keeping council tax increases as low as possible; but, with the aim of tracking any potential inflationary pressures in pay and prices.
- 1.3 Based on these assumptions, the estimated budget surplus for 2012/13 is over £4.4m (including savings to be implemented in 2012/13) and the gross shortfall (before council tax increases or savings measures) is £10.0m by 2015/16. The report outlines the expenditure reduction and efficiency programmes underway to address this shortfall.

## **2 Recommendations**

- 2.1 That council tax for 2012/13 be frozen in return for a special Government grant [payable in 2012/13 only] which will be based on the equivalent of a 3.0% council tax increase.
- 2.2 That the predicted underspend of at least £2.3m in the current financial year is added to the capital payment reserve to help close the capital funding gap in 2014/15.
- 2.3 That the draft budget and medium-term financial strategy [set out in this report and as amended to take account of any amendments made at the meeting] be

presented at the formal budget consultation meeting on 9 January 2012.

- 2.4 That, following consultation the final budget and council tax be set at the Authority's meeting on 9 February 2012.

### **3 General context**

- 3.1 On 20 October 2010 the Government announced its funding intentions for local government over the next four years. For fire and rescue authorities there would be a 25% reduction in Government formula grant over the four-year spending review period. In the event, we received an unexpected 2.8% increase in our own grant for the first two years. But, there remains uncertainty about grant reductions for the final two years of the spending review period. Recent information suggests that we will not be told until the 'Autumn of 2012'. This is unhelpful and makes medium-term financial planning extremely difficult. Because of this, it remains prudent to assume grant reductions could be as high as 12.5% in both 2013/14 and 2014/15.

- 3.2 The Finance and General Purposes Committee considered the provisional budget strategy at its meeting on 28 October and agreed that the key financial policy aims for this coming four-year period should be to:

- Focus on improving efficiency and making savings that have the least detrimental impact on our ability to deliver our core services. Given the potential scale of the challenge, this will require the thorough review of how we currently manage and deploy 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 identified financial risks - including that of uncertainty in the economy.
- Take account of the pressures on council tax payers and to restrict council tax increases as much as practically possible.
- Take into account likely increases in general inflation, pay and pensions' increases over the next three years.

### **4 The current financial year – 2011/12**

- 4.1 A forecast underspending of at least £2.3m is anticipated by the year end - mainly resulting from planned savings and the current recruitment freeze. It is recommended that this sum is added to the capital payments reserve to meet an anticipated shortfall in funding in 2014/15.
- 4.2 The Service will continue to seek to realise base budget underspendings as a way of increasing reserves to mitigate the financial risks associated with the difficult and uncertain position for the coming years. One key risk is future capital resources and

the level of the capital payments reserve will require particular consideration once the settlement details are known.

## **5 Base Budget 2012/13**

5.1 The base budget [set out in Appendix A] is the full year cost - from 2012/13 onwards - of carrying forward policies approved in the 2011/12 budget. It has been updated making the following assumptions:

- No allowance for any pay award has been made for 2012/13. This is in line with the Government's policy for a two year pay freeze. If any pay award is made, it would reduce the budgeted surplus; and, more importantly, it would have a knock-on effect in future years.
- Price inflation of 2.5%.
- The base budget already includes a 1% increase for employers pension contributions for firefighters, which was anticipated - but not implemented – from April 2010. It has since been confirmed that there will be no increase in 2012/13; but, it is still considered prudent to leave this 1% in the base budget as a contingency.
- Additional council tax freeze grant equivalent to a 3% increase.
- Pension payments at 5.6%
- Specific inflation provision for vehicle fuel and utilities.
- The cost of financing the existing capital programme.
- Revenue contribution to capital of £777,000 in 2012/13.

5.2 The 4 year outline budget 2012/13 to 2015/16 is at Appendix B. The baseline budget in Appendix C shows a surplus of £3.052m which it is assumed will be added to balances in line with the current strategy. In addition, delivery of the efficiency programme is expected to make further savings of £1.353m in 2012/13, increasing the surplus to £4.405m (see section 7 and Appendix D).

## **6 Medium term financial strategy: 2012/13 to 2015/16**

6.1 Despite the uncertainty over future government funding, a medium-term financial strategy (MTFS) has been drafted using mostly 'worse-case' assumptions for: grant reductions, pay and price increases, budget pressures and capital funding requirements in the subsequent three years. Although the funding regime for fire and rescue authorities may be very different in 2015/16, it has been decided to include this year in the MTFS because the first council tax freeze grant is most likely to be removed by the Government in that year.

6.2 In the past, the MTFS has provided a range of figures for budget scenarios around different increases in council tax. In reality, there are three key variables which have a major impact on the budget position in future years:

- pay inflation

- the extent of grant reductions in 2013/14 and 2014/15
- council tax increases.

Even considering just these variables, it is difficult to present - in a coherent way - all possible permutations for consideration. So, the approach has been to look at a 'baseline' model for the next four years; and then consider the impact of some limited different assumptions about each of the variables. The budget strategy reported to the Finance and General Purposes Committee in October considered a proposal to track potential pay and prices increases with council tax increases. The approach taken now shows what impact this might have over the four-year period after taking account of planned savings for this period.

6.3 The baseline MTFS model has been developed making the following assumptions:

- pay awards of 2% per annum from 2013/14
- price inflation of 2.5% per annum
- pension payments continuing at 2.5%
- the capital programme funded assuming the same level of supported borrowing as in 2010/11
- net revenue contributions to capital continuing at £730,000 each year
- grant reduction assumption of 12.5% in each of 2013/14 and 2014/15; and, a grant freeze in 2015/16
- the one year only council tax freeze grant in 2012/13; and, the removal of the first '2.5%' council tax freeze grant from 2015/16

6.4 Appendix C sets out the four-year baseline budget. After taking the above assumptions into account, the cumulative deficit funding position each year, is shown in the table below:

	2013/14	2014/15	2015/16
	£000	£000	£000
Baseline Gap	3,057	7,690	9,964

6.5 Previous reports to Members have quoted a 'worse case' deficit of £6.5m by 2014/15. The increase to £9.96m shown in the above table is as a result of :-

- Increased pay award assumption from 1% to 2% per annum from 2013/14 to 2015/16.
- The drop out of £972,000 of the first council tax freeze grant in 2015/16
- Other inflation and the impact of a grant freeze in 2015/16

## 7 Savings Proposals

7.1 The Authority's response to the projected funding gap in future years has already been set out in previous reports. Work continues on delivering the longer-term savings. This is overseen by the Financial Challenge Programme Board, chaired by the Chief Officer and with Member representation.

7.2 The latest profile of savings is set out in Appendix D. It shows the original savings that were predicted for each workstream, the current anticipated savings, and the extent to which those savings have already been delivered and 'banked'. Some of the key risks and issues associated with these initiatives are detailed in the paragraphs below:

7.3 Based on the financial assumptions that have been made to date, the current anticipated savings will partially offset the funding gap, leaving the following amounts to be met from council tax increases over the period :

	2013/14 £000	2014/15 £000	2015/16 £000
Baseline Gap	3,057	7,690	9,964
Savings Proposals	(2,484)	(5,642)	(6,160)
	<u>573</u>	<u>2,048</u>	<u>3,804</u>

7.4 Based on this forecast, it is anticipated that council tax increases of 3% in each year will produce a balanced budget position by 2015/16. However, because the assumptions made about levels of pay awards and grant reductions are by far the biggest risks within the forecast, it is recommended that any worsening of the position is balanced by increases in council tax. That said, the Authority will be keen not to breach it's policy of limiting average council tax increases at, or below, average increase in state pension. In addition, there remains the option to increase the savings from the Efficient and Flexible Crewing project. But, this could have a significant impact on service delivery and it would be best to consider this when the funding position is clearer alongside the option to increase council tax.

7.5 In the event that pay awards or grant reductions turn out to be significantly less than anticipated, this could be balanced by lower council tax rises (after taking into account capital funding requirements, any potential adjustments to savings and the option to reduce future borrowing requirements through greater revenue contributions).

7.6 It should however be borne in mind that until information is received in respect of grant reductions (which is by far the biggest unknown) the figures provided for 2013/14 onwards are speculative and the immediate priority of setting a budget for 2012/13 is at this stage relatively straightforward.

## **8 Capital**

- 8.1 Appendix E sets out the existing capital commitments, Appendix F sets out a provisional four-year capital programme. This includes the value of the vehicle replacement programme recommended for approval by the Finance and General Purposes Committee (at its last meeting in October). Apart from maintaining the current level of provision for minor building improvements, the only other major scheme proposed is the replacement of Basingstoke Fire Station. This is one of our most inefficient buildings and requires major works to rectify a serious structural problem with most of the brickwork cladding. A temporary fix with the installation of additional wall ties and brickwork repairs was carried out in 2005 but this work could only be guaranteed for five years and now has to be inspected each year to ensure structural safety.

### **Capital receipts**

- 8.2 Members will be aware that the downturn in the property market over the last three years has had a detrimental impact on both the timing and value of capital receipts from surplus property. But, there has been some recent progress:
- The former firefighters' housing [six properties] in Winchester has now been sold. A receipt of £1.05m has been received.
  - The former Copnor Fire Station has just been sold for £0.8m.
  - The former Winchester Fire Station site has been sold - subject to planning permission – and the developers submitted a detailed planning application on 7 November. Consultation on their proposals ends on 14 December.

The surplus land at Carpenters Down, Basingstoke is still on the market.

### **Revenue Contributions to Capital**

- 8.3 In recent years 'revenue contributions to capital' for vehicle replacement have been set at £730,000. Given the requirement to make a larger provision for debt repayment if unsupported borrowing is used to finance the acquisition of vehicles and equipment the Authority will wish to minimise the use of unsupported borrowing. As a result the Authority's strategy has been to seek to maximise the use of revenue contributions. It is therefore proposed that the current base level of revenue contributions (£730,000) be maintained. For 2012/13 the figure is increased to reflect the additional cost of a USAR vehicle (to be financed from the USAR revenue budget) and reduced for the cost of selling the former Winchester Fire Station site. The net effect of these are that the revenue contributions to capital budget is £777,000 for 2012/13.

## **Capital financing**

- 8.4 Appendix G sets out how, taking account of the proposals above, the capital programme could be financed. The capital grant for 2012/13 has yet to be announced so, at this stage, it has been assumed that it will be at the same level as the current year. It can be seen that there would be significant reliance on unsupported borrowing from 2014/15 if the proposed programme were to be approved and no further resources added to the capital payments reserve. The revenue budget does not include any provision for any costs of unsupported borrowing.

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

### **General balance**

- 9.1 The Authority currently has £2.5m set aside in its general balance to meet unexpected expenditure, which was increased in 2010/11 to reflect the various financial uncertainties in the budget going forward.

### **Specific reserves**

- 9.2 The Authority currently holds specific reserves for expected future funding:
- **Improvement and Sustainability Reserve.** This is used to help deliver in-year value for money improvements and to pump-prime environmental initiatives. To date the level of the reserve has been largely maintained through recycling of underspends achieved in the year as a result of the efficiency measures facilitated by its use. This reserve is expected to be at £2,295,000 at the end of the year, however up to £0.5m of this may be required for the FireWatch project.
  - **Capital Payments Reserve.** This provides an essential resource for the capital programme. The balance on this reserve is expected to be £2.5m by the end of this financial year and will be used to finance the capital programme in line with the financing in Appendix G. It is recommended in this report that at least a further £2.3m is added to this reserve from underspendings in the current financial year.
  - **Grant Reduction Reserve.** This was established to help ease pressures anticipated through Government grant reductions in future years. The balance on this reserve is expected to be £1,887,000 at the end of the current financial year and will be used to fund the upfront implementation costs of some savings measures [e.g. voluntary and compulsory redundancy costs associated with the Staff Review]; and, to pump-prime any new invest to save projects.

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

- 10.1 Two corporate objectives: 'develop efficient and flexible crewing at our fire stations'; and 'reviewing our staff numbers' are key to delivering the reductions required to meet the difficult financial challenges that lie ahead.

## **11 Risk analysis**

- 11.1 The report sets out the potential risks around the impact of the settlement at Authority level with the potential for significant variance in grant reductions, both formula and specific grants and for changes in capital funding. The process of developing the draft budget, updating the Authority at the meeting on the outcomes of the settlement and public consultation on the potential funding and budget reductions alongside the service impacts if these reductions are implemented are the next steps in analysing the risks to the authority to build them into the budget strategy.
- 11.2 The budget and medium term financial strategy to be brought to the Authority's meeting in February will then have an updated risk assessment and this will inform the budget decisions including the policy for holding reserves and balances.

## **12 People Impact Assessment**

- 12.1 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.

## **13 Consultation**

- 13.1 Public consultation on the budget will take place on the morning of Monday 9 January 2012 at Headquarters. On the assumption that the Authority will volunteer to freeze council tax in for 2012/13, the focus of consultation will be on the Authority's medium-term financial strategy, the savings that need to be made across the four years of the MTF5 and the scope for council tax increases from 2013/14.

## **14 Background papers**

- 14.1 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 attached appendices

Appendix A	Calculation of the base budget
Appendix B	4 year budget outline 2012/13 to 2015/16 (green)
Appendix C	Baseline Budget Gap 2013/14 to 2015/16
Appendix D	Efficiency Savings Programme
Appendix E	Existing Capital Commitments (yellow)
Appendix F	Provisional Four Year Capital Programme (yellow)
Appendix G	Provisional Financing of Capital Programme (yellow)

I:\Treasurers\Corporate Finance\Jane\Fire\Budget\Budget 2012 13\Draft budget report HFRA 7 Dec 11  
FINAL VERSION.doc