

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 7

23 October 2012

Budget Development 2013/14 – 2015/16

Report by the Chief Officer and Treasurer

Contact: Rob Carr, Treasurer Telephone: 01962 847508

John Beckerleg, 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 2013/14 budget and council tax. It builds on the position presented in the Budget for 2012/13 and the Medium Term Financial Strategy (MTFS) update in June.
- 1.2 The key issues for the budget have not changed for some significant time now and the Authority is still in the position of having to wait to find out what the likely grant reductions will be in 2013/14 and 2014/15 before having a clear view of the financial position over the next two years. This report is therefore limited to updating some of the planning assumptions based on new information that is available and setting out a potential approach to the development of the budget for 2013/14.

2 Recommendations

The Committee is invited to:

- 2.1 Endorse the planning assumptions set out in the report as a basis for preparing the Authority's budget for 2013/14; and
- 2.2 Agree the approach to be adopted in respect of the draft budget to be presented to HFRA in December as outlined in Section 5.

3 Introduction and background

- 3.1 The last full update of the medium-term financial strategy was reported as part of the budget setting process in February 2012. At that point in time, a cumulative deficit of £9.1 million was predicted for the 2015/16 financial year. This was based on the following high-level assumptions:

- Grant reductions of 12.5% In each of the years 2013/14 2014/15, followed by the assumed loss of the first council tax freeze grant of £983,000 in 2015/16
 - No pay award for 2012/13
 - pay awards of 1% for 2013/14 and 2014/15 and 2% for 2015/16
 - price inflation of 2.5% per annum
 - pension payments for which the Authority is responsible continuing to increase at 2.5% per annum
 - continuing the policy of making revenue contributions to capital schemes – with a baseline of £730,000 in each year
- 3.2 The February report also assumed that, by fully implementing the planned efficiency savings programme, together with an annual increase in the council tax of 2.5% per annum from 2013/14 onwards, this would close the gross gap of £9.1 million highlighted in the report.
- 3.3 In June of this year, the Fire Authority received an update report on the medium-term financial strategy which highlighted two further changes to this forecast. First, following informal discussions with contacts at the DCLG it has been suggested that during the first two years of the next Comprehensive Spending Review (CSR), fire authorities could face further grant reductions of 7% per annum, what is not known however is whether or not this may be inclusive of the loss of council tax freeze grant or on top of it. Second, it was thought that the localisation of council tax benefit that is due to be implemented from April 2013 may have an adverse financial impact on the Authority of around £300,000 each year.
- 3.4 Taking these factors into account and budgeting on the basis of a worst-case scenario this would have given a revised forecast deficit of £11 million for 2015/16, rising to £12.6 million in 2016/17.

4 Revised Planning Assumptions

- 4.1 Since this high-level forecast was produced, four further pieces of information have come to light, namely:
- A suggestion (following CFOA discussions with DCLG) that the average loss of grant for Fire authorities in the last two years of the current CSR period (2013/14 and 2014/15) may be only 16% compared to the 25% reduction currently assumed in the forecast (25% equates to a reduction of around £7.5m)
 - An agreed pay award for the current financial year of 1% which will have a part year effect in 2012/13 of £305,000 and a full year effect from 2013/14 onwards of £407,000 (neither of which were built into the budget).
 - Consultation with major preceptors by billing authorities on the new council tax support schemes have indicated that for the most part, billing authorities are looking to mitigate the financial impact of the national cut in funding which will hopefully mean a limited impact on the Fire Authority going forward.

- The recent announcement of a further Council Tax Freeze Grant (CTFG) for 2013/14 equivalent to a 1% increase in council tax (£400,000), which will be paid in 2013/14 and 2014/15 only. A referendum limit of an increase of 2% in council tax was also announced.
- 4.2 Although the overall figures for the loss of grant in the last two years of the settlement look favourable, compared to our forecasts, what is not known is the basis on which this will be distributed and given the variability of previous grant awards between different authorities across the country, it is proposed to stick with the 25% assumption at the present time. The net impact of the increase due to the pay award less the potential reduction as a result of the council tax support schemes is negligible in the context of the overall forecasts for 2015/16 and 2016/17 given the significant number of unknowns that we still face.
- 4.3 The announcement of a further year of council tax freeze grant but at a much lower level than in previous years, means that the Authority needs to consider whether it is in its longer term interests to accept the grant or consider a council tax increase up to the relatively low referendum limit of 2%, particularly as an increase of 2.5% has been assumed in the MTFS in order to balance the budget if grant reductions are as high as 25%. This is discussed in more detail in the next section.
- 4.4 Given these uncertainties, it is therefore not proposed to produce a revised high level forecast at this stage until details of the grant settlement for 2013/14 and 2014/15 are known, which is discussed in more detail in later sections of this report.
- 4.5 In the meantime, finance officers will continue to work up the detailed draft budget for 2013/14 based on the assumptions in Section 3 updated for the latest known information, which will be used as the basis for the report to HFRA in December this year.

5 Local Government Grant Settlement

- 5.1 Members will be well aware that the most significant item contained within the medium-term financial strategy is the assumption around the anticipated loss of grant for 2013/14 and 2014/15. Based on our current forecast of 25% over those two years, this represents a total reduction of over £7.5 million. To put this in context, a 1% increase in council tax brings around an additional £400,000 income to the Authority.
- 5.2 It has recently been announced that the Chancellor's Autumn statement will now not be made until 5 December 2012. It is therefore likely that the earliest any grant figures will be made available would be a week after this date.
- 5.3 The Fire Authority meeting that would normally consider the draft budget is also on 5 December 2012 and therefore at this point we will be none the wiser as to the level of grant reduction that the Authority will receive in the last two years of the current CSR period.

- 5.4 Part of the reason for considering the draft budget in December is to allow the Authority to consult with stakeholders on proposals for the budget and council tax for the coming year, which is usually carried out in January. The Authority therefore needs to consider something to put forward as part of the consultation process.
- 5.5 Following the announcement of the extra year of freeze grant, it is thought that there are two main options for the Authority to consider in respect of Council Tax for next year :-
- Accept the council tax freeze grant if the overall reduction in formula grant is less than 22.3% (the difference between 25% and 22.3% equates to £800,000 which is the amount of recurring council tax income the Authority would be foregoing if it did not increase council tax by 2% in 2013/14).
 - Increase the council tax by 2% (the referendum limit) if the grant reduction is in excess of 22.3%
- 5.6 It is important to consider the second option in terms of the MTFS since, if grant cuts are at the higher end of the scale and we do not increase our base level of income in 2013/14, it may not be possible to make this income up in future years if referendum limits continue to be set at a very low level. The current MTFS assumes increases of 2.5% per annum from 2013/14 to 2015/16 to balance the budget at a grant loss of 25%.
- 5.7 It should also be pointed out that in either scenario, the Authority is still taking a risk on what the financial landscape may look like after the next Comprehensive Spending Review which is likely to see further reductions to grant levels from 2015/16 which are as yet unquantified.
- 5.8 These options will be considered in more detail at the December HFRA meeting and may form the basis of public consultation on the budget which will be carried out in January.

6 Capital Programme

- 6.1 The Authority has supported an extensive capital programme over the past three years covering new-build, energy efficiency measures, major repairs to buildings and a full vehicle replacement programme. The current capital programme for 2012/13 to 2014/15 already anticipated loss of capital grant from 2011/12 - funded from a combination of revenue contributions and capital receipts.
- 6.2 Future capital funding is now even less predictable following the recently introduced bidding process as reported to the Authority early in the year. Details about the extent to which bids have been successful are expected to be announced in November 2012 for the two years 2013/14 and 2014/15.
- 6.3 There are difficulties currently in realising the anticipated capital receipts from the sale of surplus land. These relate to the current state of the property market and

securing planning permissions

- 6.4 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 Supporting our corporate aims and objectives

- 7.1 The Authority's service plan is a key element in directing the work of the Service. It has led to draft proposals to improve service delivery – Make Hampshire Safer - which are currently the subject of consultation. There are also internal priorities which are designed to increase the capacity of the Service – Making HFRS stronger.
- 7.2 The development of the budget is clearly a key strand in providing sufficient resources to support the corporate aims and objectives of the Authority and decisions on the budget and council tax will have a direct impact on the Authority's ability to provide an adequate level and quality of services. Any financial implications arising from the Service plan proposals will need to be included in the budget discussion.

8 Risk analysis

- 8.1 The financial projections for the Fire Authority over the medium term contain significant risks around assumptions for grant reductions, pay awards, inflation etc. The biggest of these relates to reductions in grant which will not be notified to the Authority until December this year and even then only for the next two financial years.
- 8.2 However, the Authority has been aware of these risks for some significant time and has taken early action in terms of reducing operational expenditure and building up reserves to fund the cost of change and invest to save schemes which will save revenue costs into the future.
- 8.3 Once there is more certainty around the budget position, the key risk will be around the delivery of efficiency savings programme which at the moment is still relatively back loaded into the 2013/14 and 2014/15 financial years. Work is also being undertaken during this financial year to ensure that all efficiency savings are being captured within the budget and any areas of persistent underspend are also reflected in the detailed budget for 2013/14.

9 People Impact Assessment

- 9.1 The development of the budget itself does not necessarily have a direct impact on people, but clearly some of the decisions made around efficiency savings and the outcome of national pay awards will. In considering efficiency savings that have an impact on staff, a full people impact assessment will be included as part of that proposal and will form part of any formal documentation that is used for consultation purposes.

10 Consultation

- 10.1 This report outlines some of the issues that will be taken into account in the development of the 2013/14 budget which will be reported in draft form to HFRA in December this year and will form the basis for formal consultation with stakeholders in January 2013.

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:

Budget and council tax setting report – 9 February 2012 HFRA

Medium Term Financial Strategy Update – 6 June 2012 HFRA

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