

**Hampshire Fire and Rescue Authority**

**Finance and General Purposes Committee**

**Item 6**

**13 January 2012**

**Updated Draft Budget 2012/13**

**Report by Treasurer and Chief Officer**

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**1 Summary**

- 1.1 The Fire Authority agreed a draft budget at its last meeting. That was based on accepting the Government's council tax freeze grant equivalent to a 3% (council tax increase) for 2012/13.

**2 Recommendations**

- 2.1 That, in the light of feedback from the budget consultation meetings held on 9 January 2012, the Committee draws any relevant matters to the attention of the Authority.
- 2.2 That it be recommend that the Authority approves proposals set out in this report for the:
- revenue budget for 2012/13
  - capital programme for 2012/13 (including the addition of the projected underspend in the current year and budget surplus in 2012/13 being added to the capital payments reserve).
  - Treasury Management Strategy including the policy on Minimum revenue Provision and the Treasury Management Policy Statement
  - total budget requirement
  - Authority's basic council tax of £61.38 and to the proportional equivalent for each property band (details of which will be included in the budget report presented to the Authority next month)
  - precepts made on each of the billing authorities based on their taxbase (details of which will be included in the budget report presented to the Authority next month).

**3 Changes to the draft budget**

- 3.1 A number of changes have been made to the draft budget presented to the Authority in December 11. Any further changes will be presented at the meeting.

- 3.2 The provision for general inflation has been decreased to take account of the Chancellors announcement that pay increases in the public sector will average 1% in 2013/14 and 2014/15. This is in comparison to the 2% that had been assumed.
- 3.3 Some more up to date estimates of the cost of extending the leases on the frontline appliances have been received. These have slightly increased the costs for future years in comparison to that originally estimated.
- 3.4 Some other smaller changes have also been made to update the budget such as the removal of the business rates budget for Copnor Fire Station now that the property has been sold.

### **Council tax collection fund and tax base**

- 3.5 Initial estimates have now been received from the billing authorities on their collection fund surpluses/deficits for years prior to 2012/13. Overall, these show a surplus of £227,000 which is allocated to the Authority. This is a one-off sum and can only be taken into account in 2012/13. It is therefore prudent to use this to increase reserves.
- 3.6 At the time of writing this report the latest information on the tax base is not available, however it is anticipated that it will be received by the date of the meeting. Any increase in the taxbase would be ongoing and would also increase the 'council tax freeze grant'.

### **4 The current year: 2011/12**

- 4.1 The monitoring report [also on this agenda] forecasts that there will be an underspend of £3.6m. Given the projected shortfall against the proposed capital programme and the uncertainties over future capital funding it is proposed that the Authority should add the projected budget surplus to the capital payments reserve.

### **5 Budget requirement 2012/13**

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

|   | 2012/13<br>£000 | 2013/14<br>£000 | 2014/15<br>£000 | 2015/16<br>£000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Estimated budget as reported to HFRA last month | 65,940          | 68,288          | 69,629          | 71,903          |
| Changes to inflation provision - pay            | 0               | -409            | -929            | -1,062          |
| Leasing changes                                 | 0               | 51              | 50              | 116             |
| Other changes                                   | -54             | -103            | -101            | -104            |
| Latest estimate of budget requirement           | 65,886          | 67,827          | 68,649          | 70,853          |

- 5.2 Appendix 1 sets out the details of the base budget calculation and Appendix 2 outlines the medium-term revenue base budget for 2012/13 to 2015/16.
- 5.3 Efficiencies totalling £1.3m are expected to be generated in 2012/13 (as set out in Appendix 3). These significantly contribute towards the surplus of £4.7m for 2012/13 that is anticipated (as set out in Appendix 4). This can be added to reserves and it is recommended that this be added to the capital payments reserve.

## **6 Medium term financial strategy**

- 6.1 The Draft Budget Report presented to the Authority on 7 December, set out a baseline medium-term financial strategy model, which was based on a 2% pay award from 2013/14, grant reductions of 12.5% in each of the financial years 2013/14 and 2014/15, together with the dropout of the first council tax freeze grant and a grant freeze for 2015/16. The baseline also assumed no increase in council tax over the period.
- 6.2 This gave a baseline gap of just under £10 million by 2015/16, However, following the Chancellor's announcement in the autumn statement of a public sector pay limit of 1% in 2013/14 and 2014/15, the baseline gap has been amended to reflect this change and is now estimated to be £8.9m by the end of the current planning period.
- 6.3 The savings proposals shown in Appendix 3 will help to meet a large part of this gap, but in order to balance the position by 2015/16 it is estimated that council tax increases of around 2.5% per annum will be required assuming no other changes in the broad assumptions that have been made.
- 6.4 Whilst this means that the financial strategy put in place to address the reductions as part of the current Comprehensive Spending Review (CSR) are on track to deliver a balanced budget, there have already been further signs that the next CSR will be equally tough for the public sector and require further efficiencies and savings if the service is to remain on a solid financial footing for the future.
- 6.5 As part of the development of the efficiency programme there remains some element of flexibility to produce higher levels of savings in certain areas, however the pace of implementation of these will be influenced on the levels of cuts in government grant in 2013/14 and 2014/15 and once further information is available on what the next CSR may have in store for the public sector in this country. What is promising however is that the early action taken by the authority in addressing financial challenges that lay ahead mean that we are in a much better position to take the time to manage future changes in a planned and informed way without the need to make potentially damaging cuts over a short space of time.
- 6.6 The focus for the future therefore is to continue with the efficiency savings programme that has been put in place and to wait for details of the grant settlement for the last two years of the current CSR which will give the authority the ideal opportunity to review its medium-term financial strategy at that point accepting that further uncertainty will remain whilst we await the outcome of the next CSR.

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

### **General balance**

- 7.1 The detailed work re-assessing the Authority's major financial risks has now been undertaken. The analysis is summarised in Appendix 5. There is no requirement to alter the level of the general balance and it is recommended that the balance remain at £2.5m.

### **Specific reserves**

- 7.2 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. with the balance on this reserve is £2,295,000. Up to £500,000 may be required for 'FireWatch'. At the Authority's last meeting it was agreed that a report would be presented in June on energy saving measures. Any costs would be met from this reserve.
  - 'Capital payments reserve'. This provides an essential resource for the capital programme and helps to reduce the need for borrowing. As mentioned elsewhere in the report it is recommended that both the underspend from the current year and the budget surplus in 12/13 be added to this reserve. This will eliminate the expected shortfall in funding of the proposed capital programme. In addition it will put the Authority in a more secure position from 2013/14 if the capital grant secured is not as high as currently received. The capital programme in recent years has also placed great reliance on capital receipts. The expected capital receipts from the sale of the site of the former Winchester Fire Station and the surplus land at Basingstoke have already been assumed in the proposed financing plans. Therefore this source of finance would need to be replaced if the programme is to remain at the current level.
  - 'Grant reduction reserve'. The balance on this reserve will be £1,887,000 by 31 March 2012. This is sufficient to pay the worst case redundancy costs and so no further contributions are required.
- 7.3 Details of the expected balance on each of the specific reserves and the general balance over the period 2012/13 to 2015/16 are set out on Appendix 6.

## **8 Capital**

- 8.1 No changes have been made to the proposed capital programme presented to the Authority last month and this is reproduced as Appendix 7. However, given the unclear position on Government support in financing the programme from 2012/13 it is recommended that the Authority approve only the 2012/13 capital programme and that the programme for 2013/14 onwards remains - at this stage - an indication of the Authority's capital proposals.

## **9 Capital financing**

- 9.1 The Government has announced that the capital grant for 2012/13 will be at the same level as that received for 2011/12. This is what had been assumed when the draft budget was prepared for the Authority last month.
- 9.2 The proposed financing is set out in detail in Appendix 8. It can be seen that, with the above proposals, that there is a shortfall in funding of £2.5m in 2014/15 and £1.0m in 2015/16. If the Committee agrees that the budget surplus should be added to the capital payments reserve then the shortfalls can be financed from that reserve.

## **10 Treasury Management**

- 10.1 Attached as appendix 9 is the Treasury Management Strategy Statement and Investment Strategy which requires approval on an annual basis. This document includes the Prudential Indicators and statement on Minimum Revenue Provision .
- 10.2 Appendix 10 is the Authority's Treasury Management Policy Statement. This only requires the Authority's approval when a change is made to it. This has been revised to reflect the latest guidance issued by CIPFA which has a greater emphasis on the monitoring and control of risks, whilst reiterating the importance of the security of capita in relation to investments. Members are asked to approve both documents.

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

- 11.1 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.

## **12 Risk analysis**

- 12.1 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 5 deals specifically with the assessment of financial risk.

## **13 People impact assessment**

- 13.1 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.
- 13.2 Any proposals for reductions in staffing and any other savings initiatives will be subject to specific people impact assessments.

## **14 Consultation**

- 14.1 Formal consultation on the budget will take place on 9 January 2012. Feedback will therefore be presented at the meeting. Because the Authority has agreed not to increase council tax in 2012/13 [in return for a specific grant from the Government equivalent to a 3% increase in council tax], consultation will focus on the Authority's medium-term financial strategy.

## **15 Background papers**

- 15.1 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.

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## **List of Appendices**

|             |   |
|-------------|---|
| Appendix 1  | Calculation of the base budget                                    |
| Appendix 2  | Outline 4 year revenue base budget 2011/12 – 2014/15 (green)      |
| Appendix 3  | Efficiency Savings programme                                      |
| Appendix 4  | Budget planning model – assuming 0% council tax                   |
| Appendix 5  | Level of general balance  |
| Appendix 6  | Level of specific reserves and general balance 2012/13 to 2015/16 |
| Appendix 7  | Proposed capital programme 2011/12 – 2014/15 (yellow)             |
| Appendix 8  | Financing of capital programme (yellow)                           |
| Appendix 9  | Treasury Management Strategy Statement (salmon)                   |
| Appendix 10 | Treasury Management Policy Statement (salmon)                     |