

Hampshire Fire and Rescue Authority

5 December 2012

Item 8

Draft budget 2013/14

Report by the Chief Officer and Treasurer

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1 Summary

- 1.1 In the current year (2012/13) there is an emerging underspending of £2.9m. This is partly due to achieving the planned efficiencies programme earlier than expected. This money will be used to help offset future funding shortfalls.
- 1.2 The draft budget is based on the strategy approved by the Finance and General Purposes Committee at its meeting on 23 October 2012. The strategy takes into account:
 - the anticipated reductions in Government grant; and
 - the announcement of a further council tax freeze grant for 2013/14.
- 1.3 The actual grant which the Authority will receive will not be known until late December 2012 and so it is proposed to consult on broad options in January 2013.
- 1.4 For 2013/14 the focus is on funding the Authority's service plan for delivering services whilst continuing to make efficiency savings. These will reduce the budget in line with funding projections for this year. The effect of the expected grant reduction means that it is no longer possible to budget for a contribution to support the future capital programme; this will have an effect on the capital programme in future years.
- 1.5 For the subsequent two years (2014/15 – 2015/16) the medium-term financial strategy (MTFS) is described. This assumes additional grant reductions. If the grant reductions continue into subsequent years, as seems to be likely, further budget savings and possibly a reduced capital programme will be required.
- 1.6 If the reduction in grant over the three years 2013/14 to 2015/16 is less than 25% cumulatively, it would be possible to balance the budget over these three years without increasing the council tax in 2013/14. This position will be reviewed at the Authority meeting in February 2013 in the light of the actual grant information.

2 Recommendations

The Authority is invited to:

- 2.1 Consider increasing the council tax in 2013/14 if the expected grant reduction over the period 2013/14 – 2015/16 is greater than 25%.
- 2.2 Agree that the draft budget (updated to take into account any changes made at this meeting and to reflect the actual grant notified) be presented at the formal budget consultation meeting in January 2013.
- 2.3 Agree that the final budget and council tax be set at the Authority's meeting on 14 February 2013 following consultation.

3 General context

- 3.1 The Government's Autumn statement is due on the same day as this meeting is held. The detailed provisional grant settlement is therefore expected in late December 2012. This is unhelpful and so for the purposes of this report the three year budget is still being forecast against the expected cut in grant of 12.5% in 2013/14 and 2014/15 and a further 7% in 2015/16 (on top of the anticipated fall out of the first council tax freeze grant).
- 3.2 The Finance and General Purposes Committee considered a report on the development of the provisional budget at its meeting on 23 October 2012 and agreed that the base budget should be prepared taking into account the following factors:
 - Pay awards of 1% in 2014/15, 2% for the following years (and building in the effect of the 1% pay award granted for firefighters in July 2012);
 - Price inflation of generally 2.5%;
 - Pension payments that the Authority is responsible for increasing by 2.5%; and
 - Continuing the policy of making contributions from the annual budget to pay for capital schemes – with a baseline of £730,000 each year.

4 The current financial year – 2012/13

- 4.1 An underspending of at least £2.9m is forecast by the year end - mainly resulting from achieving planned savings and the current recruitment freeze. It will be recommended that this sum is added to reserves to help with the future funding shortfalls.
- 4.2 The Service will continue to make efficiencies and reduce costs 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 Budget 2013/14

Base budget

5.1 The base budget (set out in Appendix A) is the full year cost - from 2013/14 onwards - of carrying forward policies approved in the 2012/13 budget. It has been updated making the following assumptions:

- An allowance for a 1% pay award has been made. This is in line with the Government's policy.
- Price inflation of 2.5%.
- The base budget already includes a 1% increase for employer's pension contributions for firefighters, which was anticipated - but not implemented – from April 2011. It has not yet been confirmed that there will be no increase in 2013/14 (although one is not anticipated); but, it is still considered prudent to leave this 1% in the base budget as a contingency.
- Pension payments at 2.2%
- The cost of financing the existing capital programme.
- Revenue contribution to capital of £1,498,000.

5.2 At this stage in the budget process it has been assumed that the changes to the localised council tax benefit and business rates retention schemes will be cost neutral.

5.3 The 3 year outline budget 2013/14 to 2015/16 is at Appendix B.

5.4 In 2012/13 a contribution was made in the annual budget to meeting the cost of future capital spending. In view of the reduction in grant expected it will no longer be possible to make this contribution. Whilst this will not cause an immediate problem, there will come a point when there are no longer any reserves to meet the costs of the capital programme. Either the programme will need to be reduced or additional funding will be needed.

Efficiency savings

5.4 The revised savings programme is attached as Appendix D. The programme has achieved savings earlier than planned, which is reflected in the higher forecast underspend in the current year. The revised figures have been incorporated into the base budget and budget projections. However there continue to be risks around the achievement of the full programme particularly where some savings are dependent on other changes in the Service being achieved on time.

Budget pressures

5.5 There are two growth items which were both reported to the Finance and General Purposes Committee in October 2012. The first is for the local funding of marine

firefighting previously financed by the Maritime and Coastguard Agency (£64,000). The second (for £100,000) is to increase the centrally held contingency budget as a result of the reduction in other budgets which has restricted the flexibility to meet unexpected costs.

6 Spending in 2014/15 and 2015/16

6.1 Appendix C sets out the three-year surplus/deficit position. After taking the above assumptions into account, the deficit funding position each year is shown in the table below:

	2013/14 £000	2014/15 £000	2015/16 £000
Baseline Surplus (+) /Gap (-)	1,140	-502	-4,678

6.5 The appendix also models two alternative scenarios:

- Assuming a council tax increase of 2.5% each year from 2014/15 and the current grant funding assumptions, The first scenario demonstrates that without any increase in council tax in 2013/14 there would be a budget deficit of £2.7m in 2015/16.

and

- Assuming a council tax increase of 2.5% each year from 2014/15 and showing that the budget would be balanced in 2015/16 if the grant reduction cumulatively over the three years (2013/14 to 2015/16) was no more than 25%.

6.6 There is currently a limit of a 2% increase in council tax. The Authority would need to hold a referendum before it could increase the council tax above this level. The current planning assumptions of 2.5% tax increases may therefore be too high. If the assumption is revised to 2%, the budget would be balanced in 2015/16 if the grant reduction cumulatively over the three years (2013/14 to 2015/16) was no more than 23%.

7 Spending beyond 2015/16

7.1 The position beyond 2015/16 is predicted to be increasingly difficult. There will be the need to support capital spending when reserves have been used up. Inflation will continue to affect the Service's costs. Grant reductions are forecast to continue. Against this backdrop the Service is beginning to consider how to reduce its net costs further either by further efficiencies or changes in service. In addition it is examining the options to generate additional income possibly via more commercially based activities.

8 Capital spending

8.1 Appendix E sets out the existing capital commitments and Appendix F sets out a

provisional three 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 on 23 October 2012) . In addition to the vehicle replacement programme, there are two items which are proposed for the capital programme subject to further consideration by the Finance and General Purposes Committee in January 2013. They are:

1. Replacement of live fire training at Service HQ estimated to cost £0.5m in 2013/14 and
2. Provision for a programme of refurbishment / replacement of Retained Fire stations at an estimated cost of £0.45m per annum

8.2 The previous annual provision for capital building repairs (£450,000 per annum) has now been transferred to the revenue budget which follows better accounting practice. The final budget report to the Authority in February 2013 will need to consider how this budget pressure is funded.

Sale of properties

8.3 The downturn in the property market over the last three years has had a detrimental impact on both the timing and value of sales of surplus property.

- A potential purchaser of the former Winchester Fire Station site has been identified but the sale is subject to planning permission which will take time given the location of the site. It is not certain that the income from the sale will be received until at least 2014/15
- The surplus land at Carpenters Down, Basingstoke is not being actively marketed.

Revenue contributions to pay for capital spending

8.4 In recent years money in the annual budget has been used to pay for capital items (known as 'revenue contributions to capital'). The baseline payment each year has been £730,000. The Authority aims to minimise the use of borrowing and as a result the Authority's strategy has been to maximise the use of revenue contributions. It is therefore proposed that the current base level of revenue contributions (£730,000) be maintained.

8.5 For 2013/14 the figure is increased to reflect the additional cost of the fire control suite (financed from the Improvement and Sustainability reserve - £80,000) and the Replacement Fire Control system (£688,000 – financed from a revenue grant received in 2012/13) The total of these result in the revenue contributions to capital budget totalling £1,498,000 for 2013/14.

Paying for capital spending

8.6 Appendix G sets out how, taking account of the proposals above, the capital programme could be financed. The general capital grant for 2013/14 has yet to be announced so, at this stage, it has been assumed that it will be £1m. Purely for

planning purposes it has been assumed that one of the capital bids (for environmental works) will be successful and a total of £800,000 will be awarded over the two year period 2013/14 and 2014/15.

9 Level of general balance and specific reserves

9.1 Appendix H sets out the expected levels of specific reserves and general balance until 2015/16.

General balance

9.2 The Authority currently has £2.5m set aside in a general balance to meet unexpected expenditure. This amount was increased in 2010/11 to reflect the various financial uncertainties in the budget going forward. The detailed work has yet to be carried out as to whether or not this is the right balance for 2013/14 however no significant change is anticipated.

Specific reserves

9.3 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 £2,904,000 at the end of the year, assuming a £1m addition to the reserve as recommended at the last Finance and General Purposes Committee. This will be used for two specific large projects (environmental works and joint working) in addition to any smaller projects requiring pump priming.
- **Capital Payments Reserve.** This provides an essential resource for the capital programme. The balance on this reserve is expected to be £12.8m 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 has been the recent policy of the Authority to add any possible underspending to this reserve and it is currently anticipated that a further £1.4m could be added 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 £1,811,000 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).

10 Supporting our corporate aims and objectives

10.1 The Authority's service plan, based on the strategic assessment, sets out the Service's priorities for the coming years. The plan has two important elements:

'Making Hampshire safer' and 'Making HFRS stronger'. Within these elements there are specific priorities to improve our delivery of services to the community and to improve the efficiency and effectiveness of the organisation.

- 10.2 The budget proposed will support the achievement of the service plan and its priorities.

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.
- 11.2 The budget and medium term financial strategy to be brought to the Authority's meeting in February 2013 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 equality and human rights legislation.

13 Consultation

- 13.1 Public consultation on the budget will take place in January 2013. The focus of consultation will be on the Authority's Service plan, medium-term financial strategy, the savings that need to be made and the scope for council tax increases (bearing in mind the actual grant announced).

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	3 year budget outline 2013/14 to 2015/16 (green)
Appendix C	Budget surplus/deficit position 2013/14 to 2015/16
Appendix D	Efficiency Savings Programme
Appendix E	Existing Capital Commitments (yellow)
Appendix F	Provisional Three Year Capital Programme (yellow)
Appendix G	Provisional Financing of Capital Programme (yellow)
Appendix H	Specific reserves and general balance 2013/14 to 2015/16