

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

18 January 2013

Updated draft budget 2013/14

Report by Treasurer and Chief Officer

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1 Summary

- 1.1 At its meeting on 5 December 2012, the Authority received a report outlining the draft budget for 2013/14. This described the expected reductions in Government grant funding over the next three financial years and changes in Council tax benefits and business rates. It also set out the Service's achievements to date in securing efficiencies and making reductions in spending.
- 1.2 Since that meeting the details of the Government grant towards spending have been announced. Whilst significant reductions will still be required over the next two years the level of grant reductions is a little less than the planning assumptions (-18% rather than -25% over the next two years). The position for the third year (2015/16) and subsequent years is not known; a further spending review is to be undertaken in the first half of 2013 and this may give more information to help medium term planning.
- 1.3 The Authority now needs to determine its total budget for next year. Part of this decision involves determining the level of council tax and whether or not to accept a specific council tax freeze grant in exchange for not increasing the council tax next year.
- 1.4 The Government also announced the capital grants for authorities for the next two years. As previously agreed the Authority had made two bids for capital funding but these were not successful. However the general capital grant which Hampshire Fire and Rescue Authority (HFRA) will receive is higher than expected.

2 Recommendation

- 2.1 The Finance and General Purposes Committee is invited to recommend to the Authority whether the council tax freeze grant should be accepted or to increase council tax by 1.9% having taken into account feedback from the budget consultation.

3 Changes to the draft budget

- 3.1 A number of small changes have been made to the draft budget presented to the Authority on 5 December 2012, including increasing the use of the revenue grants reserve to fund revenue expenditure already in the base budget and some revised assumptions on efficiencies and inflation. Any further changes will be presented at the meeting.

Council tax collection fund and taxbase

- 3.2 Initial estimates have now been received from the billing authorities on their collection fund surpluses/deficits for years prior to 2013/14. Overall, these show a surplus of £211,000 allocated to the Authority. This is a one-off sum and can only be taken into account in 2013/14. It is recommended that this is added to the capital payments reserve to sustain the current level of capital investment in future years.
- 3.3 Initial estimates have also been received from the billing authorities on their taxbases. The taxbase has dropped considerably (-9.3%) as a result of the change to localised council tax benefit schemes.

Business rates retention scheme

- 3.4 Members will be aware of the new local business rates retention scheme.
- 3.5 Currently billing authorities collect business rates due in their areas and pass them to the Government for redistribution through the formula grant.
- 3.6 From April 2013 the business rates collected by the billing authorities will be distributed as follows - 50% to central government, 40% to the billing authority, 9% to the County Council (or 49% to Southampton and Portsmouth City Councils) and 1% to this Authority.
- 3.7 So that the impact is broadly neutral initially, the Government will impose a system of top-ups and tariffs. This Authority will receive a top-up grant of £6,344,000 for 2013/14 and £6,539,000 for 2014/15. In future years this grant will be increased in line with the retail price index.
- 3.8 The billing authorities have now made an initial estimate of the business rates that will be collected. Their estimate for the proportion due to this Authority is £6,487,000 for 2013/14 and it has been assumed to be the same in 2014/15. This sum will obviously not be the exact sum collected and therefore the difference will be adjusted in future years in the same way as council tax via the collection fund.

4 The current year: 2012/13

- 4.1 The latest monitoring report [also on this agenda] forecasts that there will be an underspend of £4.2m. The report recommends that, subject to confirmation at the end of the financial year, £1m be added to the Improvement and Sustainability Reserve, £0.4m to the earmarked underspendings carried forward and the balance to the capital payments reserve.

5 Budget requirement 2013/14

- 5.1 This table summarises the adjustments to the draft base budget (previously presented to the Authority on 5 December 2012) over the next three years and takes account of the issues described above:

	2013/14 £000	2014/15 £000	2015/16 £000
Estimated budget as reported to HFRA (5 December 2012)	65,586	63,831	64,977
Additional use of reserves to fund revenue expenditure already in the base budget	-142		
Increase in efficiencies savings	-27	-108	-108
Change in inflation provision	-11	16	17
Latest estimate of draft budget	65,406	63,739	64,886

- 5.2 Appendix A sets out the details of the base budget calculation and Appendix B outlines the medium-term revenue base budget for 2013/14 to 2015/16.
- 5.3 The efficiencies programme has been slightly amended and is shown at Appendix C. The four year efficiency programme is on target overall with a number of the individual measures achieving their target ahead of the original plan.

Grant

- 5.4 The Revenue Support Grant has now been announced and it is £19,129,000 for 2013/14. This grant has been reduced because of changes introduced this year (see above) which mean that the Authority retains an element of the business rates income. The government's assumed level of business rates is £6,381,000 which attracts a top up grant of £6,344,000. These items total £31,854,000 which compares with the total formula grant received in 2012/13 of £31,062,000.

5.5 The Authority has been planning for a 25% reduction over the next two years (2013/14 and 2014/15), with a further 7% reduction in each of the next two years (2015/16 and 2016/17). This grant settlement only covers the first two years; the Government is undertaking a spending review early in 2013 and so we may get some information about the third year (2015/16) in the summer. Although a direct comparison is not straightforward, the grant reduction is approximately -10% in 2013/14 and -8% in 2014/15. So, overall the reduction, whilst still significant, is less than we had planned for. The planning assumptions continue to assume -7% in 2015/16 and 2016/17.

5.6 The following table sets out the headline position for the Authority:

	2013/14	2014/15	2015/16
	£000	£000	£000
Sources of income			
Revenue Support Grant	18,157	15,805	13,726
2011/12 freeze grant	972	972	0
Business rates top up grant	6,344	6,539	6,735
Retained business rates	6,459	6,459	6,459
Collection fund surplus	211	0	0
Council tax	35,709	35,708	35,709
TOTAL INCOME	67,852	65,483	62,629
Draft Budget	65,406	63,739	64,886
TOTAL SURPLUS (+) / DEFICIT (-)	+2,446	+1,744	-2,257

5.7 The above table assumes:

- no Council Tax increase in any of the three years;
- no contribution to capital to support future capital programmes;
- a 7% reduction in government funding; and
- the council tax freeze grant of £972,000, introduced in 2011/12, will end in 2015/16.

The table also assumes that the Authority secures all of the planned savings within the original efficiency programme by 2015/16. Whilst a number of these measures have already been achieved there are some which still need to be implemented including measures to rationalise our emergency response, i.e. the deployment of vehicles. This will involve progressing proposals during 2013/14 to remove a third pump from Southsea station and also removing a specialist support vehicle from Winchester station.

5.8 The Government has announced a further freeze grant equivalent to a 1% increase in council tax and payable for the two years 2013/14 and 2014/15 if an authority chooses not to increase its council tax in 2013/14. A 1% freeze grant is worth £394,000 to HFRA. Alternatively the Authority can increase its council tax but if it wishes to increase the tax by 2% or more then it must first hold a referendum across Hampshire. The cost of a referendum would be very significant and would wipe out most if not all of any proposed increase above 2%. There is clearly a financial benefit to taxpayers in Hampshire in not increasing the council tax next year. However, given

the referendum rules, this will put a lower limit on the income which can be raised from council tax in the future which becomes significant when the Authority's budget moves into deficit, currently from 2015/16 onwards. The Authority will need to decide if it wishes to accept the latest freeze grant but the information which follows assumes that the Authority will accept it.

- 5.9 As will be seen later in the report – under the section dealing with capital spending – the grant funding for capital investment is approximately £1.4m per annum. Although annual spending fluctuates, the average spending on vehicles and buildings is about £3.5m per annum. The Authority has sought to overcome this shortfall in funding by establishing a capital payments reserve which will be available to pay for capital spending without borrowing. It is assumed that any revenue surplus which exists in the budget in 2013/14 and 2014/15, mainly the result of planned efficiency measures and budget reductions, will be transferred to the capital payments reserve.
- 5.10 There is a deficit position in 2015/16 currently, mainly as a result of the withdrawal of council tax freeze grant and inflation on costs. It would be possible to bridge some of this deficit by increases in council tax in 2014/15 and 2015/16 but, under the current referendum rules, it would not be possible to completely cover the income shortfall in this way. Therefore the Service would need to identify other savings and efficiencies and work has already begun to do this including seeking alternative forms of income rather than government grant and council tax.
- 5.10 The summary of the budget based on the above assumptions is therefore:

	2013/14	2014/15	2015/16
	£000	£000	£000
Sources of income			
Revenue Support Grant	18,157	15,805	13,726
2011/12 freeze grant	972	972	0
2013/14 freeze grant	394	394	0
Business rates top up grant	6,344	6,539	6,735
Retained business rates	6,487	6,487	6,487
Collection fund surplus	211	0	0
Council tax	35,511	35,511	35,511
TOTAL INCOME	68,076	65,708	62,459
Spending plans			
Draft Budget	65,406	63,739	64,886
Contribution to capital payments reserve	2,670	1,969	
Increase in council tax or further savings to be identified.	0	0	-2,427
TOTAL	68,076	65,708	62,459

- 5.11 Two alternatives that the Committee may wish to consider are:
- A. To accept the council tax freeze grant but then increase council tax by 2% in 2014/15 and 2015/16.
 - B. Not to accept the council tax freeze grant and increase council tax by 1.9% in 2013/14 and 2% in 2014/15 and 2015/16.

These options can be summarised as follows:

	2013/14	2014/15	2015/16
Alternative A			
Council tax increase	0%	2%	2%
Budget surplus/contribution to capital payments reserve (£000)	2,670	2,680	
Further savings to be identified (£000)			-1,000
Alternative B			
Council tax increase	1.9%	2%	2%
Budget surplus/contribution to capital payments reserve (£000)	3,350	3,380	
Further savings to be identified (£000)			-280

6 Level of reserves and general balance

General balance

- 6.1 The detailed work re-assessing the Authority's major financial risks has now been undertaken. The analysis is summarised in Appendix D. 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

- 6.2 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. This reserve is expected to be £2.9m at the end of the year, assuming the £1m addition referred to in the monitoring report is added to the 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 surpluses in 2013/14 and 2014/15 be added to this reserve. This will put the Authority in a more secure position as some of the government funding for capital is now on a 'bids' basis and therefore may not always be successful in addition to the fact that the capital programme in recent years has been supported with capital receipts, the source of which has nearly all been used up. 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 £1.8m by 31 March 2013. This is sufficient to pay the worst case redundancy costs and so no further contributions are required.

- 6.3 Details of the expected balance on each of the specific reserves and the general balance over the period 2013/14 to 2015/16 are set out on Appendix E.

7 Capital

- 7.1 No changes have been made to the proposed capital programme presented to the Authority last month and this is reproduced as Appendix F. However, given that the Government has only announced support for 2013/14 and 2014/15 it is recommended that the Authority approve only the 2013/14 and 2014/15 capital programme and that the programme for 2015/16 onwards remains - at this stage - an indication of the Authority's capital proposals.

Fire Behaviour Training – Upgrading smoke scrubbing arrangements

- 7.2 The Fire Behaviour Training Facility at Eastleigh SHQ is used to provide a range of 'live fire' training which ensures our staff maintain competencies and meets our obligations under the Health and Safety at Work Act. The facility has been developed over a number of years and caters for training in initial fire behaviour, compartment fire behaviour, tactical ventilation and fire investigation.
- 7.3 Whilst the priority is to ensure our staff are suitably trained, the use of the live-fire training facilities creates impacts on people and the environment, both on and off the HQ site. We have considered these people and environmental implications and recognised the potential nuisance that could lead to restriction of these activities.
- 7.4 We have applied a number of measures to reduce the impact of live fire training including the use of 'clean burn' chipboard and the restriction of Fire Investigation operations to weekends. However the effectiveness of these measures has been reduced by a service requirement for increased frequency of live fire training. Following a review of options it has been concluded the most effective use of resources will be to secure the sustainability of live fire training using the existing facilities at Eastleigh. It is intended to deliver this by introducing technology or a mixture of technologies that will treat and filter the smoke emissions before they are released to the atmosphere.
- 7.4 These measures will be procured and implemented during the 2013/14 financial year within an approved capital budget of £500,000.

Retained station replacement programme

- 7.3 The Authority operates a number of retained stations across the County. Some of the buildings are now quite old and in need of major refurbishment or replacement. A provision has been made in the programme (£450,000 per annum) which will provide the basis for a prioritised programme of work.

8 Capital financing

- 8.1 The Government has announced that the details of the capital grant for 2013/14 and 2014/15. It had been assumed that the Authority would receive a general grant of £1m (approximately half of the funding received in 2012/13) and would be successful

in its two bids each of £800,000 covering both 2013/14 and 2014/15. Neither bid was successful; however the general capital allocation is £1,450,000 for each of the two years which is consistent with the planning assumptions.

- 8.2 The proposed financing is set out in detail in Appendix G. As the actual grant is marginally higher than this, this will have the effect of reducing the reliance on other capital resources.

9 Treasury Management

- 9.1 Attached as Appendix H 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 .

- 9.2 It is, in the main, very similar to that approved last year with two main exceptions:

- It is proposed to increase the maximum duration for lending to banks and building societies from 1 to 2 years. This will be the maximum allowed dependant on the current investment limits determined by our assessment of credit risk, this is currently no more than 1 year.
- It is also proposed to increase the counterparty limit for investments with banks and building societies from £4m to £5m. This is in order to increase the amount of funds that can be invested in the Fire Authority's name, based on the current estimate that cash balances will continue to increase in the short-term.

10 Supporting our corporate aims and objectives

- 10.1 The draft budget and future spending plans will underpin the HFRA service plan for the medium term. The budgets proposed will allow the Service Plan priorities to be addressed over the coming years.

- 10.2 The Service will be seeking alternative funding sources to help overcome the budget deficit currently predicted in 2015/16. In addition the Service will begin formulating proposals for further savings / efficiency measures, building on the work to date of the Financial Challenge Board. Some examples have already been identified including increased partnership working and energy saving measures, but more will be needed.

11 Risk analysis

- 11.1 The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant as set out in this report.

- 11.2 The current savings programme has progressed according to plan but this will need to be kept under review over the next two years.

- 11.3 There is a real risk of a budget deficit in 2015/16 which cannot be overcome by increase in council tax income alone. There is therefore a need to begin early

planning to identify how a shortfall could be overcome, including examining other potential income sources.

12 People impact assessment

- 12.1 The proposals within this report are considered compatible with the provisions of the equality and human rights legislation.

13 Consultation

- 13.1 Formal consultation on the budget will take place on 7 February 2013. Feedback will therefore be presented to the Authority's meeting in February.

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 Appendices

Appendix A	Calculation of the base budget
Appendix B	Outline 3 year revenue base budget 2013/14 – 2015/16 (green)
Appendix C	Efficiency Savings programme
Appendix D	Level of general balance
Appendix E	Level of specific reserves and general balance 2013/14 to 2015/16
Appendix F	Proposed capital programme 2013/14 to 2015/16 (yellow)
Appendix G	Financing of capital programme (yellow)
Appendix H	Treasury Management Strategy Statement (salmon)