

Hampshire Fire and Rescue Authority

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Medium Term Financial Strategy Update

Report by Head of Finance

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1. Introduction

1.1. In the past it has been normal to present a draft revenue budget covering the next four financial years to the full Authority early in December following the grant announcements by Government. However, due to the later settlements in the last few years and that we have received future years grant figures in advance, it was felt that the Medium Term Financial Strategy (MTFS) update which was presented at the Finance & General Purposes Committee (F&GP) in October 2013 would provide sufficient background to the Authority for the 2014/15 budget process. The full report is provided at Appendix 1.

2. Executive Summary

2.1. The projected surplus in 2014/15 is now estimated at £1.6M. This is based on the following revised assumptions.

- No council tax increase for 2014/15
- Council tax freeze grant for 2014/15 equivalent to a 1% council tax increase.
- Pay award of 2%
- General inflation on other expenditure of 2.5% with the exception of fuel and waste collection costs
- Efficiency savings of £2.322M (as part of the first phase of efficiency savings previously reported to the Authority)
- 2% increase in business rate income
- 9% cash reduction in all grant funding sources

2.2. The projected deficit in 2015/16 is now at £2.5M. This is based on the following revised assumptions.

- No drop out of the 2011/12 and 2013/14 council tax freeze grant this year
- No council tax increase for 2015/16
- Council tax freeze grant for 2014/15 & 2015/16 equivalent to a 1% Council Tax increase
- Pay award of 2%

- General inflation on other expenditure of 2.5%, with the exception of fuel and waste collection costs
- Additional efficiency savings of £278,000
- 2% increase in business rates income
- 9% cash reduction in all grant funding sources
- £1M extra in revenue costs arising from the decision to allow retained firefighters to join the 'modified pension scheme'

- 2.3. With a similar level of grant reductions to be applied from 2016/17 onwards, the fall out of all the currently announced council tax freeze grants and the extra £1M in revenue costs arising from the loss of the rebate on national insurance contributions for members of public sector pension schemes, the budget deficit in 2016/17 is set to rise to around £9M, assuming no council tax increase is applied throughout the period. The deficit potentially reaches around £12M in 2017/18, based on a continuation of these assumptions. To put this in context, this means that the savings challenge over the next 4 years is double the initial savings programme put in place following the 2010 Comprehensive Spending Review.
- 2.4. As a result of the Authority's deliberate strategy to build up reserves over the past few financial years, at the end of the 2012/13 financial year the Authority had useable reserves along with their general fund balance of £27.5 million. In reality however, only 24% (£6.5 million) of these reserves are actually freely available to support the revenue budget or other initiatives at this moment in time. Whilst the use of reserves does not represent a long term solution, it does give the Authority the time and capacity to deliver further savings over a longer time frame, without the need to make knee jerk decisions in order to balance the budget in the short term.
- 2.5. The Authority has set up the Budget Alignment Group, chaired by the Director of Service Delivery, to consider options for closing the deficit. A key strand of work which will feed into the Budget Alignment Group and will shape the Service over the coming years is the Risk Cover Review, which sets out to undertake a fundamental examination of cover across the County along with many other related factors such as the use of technology and the vehicle strategy.
- 2.6. Options for closing the gap, including the potential for council tax increases from 2015/16 onwards will be developed throughout the next calendar year in consultation with Members of the Authority and regular formal updates will be provided throughout the year.

3. Recommendations

- 3.1. That the Authority notes the changes to the financial forecasts.