

**Hampshire Fire and Rescue Authority**

**Finance and General Purposes Committee**

**Item: 6**

**29 January 2014**

**Draft budget 2014/15**

**Report by Treasurer and Chief Officer**

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**1 Summary**

- 1.1 At its meeting on 3 December 2013, the Authority received a report outlining the medium term financial strategy (MTFS) for the Authority which detailed the projected 2014/15 budget position. This set out the expected reductions in Government funding over the next four financial years. It also set out the Service's achievements to date in securing efficiencies and making reductions in spending but highlighted the future challenge which would need to be addressed.
- 1.2 Since that meeting more detailed estimates of expenditure next year have been developed and expenditure to be funded from reserves has been finalised. Government grant towards spending has been announced and estimates of the council tax base for 2014/15 have been obtained.
- 1.3 At this stage however, business rates are still only an estimate and are not due to be finalised until after publication of this report and details of the compensation grant the Government is issuing for capping the increase in business rates is yet to be announced. Both of these will alter the actual level of income. The finalised budget position which will be presented to the Authority on 19 February 2014.
- 1.4 There is a projected budget surplus of £2.5m in 2014/15 and so the figures in this report assume there will be no council tax increase for next year.
- 1.5 In the medium term (up to 2017/18) there is budget gap of £12m (reported to the Authority in the MTFS in December 2013). In addition there will be no fixed capital grant for fire authorities in 2015/16 to support investment in vehicles and equipment (the current annual capital programme requirement is around £3.5m p.a.) So the Authority will need to consider council tax increases from 2015/16 onwards to contribute towards the budget deficit.

## 2 Recommendation

The Finance and General Purposes Committee is invited to;

- 2.1 Recommend to the Authority whether the council tax freeze grant should be accepted for 2014/15.
- 2.2 Recommend to the Authority the Treasury Management Strategy
- 2.3 Note and agree the revised budget position for 2014/15

## 3 The current year: 2013/14

- 3.1 The latest monitoring report [also on this agenda] forecasts that there will be an underspending of £1.213m after allowing for potential carry forwards and a £2m contribution to service improvement initiatives. The report recommends that, subject to confirmation at the end of the financial year, the balance is added to the capital payments reserve.

## 4 Changes to the medium term position

- 4.1 A number of small changes have been made to the medium term position presented to the Authority on 3 December 2013. Overall the projected surplus in 2014/15 has increased to £2.5m.
- 4.2 The table below summarises the changes to the estimates made in the MTFS:

	<b>£'000</b>
<b>Total surplus reported to F&amp;GP Committee December 2013</b>	<b>1,611</b>
Increase in precepts collected locally	569
Decrease in Business Rates	-57
Decrease in Business Rates top up grant	-19
Net contribution from surplus on CT collection funds	288
Returned top sliced funding	34
Changes in Council tax Freeze Grants	39
Reduction in budget requirement explained in paragraph 5.1	38
<b>Current projected 2014/15 surplus</b>	<b>2,503</b>

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

- 4.3 Initial estimates have been received from the billing authorities on their tax bases. The tax base has increased from last financial year by 1.6%, which is a favourable position since this generates extra council tax revenue on an on going basis.
- 4.4 Initial estimates have also been received from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2014/15. Overall, these show a surplus of £533,000 allocated to the Authority. This is a one-off sum and can only be taken into account in 2014/15.

## Business rates retention scheme

- 4.5 The Business rates retention scheme, which was introduced in April 2013, saw HFRA receive an initial top up grant from central government of £6,344,000. In the medium term position it was assumed this would increase by 2.25% for 2014/15 to £6,486,700. The actual top up grant has now been announced at £6,467,549 being inflated by just 1.95% following the Government's announcement on capping the level of business rate increases for next year. It was also announced that authorities will be compensated for this loss of income but no details have yet been released.
- 4.6 The billing authorities have now also made an initial estimate of the business rates that will be collected. Their estimate for the proportion due to the Authority is £6,402,790 for 2014/15 and it has been assumed to be the same in 2015/16 inflated by the 1.95% cap enforced by central government this year. 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.
- 4.7 The billing authorities have estimated a deficit on their business rates collection fund of £245,000 for 2013/14. This will be a one off cost to the Authority in 2014/15, in the same way that the council tax fund operates.

## 5 Budget requirement 2014/15

- 5.1 This table summarises the adjustments to the medium term financial position (previously presented to the Authority on 3 December 2013) over the forthcoming financial year:

	<b>2014/15</b>
	<b>£000</b>
<b>Estimated budget as reported to HFRA (3 December 2013)</b>	<b>64,438</b>
Reduction in inflation and base changes	(140)
Increase in pension costs	41
Reduction in capital financing costs	(6)
Reduction in efficiencies secured	67
<b>Latest estimate of draft budget</b>	<b>64,400</b>

- 5.2 Appendix A sets out the details of the base budget calculation and Appendix B outlines the base budget for 2014/15.
- 5.3 The phase 1 efficiencies programme has closed. The final summary of what has been taken from the budget to the end of 2014/15 and in which areas is shown at Appendix C. However, there still may be some full year effect of the changes reflected in 2015/16.

## Grant

5.4 The following table sets out the headline grant position for the Authority:

	<b>2014/15</b>
	<b>£000</b>
<b>Sources of income</b>	
Revenue Support Grant	15,890
2011/12 freeze grant	968
Business rates top up grant	6,468
Retained business rates	6,403
Collection fund surplus / (deficit)	288
Returned funding (one off)	34
Council tax	36,059
2013/14 freeze grant	395
2014/15 freeze grant	398
<b>TOTAL INCOME</b>	<b>66,903</b>
<b>Draft Budget</b>	<b>64,400</b>
<b>TOTAL SURPLUS (+) / DEFICIT (-)</b>	<b>2,503</b>

- 5.5 The figures in the report assume that the Authority will accept the 1% council tax freeze grant (CTFG) which Government announced for not increasing council tax in 2014/15. This is being recommended due to the projected budget surplus in 2014/15. However, this proposal is also being influenced by the expected requirement to hold a referendum if the council tax is increased by more than a limit set annually by central government. This limit is thought to be between 0% & 2%. If this is the case, the cost of holding a referendum and potential re-billing of council tax would be very significant. It would wipe out a large part (if not all) of the additional income generated through a council tax increase above the limit.
- 5.6 The Government has announced from 2015/16 that the 2011/12 and the 2013/14 freeze grant will be incorporated into future Government funding and also that the freeze grant for 2014/15 and 2015/16 will be included in the base used for the Spending Review for 2016/17.
- 5.7 Although this news is positive for the Authority because around £2m of council tax freeze grants were expected to end in 2016/17, Government grant reductions could be more severe over the next Spending Review period than is currently being anticipated to take account of this. Overall however, it is thought that the Authority will be better off.
- 5.8 The section dealing with capital spending (which features later in this report) shows the grant funding for capital investment is £1.4m for 2014/15. Although annual spending fluctuates, the average spending on vehicles and buildings is around £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 2014/15 will be transferred to the capital payments reserve.

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

### **6 General balance**

Last year a detailed exercise was carried out to risk assess the level of general balance that the Authority should hold. There has been a review again this year and it is considered that there is no requirement to alter the level of general balance and it is therefore recommend that the balance remain at £2.5m.

#### **6.1 Specific reserves**

The Authority also has specific reserves to provide for future spending. These are:

- 'Improvement and sustainability reserve'. This is used to help deliver value for money improvements, and to 'pump-prime' environmental initiatives. Also at the end of this financial year the earmarked balance from the Service Improvement budget will be added here so that it can be spent by Heads of Service in future financial years.
- '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 the underspend from the current year is added to this reserve. This will put the Authority in a more secure position as government funding for capital is now on a 'bids' basis and therefore the Authority may not always be successful.
- 'Grant equalisation reserve'. This was initially held to pay the worst case redundancy costs related to the staff review. At the end of the 2013/14 financial year a contribution of £384k was made to fund other priorities.

6.2 Details of the expected balance on each of the specific reserves and the general balance over the period 2014/15 to 2017/18 are set out in Appendix D.

### **7 Capital**

7.1 No changes have been made to the proposed capital programme from 2014/15 presented to the Authority last month and this is reproduced as Appendix E. However, given the announcement by the Government that the capital funding for 2015/16 will only be on a bids basis and that beyond this year is unknown, the programme for 2016/17 onwards remains at this stage, an indication of the Authority's capital proposals. At this stage, the Authority has planned effectively and should be able to fund the current programme from the Capital Payments Reserve, but longer term capital spending may have to be reviewed in line with

future council tax and other spending decisions.

## **8 Capital financing**

- 8.1 The 2014/15 capital grant was set last year at £1.4m. The Government has subsequently announced that capital allocations for 2015/16 will be made based on bids submitted for transformational projects if they show value for money and sustainability. It had previously been assumed that the Authority would receive a general capital grant of £1m in 2015/16. This is a major change in support for essential investment.
- 8.2 The proposed financing is now set out in detail in Appendix F. This currently assumes we are not successful in bidding for any transformational funds from 2015/16 onwards due to the fact that the majority of our capital programme set out for future years simply relates to replacing vehicles and maintaining the buildings needed to sustain an effective level of service delivery.

## **9 Treasury Management**

- 9.1 Attached as Appendix G 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 The Treasury Management Strategy and Investment Strategy for 2014/15 follow a similar format and have a similar content to previous years. The most significant change in the Treasury Management environment is as a result of proposed UK and EU legislation, which reduces the likelihood that the UK and other governments will support failing banks and increases the risk to the security of investments from bank 'bail-ins'. In the event of a 'bail in' investors funds would be top-sliced to meet the losses of the failing bank and restore it to an acceptable level of financial health, resulting in a capital loss to those investors.
- 9.3 The counterparty limit for banks and building societies is being maintained at £7m to allow for peaks in the cash balance, such as when the annual Pension Grant is received. Operationally the amount invested with any individual counterparty will be reduced, through the use of more counterparties that meet the Authority's credit criteria. This will ensure that the Authority has a greater level of diversification in its cash investments across a range of creditworthy counterparties.

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

- 10.1 The draft budget and future spending plans 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 and beyond. In addition the Service has begun formulating proposals for phase 2 efficiency savings, building on the work to date of the Safer Stronger Board and the Budget Alignment Group.
- 10.3 The Risk Review, a fundamental examination of the way operational services are provided, is set to start in the early part of 2014 and has been challenged with coming up with savings proposals that will form a major element of meeting the budget deficit.

## **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 development and implementation of a new savings programme will need to be kept under review over the coming years in particular.
- 11.3 There is a real risk of a budget deficit in future years which will require reductions across the Service and increases in council tax. The Service has begun early planning to identify how a shortfall could be overcome, including examining other potential income sources. However, as a backstop position, the Authority has sufficient reserves to meet the gap thereby mitigating this risk.

## **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 with the business community took place on 7 January 2014, setting out the wider context of the savings programme that has been put in place up to the 2014/15 financial year and the future challenge that the Authority faces over the medium term. It was fully appreciated that the budget proposals for 2014/15 were already well formulated in terms of the efficiency savings programme and the budget surplus in the year meant that any proposal to increase council tax would look out of step against the current financial position. However, as in previous consultation meetings businesses acknowledged that the Authority will need to consider increases in council tax from 2015/16 onwards in order to help address the budget deficit in future years.

## **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 of revenue base budget 2014/15
Appendix C	Efficiency Savings programme
Appendix D	Level of specific reserves and general balance 2014/15 to 2016/17
Appendix E	Proposed capital programme 2014/15 to 2016/17 (yellow)
Appendix F	Financing of capital programme (yellow)
Appendix G	Treasury Management Strategy Statement (salmon)