

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

28 January 2015

Revised 2014/15 budget & draft budget 2015/16

Report by Treasurer and Chief Officer

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1 Summary

- 1.1 At its meeting on 3 December 2014, the Authority received a copy of the financial update paper which outlined the proposed measures to meet the projected deficit for 2015/16. At this stage the assumptions around Government grant settlement remained as indicated by the 2014/15 settlement. It also assumed all phase 1 efficiency savings relating to the first comprehensive spending review (CSR1) had been achieved, with a small full year effect filtering through into 2015/16. This meant no phase 2 efficiency savings would be required to meet the 2015/16 deficit, in order to allow sufficient time to complete and implement the recommendations from the Risk Review before savings would be required to bridge future deficits from 2016/17.
- 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 2015/16 have been obtained.
- 1.3 At this stage business rates are still only an estimate and are not due to be finalised until after publication of this report. Also confirmation of how much section 31 grant government will be issuing in relation to business rate relief schemes in 2015/16 (including an element covering the capping of the increase in business rates) is yet to be announced. It has been indicated total section 31 grant for both 2014/15 & 2015/16 will be around £366,000. Once confirmed, both of these are expected to alter the budget requirement and the finalised budget position which will be presented to the Authority on 20 February 2015.
- 1.4 As the measures proposed in the financial update paper presented to the Finance and General Purposes (F&GP) in November 2014 balanced the 2015/16 budget, it was recommended and agreed that the 2015/16 budget should be prepared on a 0% council tax increase in this 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 from this year onwards to support investment in vehicles and equipment. Therefore, in spite of the Risk Review which is currently underway and due to conclude in autumn 2015, it is likely that the Authority will need to consider council tax increases from 2016/17 onwards to contribute towards the budget deficit.
- 1.6 The latest forecast for 2014/15 shows an underspend of £3.4m, some of which will be required to meet the one off injury pension payments identified last year, with the balance being added to reserves at the end of the year. This will help secure the financial position of the Authority into the future.

2 Recommendation

The Finance and General Purposes Committee is invited to;

- 2.1 Note the latest 2014/15 budget position (Appendix A) and the changes to the capital programme (Appendix D)
- 2.2 To approve the extension of the Risk Review project team resource throughout 2015/16 at an estimated cost of £416,000 to be met from the Service Improvement budget.
- 2.3 To approve the virements over £100,000 as set out in paragraph 2 of Appendix A.
- 2.4 Note the achieved to date and proposed efficiencies programme (Appendix B)
- 2.5 Note the proposed use of reserves (Appendix C)
- 2.6 To agree the principles for managing the budget over the short term as outlined in section 4.
- 2.7 To delegate authority to the Chief Financial Officer in consultation with the Chief Fire Officer to make amendments to the final budget to be presented to the Authority to take account of late changes in the figures, in particular those notified by Government and local Councils.

That it be **RECOMMENDED** to the Authority:

- 2.8 That council tax is frozen and the council tax freeze grant should be accepted for 2015/16.
- 2.9 The draft budget for 2015/16 (summarised at Appendix F) is approved.
- 2.10 The updates to the capital programme and the proposed financing (Appendix G & H) are supported
- 2.11 The Treasury Management Strategy (Appendix I) is approved

3 Third Quarter Monitoring 2014/15

- 3.1 It is usual at this time of the year to present a separate report on the third quarter budget monitoring position, but in keeping with more recent financial updates, this has been incorporated within this report to F&GP.
- 3.2 A detailed summary is provided in Appendix A, but the overall position is an anticipated underspend by the end of the year of £3.4m, mainly as a result of the removal of unused contingencies, savings identified by the Heads of Service Team (HoST) and savings against existing pay budgets throughout the Departments. Part of this saving will be required to meet the one off costs of the injury pension payments identified last year, although the final amount will be dependent on ongoing negotiations with the Department of Communities and Local Government (DCLG). The balance of savings will be added to reserves as in previous years.
- 3.3 The Appendix also considers items that are to be funded from the Service Improvement budget and this report recommends that a further £416,000 be approved for the year to extend the Risk Review project team throughout 2015/16.

4 Financial Strategy

- 4.1 Members will be aware that the Authority has a good record of planning well ahead of time for the financial challenges that we have faced during the period of austerity and the budget position for 2015/16 presented in this report is testament to that.
- 4.2 The final elements of the first phase of savings has been implemented as part of the 2015/16 budget and work is already well underway to consider what options exist for reducing costs in the future, primarily through the Risk Review and the Professional Services Redesign.
- 4.3 A savings target of £12m has been set, to be in place for the 2017/18 financial year, but this includes a range of assumptions around inflation, pay awards and most importantly grant reductions from the Government up to this period.
- 4.4 Initial targets for closing this gap have been allocated to Departments, together with assumptions around council tax increases in the latter part of the planning period. At this stage however, these remain planning assumptions and the Authority will need to consider all of these issues in the round once more detailed information is available in respect of proposals that may be put forward and their impact on the Authority and the services it provides.

- 4.5 In addition to the financial challenge presented by revenue grant reductions, following changes to capital grant arrangements, the Authority in effect must now fund all of its own business as usual capital programme, since any Government funding is now set aside for transformational bids, which tend to be awarded to new and innovative schemes as opposed to the general replacement of vehicles and proper planned maintenance of buildings.
- 4.6 The Authority has therefore been trying to increase the level of revenue contributions to capital built into the ongoing revenue account, but accepts that this must be balanced against the need to make revenue savings in the longer term. As part of the ongoing update of the detailed budget figures variations will come along in respect of inflation, pay, grants, council tax base etc. and each of these can have a negative or positive impact on the final budget gap that we might face. However, rather than continually adjust the bottom line figure we have been absorbing these technical adjustments by making changes to the revenue contributions to capital figure.
- 4.7 Since the Authority will not be in a position to collectively consider all of these issues for some time yet, it is proposed that any ongoing technical adjustments are reflected against the revenue contributions budget line and that any one off gains are transferred to the capital payments reserve in the year. The proposals set out in this report and contained in the table in paragraph 5.2 reflect this principle.
- 4.8 Given that the capital programme is already funded up to 2018/19 and there are surplus resources, the need to build up revenue contributions to capital is less pressing than the need to make savings for the 2017/18 budget and the advantage of the strategy set out in this section is that changes can still be made to the revenue contributions figure to buy more time to implement savings proposals if required.

5 Changes to the medium term position

- 5.1 A number of changes have been made to the medium term position presented to the Authority on 3 December 2013. Overall the budget is now balanced as reported to F&GP at the end of last year. Following the receipt of information from Government and District and Unitary Councils the revised position is even more favourable.
- 5.2 The table on the next page summarises the changes to the estimates made to the MTFs figures and the changes to the figures since the subsequent report to the Full Authority in December 2014.

Total predicted 2015/16 deficit reported to F&GP Committee Dec 2013:	£000's 2,547
Measures proposed to close the gap reported to F&GP Nov 2014:	
Contribution towards overheads from 3s Fire	-12
Increase in interest receivable	-50
Changes in funding assumptions	-173
Removal of technical savings	-1,225
Removal of Host budget	-1,087
Estimated budget deficit reported to Full Authority Dec 2014:	0
Changes post December 2015:	
Inflation and base budget changes	189
Reduction in FYE of phase 1 efficiency savings	65
Additional pensions costs	324
Increase in funding assumptions	-867
Increase in Council Tax base 2015/16	-681
Contribution from surplus on collection funds	-926
Increase in income expected to the Authority:	-1,896
Recommended use of extra income (in line with financial strategy):	
Increase in RCCO contributions	970
Contribution to the Capital Payments Reserve	926
Projected 2015/16 surplus / deficit	0

Council tax collection fund and tax base

- 5.3 Initial estimates have been received from the billing authorities on their tax bases. The tax base has increased from last financial year by 1.89%, which is a favourable position since this generates extra council tax revenue on an on going basis.
- 5.4 Initial estimates have also been received from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2015/16. Overall, these show a surplus of £825,000 allocated to the Authority. This is a one-off sum and can only be taken into account in 2015/16.

Business rates retention scheme

- 5.5 The Authority receives a top up grant in respect of business rates from the Government, together with a proportion of retained business rates collected by District and Unitary councils in the County. Furthermore, following reliefs and business rate caps introduced by the Government, Section 31 grant is paid to the authority for lost business rate income it would otherwise have earned.

- 5.6 Indicative figures for 2015/16 announced last year suggested the business rates multiplier would be 2.76% in 2015/16, meaning a top up grant of £6,646,200 was expected. The actual top up grant announced is £6,591,000. However, section 31 grant in compensation for the actual loss of income is expected again, but has yet to be confirmed.
- 5.7 Initially this year's business rate figure was assumed to be last years figure inflated by the 1.95% cap enforced by central government. This would have given the authority a £6,525,000 share of business rates. Billing authorities have now provided initial estimates of the actual level of business rate they expect and the authority's share is estimated to be much higher at £7,135,787. Although these figures are not due to be finalised until the end of January, due to the complexity of accounting for appeals, this appears to be positive news for the authority as it looks likely there will be an increase in rates which should continue on an ongoing basis. In addition, again, it is expected there will be an element of section 31 grant to compensate for the cap.
- 5.8 The billing authorities have also estimated a surplus on their business rates collection fund and the authority's share of this is £101,000 for 2014/15. This will be a one off income to the Authority in 2015/16, in the same way that the council tax collection fund operates.

6 Budget requirement 2015/16

- 6.1 This table summarises the adjustments to the medium term financial position over the forthcoming financial year:

	2015/16 £000
Estimated expenditure as reported to HFRA	64,400
Less specific grants included in 2014/15 base budget	-1,172
Inflation provision 2015/16	1,357
Other base changes	1,190
Increase in pension costs	324
Increase in capital financing costs / RCCO	844
Removal of savings	-2,483
Specific grant changes	402
Contribution to the Capital Payments Reserve	926
Estimate of draft budget requirement 2015/16	65,788

Appendix E sets out the details of the base budget calculation in more detail and Appendix F outlines the base budget for 2015/16.

- 6.2 The phase 1 efficiencies programme has closed. The final summary of what has been taken from the budget to the end of 2015/16 and from which areas is provided at Appendix B. Details of the indicative phase 2 efficiencies programme are also

provided. However, it is anticipated that no phase 2 savings will be required to balance the budget until at least 2016/17.

- 6.3 As mentioned in Appendix A, under the Service Improvement section, £1,076,000 of savings across all areas of the Service have been removed from the budget reflecting previous year's underspends. As these savings are not required to meet the budget deficit they have been allocated to the Service improvement budget for 2015/16 only.
- 6.4 The Heads of Service savings include removing the Trainee budget which funds the first 14 weeks of training new wholetime firefighters before they are posted to a station for operational duties. This budget has not been used for at least the past 3 years and is not expected to be required in the near future. However when the Service starts to recruit new firefighters it is proposed to fund the cost by keeping posts vacant and making more use of the staff bank during peak periods.

Government Grant

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

Sources of income	2015/16 £000
Revenue Support Grant (now includes 13/14 & 14/15 CTFG's)	14,395
Retained business rates	7,136
Business rates top up grant (including element of 11/12 CTFG)	6,591
Collection fund surplus / (deficit)	926
Council tax	36,740
TOTAL INCOME	65,788
Draft Budget	65,788
TOTAL SURPLUS (+) / DEFICIT (-)	0

- 6.6 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 2015/16.
- 6.7 The proposal to freeze council tax is again being influenced by the positive budget position outlined in this report and the fact central government will require a referendum to be held if council tax is increased by more than 2%. Therefore, 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.
- 6.8 Last year the Government announced from 2015/16 that the 2011/12, 2013/14 and 2014/15 freeze grant would be incorporated into future Government funding and these, plus the 2015/16 freeze grant would be included in the base used for the Spending Review for 2016/17.

6.9 Although this is positive news it is possible that 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, since we are forecasting to lose this grant anyway, it is still expected that the Authority will be better off.

7 Level of reserves and general balance

General balance

7.1 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.

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 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. 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 established to fund redundancy costs relating to the staff review. Now this has concluded it is proposed this reserve is held to fund any additional redundancy costs relating to joint working, the professional services redesign and the Risk Review.

7.3 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 C.

8 Capital programme and financing

8.1 The proposed capital programme from 2015/16 is set out at Appendix G and the proposed financing of this and the outstanding programme (app D) can be found at Appendix H. Nothing has been removed from the proposed capital programme, pending the results of the Risk Review.

8.2 However, following a successful bid to the Transformation Fund in partnership with South Central Ambulance Service (SCAS), a project to transform on call arrangements has now been added to the capital programme in 2015/16. The capital element of this project will be funded by a £1,392k contribution from the

DCLG and a £90k contribution by HFRS from the capital payments reserve. SCAS will make an ongoing revenue contribution towards the programme over a period of 9 years from 2016/17.

- 8.3 In the past the Authority has maintained a regular capital programme of £3.5m for vehicles and around £500k for buildings per year. Appendix H shows that the Authority can currently finance the full programme at the existing level from the capital payments reserve. However if it does this, by 2018/19 the reserve would be depleted to such a level there would only be enough left to finance two more years of the ordinary programme and nothing else.
- 8.4 As from 2015/16 central government has withdrawn the fixed capital grant for Fire & Rescue Authorities (FRA) over the longer term the Authority will be required to try and finance their regular capital programme from the revenue budget to avoid the need to borrow. However, with reducing revenue grants from central government this poses quite a challenge.
- 8.5 Due to an unexpected increase in the council tax base this year and income from business rates, revenue contributions to capital have been increased by £970k to £1.874m in line with the strategy outlined in Section 4. However, this ongoing position will be subject to review once more details are known about the total package that might be deployed to meet the future budget gap.
- 8.6 An expected outcome of the Risk Review will be to reduce the standard capital programme in order to prolong the availability of the capital payments reserve and provide more time to try and accommodate the regular capital programme within the Authority's revenue resources.
- 8.7 In 2015/16 central government introduced a £75 million transformation fund to which FRA's had to apply to for capital allocations in 2015/16. Any bid submitted had to be for transformational projects that demonstrated value for money and sustainability. The Authority was successful in both their bids but it is not clear at this time if central government will continue to provide any future funding in this way.

9 Treasury Management

- 9.1 Attached as Appendix I 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 2015/16 follow a similar format and have a similar content to previous years.

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 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. The Risk Review, a fundamental examination of the way operational services are provided, is set to conclude in autumn 2015 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 via a survey distributed through the Chamber of Commerce. This set out the wider context of the savings programme that has been put in place up to the 2015/16 financial year and the future challenge that the Authority faces over the medium term. It was fully appreciated that the budget proposals for 2015/16 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 2016/17 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	Budget monitoring quarter 3
Appendix B	Phase 1 achieved efficiency savings and the phase 2 proposed programme
Appendix C	Level of specific reserves and general balance 2014/15 to 2016/17
Appendix D	Capital monitoring 2014/15
Appendix E	Calculation of base budget 2015/16
Appendix F	Outline of revenue base budget 2015/16
Appendix G	Proposed capital programme 2015/16 to 2016/17 (yellow)
Appendix H	Financing of capital programme (yellow)
Appendix I	Treasury Management Strategy Statement (salmon)