

20 February 2015

Budget and precept requirement 2015/16

Report by Treasurer and Chief Officer

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1 Introduction

- 1.1 This report is an updated version of the budget report presented to the Finance & General Purposes Committee (F&GP) on the 28th January 2015. This report has been prepared using the agreed principles for managing the budget over the short-term accepted by the F&GP committee at the last meeting. Those being, that one off in year gains are added to the capital payments reserve whereas other technical changes are absorbed into the revenue contributions to capital (RCCO) figure to balance the budget.
- 1.2 The figures now reflect the billing authorities' final tax base, the final position on their council tax collection fund, the share of business rates due to the authority and the position on the business rates collection fund. Full details relating to the continuation of section 31 grant in relation to business rates relief in 2014/15 and details of further section 31 grants relating to 2015/16 rate reliefs have now also been confirmed.
- 1.3 There has been a large reduction in the income expected from business rates as reported to F&GP in January which has reduced the RCCO figure. This has occurred as a result of an error in one district council's figures which were submitted to us originally.

2 Recommendation

- 2.1 That if any subsequent changes are required to the budget, the Chief Financial Officer in consultation with the Chief Fire Officer is given delegated authority to reflect the actual position in the budget.
- 2.2 That the revenue budget for 2015/16 as set out at Appendix A is approved.
- 2.3 That the capital programme for 2015/16 as set out in appendix E and the funding of this as set out in appendix F be approved.
- 2.4 That the recommendations set out in Appendix G covering the Treasury Management strategy which incorporates the Prudential Indicators and the policy on the minimum revenue provision is approved.

2.5 That the budget requirement for the general expenses of the Authority for the year beginning 1st April 2015 be £65,455,634.05

2.6 That the council tax requirement for the Authority for the year beginning 1st April 2015 be £36,739,932.59.

2.7 That the Authority's council tax for the year beginning 1st April 2015 for the properties in each band be:

Band A:	£40.92	Band E:	£75.02
Band B:	£47.74	Band F:	£88.66
Band C:	£54.56	Band G:	£102.30
Band D:	£61.38	Band H:	£122.76

2.8 That the precepts, as set out below, totalling £36,739,932.59 are issued on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the Authority, in proportion to the tax base of each billing authority's area as determined by them.

Basingstoke and Deane Borough Council	3,783,174.71
East Hampshire District Council	2,906,478.65
Eastleigh Borough Council	2,618,491.67
Fareham Borough Council	2,555,261.68
Gosport Borough Council	1,573,807.75
Hart District Council	2,331,276.23
Havant Borough Council	2,384,371.78
New Forest District Council	4,247,127.72
Portsmouth City Council	3,270,154.54
Rushmoor Borough Council	1,826,145.23
Southampton City Council	3,610,653.95
Test Valley Borough Council	2,781,864.36
Winchester City Council	2,851,124.32
Total	36,739,932.59

2.9 That in accordance with the set of principles set by the Secretary of State for Communities and Local Government for the year, it is determined that the relevant basic amount of council tax for 2015/16 is not excessive.

3 Summary

3.1 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.

3.2 Since that meeting detailed expenditure for 2015/16 has been finalised and the full year effect of the phase 1 savings determined. Government grant towards spending has been confirmed and was in line with the provisional figures, with the exception of a small reduction in RSG due to the reduction in employer pension contribution rates.

3.3 Billing authorities have now also confirmed their final tax base and their surplus/deficits on the council tax collection fund, their business rates position, the position on the business rates collection fund and their section 31 grant funding which will be provided for business rates relief. Overall funding from these sources has had a positive impact on the budget position of the authority in 2015/16.

3.4 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. This proposal is now further reinforced by the better than expected budget position which has occurred due to the extra income generated through business rates, section 31 grants and council tax (set out in paragraph 5.2).

3.5 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.

4 The current year 2014/15

4.1 The latest budget monitoring position reported to F&GP forecasts there will be an underspend of £3.4m in total in 2014/15. Some of this however, will be required to meet the one off costs of injury pension payments incorrectly charged to the pension's account, which came to light last year, totalling £1.485m.

4.2 It is therefore anticipated around £2m of the remaining underspend will be available to be transferred to reserves at year end for service improvement. However, this could be more depending on the ongoing negotiations between the Authority and the DCLG regarding repayment of the incorrectly charged amounts.

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. Following the receipt of information from Government and District and Unitary Councils the 2015/16 budget position is more favourable than currently anticipated and has now been balanced in line with the accepted financial strategy
- 5.2 The table below summarises the changes to the estimates made to the MTFS figures, the changes to the figures since the subsequent report to the Full Authority in December 2014 and sets out the proposal to balance the 2015/16 budget.

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 2014/15	-173
Removal of technical savings	-1,225
Removal of Host budget	-1,087
Estimated budget deficit reported to Full Authority Dec 2014:	<hr/> 0
Changes post December 2014:	
Inflation and base budget changes	190
Reduction in FYE of phase 1 efficiency savings	65
Additional pensions costs	324
Increase in funding assumptions 2015/16	-499
Increase in Council Tax base 2015/16	-681
Contribution from surplus on collection funds	-1,023
Increase in income expected to the Authority:	<hr/> -1,624
Recommended use of extra income to balance the budget	
Increase in RCCO contributions	601
Contribution to the Capital Payments Reserve	1,023
Projected 2015/16 surplus / deficit	<hr/> 0

- 5.3 The RCCO contribution shown above is £369,000 less than reported to F&GP committee in January following the late notification of an error in the business rates figures provided by one of the District Councils.

Council tax collection fund and tax base

- 5.4 Final figures from the billing authorities have confirmed 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.
- 5.5 Final figures from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2015/16 confirm a surplus of £836,000 allocated to the Authority. This is a one-off sum and can only be taken into account in 2015/16.

Business rates retention scheme

- 5.6 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.
- 5.7 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 due to the 2% cap reinforced by central government.
- 5.8 Initially this year's business rate figure was assumed to be last years figure inflated by the cap enforced by central government. This would have given the authority a £6,525,000 share of business rates. Billing authorities have now confirmed the authority's share of business rates will be £6,706,395. This is again positive news for the authority as the increase in rates should continue on an ongoing basis.
- 5.9 In addition, section 31 grant amounting to £193,921 will be provided in compensation for the 2% cap for this year and last, and £234,326 will be provided for other business rates relief schemes.
- 5.10 The billing authorities have now confirmed the surplus on their business rates collection fund and the authority's share will be £187,000 in 2015/16. This will be 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	475
Removal of savings	-2,483
Specific grant changes	341
Contribution to the Capital Payments Reserve	1,023
Estimate of draft budget requirement 2015/16	65,455

Appendix A sets out the details of the base budget calculation in more detail and Appendix B 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 D. Details of the indicative phase 2 efficiencies programme are also provided. However, no phase 2 savings will be required to balance the budget until at least 2016/17.
- 6.3 £1,076,000 of savings across all areas of the Service has been removed from the budget in 2015/16 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 in 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:

	2015/16
	£000
Sources of income	
Revenue Support Grant (now includes 13/14 & 14/15 CTFG's)	14,395
Business rates top up grant (including element of 11/12 CTFG)	6,591
Collection fund surplus / (deficit)	1,023
Retained business rates	6,706
Council tax	36,740
TOTAL INCOME	65,455
Budget	65,455
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 E and the proposed financing of this and the outstanding programme can be found at Appendix F. 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 £1.392m contribution from the DCLG and a £90,000 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 £500,000 for buildings per year. Appendix F 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 (Appendix C).

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 £601,000 to £1.505m in line with the agreed strategy. 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 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 2015/16 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.

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 consultation document distributed through the Chamber of Commerce. This set out the wider context of the savings programme that had already 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

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Appendix B	Outline of the revenue budget 2015/16
Appendix C	Level of specific reserves and general balance 2014/15 to 2017/18
Appendix D	Phase 1 achieved efficiency savings and the phase 2 proposed programme
Appendix E	Proposed capital programme 2015/16 to 2016/17 (yellow)
Appendix F	Financing of capital programme (yellow)
Appendix G	Treasury Management Strategy Statement (salmon)