

Hampshire Fire and Rescue Authority

9 September 2015

Item 8

Medium Term Financial Plan Update

Report of the Head of Finance

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1. Summary

- 1.1. This report provides an update to the Authority on the budget development process for 2016/17 and the medium term prospects for the Fire Authority's finance to 2019/20.
- 1.2. The Authority's early action in implementing its efficiency programmes in preparation for significant grant reductions over the coming years has placed it in a strong position.
- 1.3. There is currently uncertainty around the level of future grant reductions which do not allow definite figures to be given at this stage. However, the estimates within this report are based on the best available information and can therefore be taken as a guideline.
- 1.4. Significant efficiencies have been achieved since 2010, when the first grant reductions were made, however a further £16m is expected to be required over the years 2016/17 to 2019/20.

2. Recommendations

- 2.1. That the Authority recognises the changes to the financial forecasts.
- 2.2. That the Authority consider the implications of Council Tax increases for 2016/17 and future years and provides Officers with a view on a planning assumption for council tax changes over the next four years.
- 2.3. That the Authority agrees to consult on options for council tax and spending as part of the planned public consultation process.

3. Introduction and background

- 3.1. The Authority's current efficiency programme to 2015/16 has been successful to date in achieving the required level of saving plans to ensure that a balanced budget has been set each year. These plans have been achieved within the timescales needed and therefore spend has consistently been within budget.

- 3.2. As savings requirements increase they will become more difficult to achieve, but through effective early planning, the authority has already started this process and is on track to achieve significant savings over the coming years.
- 3.3. The 'Financial Plan to 2017/18' report of April 2014 quoted a forecast savings requirement by 2017/18 of £12.2m and a savings plan was put in place to meet this gap which included assumed rises in council tax over the period. Since then, the timescales for grant reduction have been extended. The Government are currently reviewing the impact on services of reduction in the range of 25% and 40% in real terms, with a view to imposing reductions within that range in the period up to March 2020.
- 3.4. It had been hoped that more details on specific levels of reductions would be provided within the budget announcement on 8th July, however this did not happen. It is now expected that there will be an announcement of the Government Department reductions on the 25th November, with further details for specific services coming out after that date.

4. Financial Plan to 2020

- 4.1. Given the uncertainty in the level of grant reductions, forecasts have been based on a 10% reduction in cash terms for each of the 4 years 2016/17 – 2019/20. This is within the Government's range and is currently the best estimate, although there is a possibility that the savings requirement will be lower or higher depending on distribution of reductions across Departments.
- 4.2. Furthermore, as part of setting the budget for 2015/16 there were a number of favourable variances in the final budget that have a knock on impact to future years. Taking all of these factors into account, the updated forecast is therefore anticipated to be around £16m by 2019/20.
- 4.3. Current efficiency programmes are expected to produce savings in the region of at least £10.3m during this time period, although there is a range of options currently being considered which will affect the total. This leaves an expected funding gap of around £5.7m for 2016/17 to 2019/20.
- 4.4. Since 2010, the precept (council tax) has not been increased by the Authority, although some grant funding from the government has been received to compensate for this. A 2% increase in precept equates to £735,000 per year or £3m cumulatively over the years 2016/17 to 2019/20. This would then leave a £2.7m funding gap, which it is anticipated could be achieved through new initiatives, stretching existing projects and increasing income.
- 4.5. If the precept is not increased between 2016/17 and 2019/20, the shortfall in savings would remain at £5.7m. Further reductions will need to be considered through additional savings plans along the lines of the current Risk Review, but inevitably this is likely to lead to reductions in the level and type of cover that can be provided within the resources that will be available.
- 4.6. The interplay between council tax increases and the total level of savings that need to be made over this extended period of austerity is perhaps more important now than it has ever been, since the Authority does have the

opportunity at this point in time to decide on a financial strategy that would mean that no further major savings programmes need to be put in place.

- 4.7. Without the increased council tax levels over the period, a further programme of savings will inevitably be required to reach the £5.7m target and this must be considered in the context of the current proposals being put forward as part of the Risk Review.
- 4.8. The Authority does of course have the ability to decide on a mixture of council tax increases over the period and therefore an initial steer from the Authority on future council tax proposals would be helpful to enable Officers to plan the overall dimensions and next stages of the savings programme.

5. Council Tax

- 5.1. The council tax for HFRA currently stands at £61.38 and on average accounts for around 4% to 5% of a household's total bill. The council tax in Hampshire has been frozen for the last five years, meaning that it has been at the same level for six years in a row.
- 5.2. It was always anticipated that council tax increases would need to feature in the financial plan at some point during the period of austerity, but the Authority's success in the early delivery of savings, combined with prudent forecasting have meant that this has not been necessary up to the 2015/16 financial year.
- 5.3. The plan that was put in place to meet the predicted gap of £12.2m to 2017/18 included assumptions around council tax increases to make up the final £2m of the total predicted gap.
- 5.4. The previous section outlines the implications of extending the financial plan to 2019/20. This includes a continuing assumption of council tax increases across the period of 1.99% per annum. It is accepted that any changes to the referendum limit could affect this. These planning assumptions would bring the Authority to within £2.7m of its overall savings target, based on the current savings programme it has in place.
- 5.5. To put this in context, a 1.99% increase in council tax for the Fire and Rescue Authority element equates to an increase of £1.22 for the whole year, which is equivalent to just over 2 pence per week. In the context of the total council tax levels in Hampshire, an HFRA increase at these levels would add 0.09% to the average household bill.
- 5.6. In order to continue to properly plan the finances of the Authority in the medium to long term and most critically to ensure that the current Risk Review proposals are appropriate in the context of our financial strategy, a steer is required from the Authority at this stage on its planning assumptions for council tax increases over the next four years. This report also asks for the Authority's agreement to consult on council tax options as part of the forthcoming public consultation process for the Risk Review. The responses will help inform the Authority at the point the decisions needs to be made.

- 5.7. Final decisions on council tax are of course a matter for the full Authority in February each year when it considers its budget and precept level. The request for a view on financial planning assumptions contained within this report does not fetter that decision making process.

6. 2016/17 Budget

- 6.1. Detailed work on the 2016/17 budget will commence shortly and will involve a review of all budget lines to ensure that they are appropriate and necessary. This will also cover inflation levels, both pay and non-pay, and incorporate any approved budget changes that have taken place during 2015/16 to date.
- 6.2. An initial proposal for the 2016/17 budget will be presented in December, although the timing of this will be affected by the date of any detailed budget announcement from the Government. The final budget will put to the Authority in February for approval.

7. Capital Funding

- 7.1. The level of capital reserves currently held is likely to be sufficient to fund the programme until 2020, but additional funding will be needed to complete the full programme requirement in future years.
- 7.2. As capital grant is no longer received from the Government, any shortfall would need to be met from Revenue Contributions to Capital Outlay (RCCOs) or borrowing.
- 7.3. The Authority has a deliberate policy of diverting any 'technical savings' (arising for example from pay awards that are below the levels assumed in the budget) into RCCO to build up the annual amount that is available to fund the future capital investment requirements.
- 7.4. Based on current projections, it is thought that the target level of £4m will be achieved by 2019/20, but this has always been on the understanding that the RCCO budget will act as a revenue buffer should other unforeseen revenue issues arise.
- 7.5. A longer term view of capital investment requirements will be undertaken once we have a greater understanding of changes to both the estate and vehicle fleet as a result of the Risk Review proposals and partnership working with other organisations.

8. Conclusion

- 8.1. Budget reductions are now expected to continue for an additional 2 years, extending the time period for austerity to 2019/20. Over this time a further £16m of savings are expected to be required.

- 8.2. Savings plans are in place to achieve over £10m by 2019/20, which are being monitored by the Stronger Safer Board.
- 8.3. An annual increase in precept of 2% from 2016/17 would reduce the savings requirement by £3m by the fiscal year 2019/20 and the Authority is being asked to consider at this stage its longer term proposals for council tax increases to help inform the Medium Term financial Plan for the Authority.