

**Hampshire Fire and Rescue Authority**

**24 February 2016**

**Item 7**

**Budget and precept requirement 2016/17**

**Report by Treasurer and Chief Officer**

Contact: Rob Carr, Treasurer; Telephone: 01962 847508

**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 3rd February 2016. 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.
- 1.3 There has been no significant change to the precept and business rates figures reported to F&GP in January, however the overall Council Tax Base has increase for a number of council areas, thereby increasing the total precept income expected.

**2 Recommendation**

- 2.1 That if any subsequent changes are required to the budget, the Chief Financial Officer in consultation with the Chairman of the Authority and the Chief Fire Officer is given delegated authority to reflect the actual position in the budget.
- 2.2 That the revenue budget for 2016/17 as set out at Appendix A is approved.
- 2.3 That the capital programme for 2016/17 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 1<sup>st</sup> April 2016 be £64,562,963.54.

2.6 That the council tax requirement for the Authority for the year beginning 1<sup>st</sup> April 2016 be £38,031,693.50.

2.7 That the council tax is increased by 1.99% for 2016/17 which equates to a £1.22 increase for the year on a Band D property.

2.8 That the Authority's council tax for the year beginning 1st April 2016 for the properties in each band be:

Band A:	£41.73	Band E:	£76.51
Band B:	£48.69	Band F:	£90.42
Band C:	£55.65	Band G:	£104.34
Band D:	£62.60	Band H:	£125.20

2.9 That the precepts, as set out below, totalling £38,031,693.50 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	3,928,788.52
East Hampshire District Council	3,044,088.39
Eastleigh Borough Council	2,712,837.98
Fareham Borough Council	2,629,556.82
Gosport Borough Council	1,624,213.34
Hart District Council	2,409,299.35
Havant Borough Council	2,459,585.30
New Forest District Council	4,358,981.97
Portsmouth City Council	3,351,528.88
Rushmoor Borough Council	1,888,808.52
Southampton City Council	3,785,046.40
Test Valley Borough Council	2,907,081.40
Winchester City Council	2,931,876.63
<b>Total</b>	<b>38,031,693.50</b>

2.10 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 2016/17 is not excessive.

2.11 That delegated authority be given to the Chief Finance Officer in consultation with Chief Fire Officer, Chairman of the Authority and Chairman of F&GP Committee to apply for a four year settlement if it is considered to be financially advantageous to the Authority.

### **3 Summary**

- 3.1 At its meeting on 9 September 2015, the Authority received an outline update of the Medium Term Financial Plan, in which the financial position was laid out, explaining the need to increase the precept in order to avoid further reductions to service over the years to 2019/20.
- 3.2 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 2016/17.
- 3.3 Efficiency and savings plans are continuing, with significant savings being included in the 2016/17 budget. As savings plans have been put in place earlier than required, it has been possible to include a one-off contribution to the capital reserve within the 2016/17 budget.
- 3.4 In the medium term (up to 2019/20) there is still a budget gap for which some phase 3 savings will be needed. In addition there will be no fixed capital grant for fire authorities from 2015/16 onwards to support investment in vehicles and equipment

### **4 The current year 2015/16**

- 4.1 The latest budget monitoring position reported to F&GP forecasts that there will be an underspend of £2.985m in 2015/16. It was agreed at the F&GP Committee that £1.493m would be transferred to the Service Improvement Fund; the remainder will be allocated to reserves at year end.

### **5 Medium Term Financial Position**

- 5.1 The final local government finance settlement for 2016/17, together with provisional figures up to 2019/20 was released on 8 February. This confirmed that Revenue Support Grant (RSG) for HFRA was around £0.75m better than anticipated and this has helped to balance the budget for 2016/17 as explained in the next section. It also provided transitional grant to HFRA of £100,000.
- 5.2 Transitional grant of almost £126,000 will also be provided in 2017/18 but this does not affect the overall ongoing grant position to 2019/20 which is still expected to be around £0.7m better than we assumed in the Medium Term Financial Plan (MTFP). Our current strategy, therefore, of council tax increases over the period plus a number of further income generation / efficiency savings is still expected to be enough to balance the budget by 2019/20 assuming all of our phase 2 savings are achieved in full.
- 5.3 The settlement also confirmed the offer to local authorities and Fire Authorities of a four year settlement, where they have been able to demonstrate that they have

efficiency plans in place. The deal would guarantee the level of funding over the next four years, however, there are caveats around this that could mean the figures would change under certain circumstances.

- 5.4 Authorities are invited to apply for a four year deal before October 2016, but at this point in time, neither the final details of the potential deal nor the arrangements for securing it have been released and therefore there is still uncertainty as to what authorities may be signing up to.
- 5.5 However, given the relatively positive settlement for HFRA and the potential uncertainties surrounding the move of Fire to the Home Office, this report recommends that delegated authority be given to the Chief Finance Officer in consultation with Chief Fire Officer, Chairman of the Authority and Chairman of F&GP Committee to apply for a four year settlement if it is considered to be financially advantageous to the Authority.

## 6 Overall Budget Position 2016/17

- 6.1 A number of changes have been made to the medium term position presented to the Authority on 9 September 2015. Following the receipt of information from Government and District and Unitary Councils the 2016/17 budget position is more favourable than previously anticipated and has now been balanced in line with the approved financial strategy
- 6.2 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 September 2015 and sets out the proposal to balance the 2016/17 budget.

	£000's
Total predicted 2016/17 deficit reported to Full Authority in September 2015:	5,660
<b>Changes in assumptions:</b>	
Reduction in inflation	-232
Reduction in impact of NI changes	-218
Staff turnover adjustment	-114
Increases in base budget cost	72
Increase in contribution to capital funding	713
Reduction in capital financing cost	-32
Increase in interest receivable	-118
	<b>5,731</b>

**Savings:**

On-going phase 1 HoST savings	-1,087
2016/17 Efficiencies	-3,038
Reduction in impact of RDS pension scheme	-880
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	<b>726</b>

**Funding Changes:**

Change to reduction in Section 31 Grant	-101
Lower reduction in Revenue Support Grant than forecast	-758
Transitional Grant Funding	-100
Adjustment to forecast Business Rates (incl. Collection Fund)	143
Precept increase (incl. increase in Council Tax base increase)	-1,292
Contribution from surplus on council tax collection fund	-599
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	<b>-1,981</b>
Recommended use of extra income (in line with financial strategy):	
Contribution to the Capital Payments Reserve	1,981
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Projected 2016/17 surplus / deficit	<b>0</b>

**Council tax collection fund and tax base**

- 6.3 Final figures from the billing authorities have confirmed the tax base has increased from last financial year by 1.50%, which is a favourable position since this generates extra council tax revenue on an on going basis.
- 6.4 Final figures from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2016/17 confirm a surplus of £599,171.62 allocated to the Authority. This is a one-off sum and can only be taken into account in 2016/17.

**Business rates retention scheme**

- 6.5 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.
- 6.6 Indicative figures for 2016/17 announced last year suggested the business rates multiplier would be 1.95% in 2016/17, meaning a top up grant of £6,711,700 was expected. The actual top up grant announced is £6,646,059, which is £65,641.10 lower than forecast.
- 6.7 Initially this year's business rate figure was assumed to be last year's figure inflated by 1.95%, the cap enforced by central government. This would have

given the authority a £6,836,767 share of business rates. Billing authorities have now confirmed the authority's share of business rates will be £6,841,207. This is an increase of £4,440 against forecast, which partially offsets the lower than expected Business Rates Grant and is positive news for the authority as the increase in rates should continue on an ongoing basis.

6.8 In addition, section 31 grant amounting to £190,000 will be provided in compensation for the 2% cap for this year and last, and £140,000 will be provided for other business rates relief schemes.

6.9 The billing authorities have now confirmed that there is a deficit on their business rates collection fund and the authority's share will be £81,129 in 2016/17. This will be one off cost to the Authority in 2016/17, in the same way that the council tax collection fund operates.

## 7 Budget requirement 2016/17

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

	<b>2016/17</b>
	<b>£000</b>
<b>Estimated expenditure as reported to HFRA</b>	<b>65,455</b>
Less 2015/16 one-off contribution to capital reserve	-1,023
<b>Adjustments:</b>	
Inflation provision 2016/17	1,021
Other minor adjustments and budget pressures	72
Impact of NI Changes	782
Reduction in Section 31 Grant	98
2016/17 Savings	-3,038
RDS pension scheme increase not required	-880
Removal of turnover savings	-114
Contributions (to) / from reserves	-3,860
Revenue contributions to capital from reserves	3,363
Increase in revenue contributions to capital	514
Service Improvement Plan	497
Interest and statutory provision for debt repayment	-205
Transitional Grant Funding	-100
Contribution to the Capital Payments Reserve	1,981
<b>Estimate of draft budget requirement 2016/17</b>	<b>64,563</b>

Appendix A sets out the details of the base budget calculation in more detail and Appendix B outlines the base budget for 2016/17.

7.2 The phase 2 efficiency plan has now been finalised. A summary of the savings that have been removed from the budget to the end of 2016/17 is provided at Appendix D. Planned savings based on the final estimates that were reported to the Authority in December for future years are also included.

- 7.3 £1,087,000 of savings within the phase 2 programme had already been removed from the 2015/16 budget.

### Government Grant

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

<b>Sources of income</b>	<b>2016/17 £000</b>
Revenue Support Grant (now includes 13/14 & 14/15 CTFG's)	12,526
Business rates top up grant (including element of 11/12 CTFG)	6,646
Collection fund surplus / (deficit)	599
Retained business rates (including collection fund)	6,760
Council tax	38,032
<b>TOTAL INCOME</b>	<b>64,563</b>
Budget	64,563
<b>TOTAL SURPLUS (+) / DEFICIT (-)</b>	<b>0</b>

- 7.5 The way in which Revenue Support Grant (RSG) is distributed has been changed for 2016/17 and beyond. The Government have introduced a new measure called 'Core Spending Power' which includes all Government sources of funding together with council tax income. They have then grouped authorities into different classes (one of which is Combined Fire Authorities) and have reduced RSG within that group so that all Authorities in the group suffer the same percentage reduction in Core Spending Power. Each individual class however does not have the same percentage reduction and Combined Fire Authorities have had the second lowest cut in RSG of all groups. Shire Districts and Shire Counties have had the largest reduction.
- 7.6 The figures for the next four years assume that all classes of Authority will increase council tax in line with these assumptions, indicating a significant shift in Government Policy from Council Tax freezes, to funding assumptions that take increases into account. This is further reinforced by the fact that there is no Council Tax Freeze Grant offered beyond 2015/16.
- 7.7 The proposal to increase council tax in this report is therefore in line with our own planning assumptions within the MTFP and is consistent with the Government's assumptions in re-distributing RSG. For the lowest cost District Councils and Police Forces, higher levels of increase have been authorised by the Government, if agreed locally, but this does not apply to Fire Authorities.
- 7.8 The figures in the report therefore assume that the Authority will increase the precept and council tax by 1.99% which equates to £1.22 a year for a Band D property. This increase is in line with Government expectations of increased Core Spending Power for the Authority and is consistent with the consultation feedback from stakeholders received as part of the formal consultation carried out last year.

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

### **General balance**

- 8.1 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**

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

- 'Transformation reserve'. This is used to help deliver value for money improvements, and to 'pump-prime' environmental improvement initiatives. There are currently plans to spend £1.796m of this reserve during 2016/17.
- '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 in bidding for these funds.
- 'Revenue grant reserve'. This reserve holds grants that have been awarded to the authority for specific projects or programmes of work that may fall across more than one financial year and where the funding is ring-fenced for that specific purpose.

- 8.3 Details of the expected balance on each of the specific reserves and the general balance over the period 2015/16 to 2018/19 are set out in Appendix C.

## **9 Capital programme and financing**

- 9.1 The proposed capital programme from 2016/17 is set out at Appendix E and the proposed financing of this and the outstanding programme can be found at Appendix F. No changes have been made to the proposed capital programme, pending the Authority's decision on the Risk Review.

- 9.2 During 2015/16 and into 2016/17, work is being undertaken to transform the Eastleigh Headquarters site into a joint strategic headquarters with Hampshire Constabulary. This project is being jointly funded by the two organisations, with significant contributions from both the Department for Communities and Local Government (Transformation Fund) and Home Office (Innovation Fund). Phase 1 has been completed, with the Police moving in during November 2015. The remaining work will be carried out over the following 6 months. Hampshire Constabulary will be paying an annual contribution to the running and

maintenance costs of the building amounting to £417,000.

- 9.3 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 to 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 a challenge.
- 9.4 In the past the Authority has maintained a regular capital programme of £3.5m for vehicles and around £0.5m for buildings per year. In recent years additional contributions from revenue have been made to the Capital Payments Reserve and through in year revenue contributions to capital, increasing the amount available for the capital programme and avoiding the need to borrow.
- 9.5 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.

## **10 Treasury Management**

- 10.1 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.
- 10.2 The Treasury Management Strategy and Investment Strategy for 2016/17 follow a similar format and have a similar content to previous years.

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

- 11.1 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.
- 11.2 The Service will implement the phase 2 savings over the coming years and has begun formulating proposals for phase 3 efficiency savings, building on the work to date of the Safer Stronger Board. The Risk Review, a fundamental examination of the way operational services are provided, is currently being progressed and has been challenged with coming up with savings proposals that will form a major element of meeting the budget deficit.

## **12 Risk analysis**

- 12.1 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.
- 12.2 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.

- 12.3 There continues to be 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.

### **13 People impact assessment**

- 13.1 The proposals within this report are considered compatible with the provisions of the equality and human rights legislation.

### **14 Consultation**

- 14.1 The Authority undertook a major consultation process during 2015 that sought residents and stakeholders' views about the proposed changes arising from the Risk Review as well as other issues around budgets and council tax levels. More detailed information on the results of the consultation can be found within the Risk Review report on this agenda, but most important to this report is that the majority of respondents were happy to see a rise in council tax in order to protect services provided by the Authority.

### **15 Background papers**

- 15.1 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 the revenue budget 2016/17
Appendix C	Level of specific reserves and general balance 2015/16 to 2018/19
Appendix D	Phase 1 achieved efficiency savings and the phase 2 proposed

	programme
Appendix E	Proposed capital programme 2016/17 to 2018/19
Appendix F	Financing of capital programme
Appendix G	Treasury Management Strategy Statement