

## **Finance and General Purposes Committee**

**1 September 2016**

**Item 6**

**Medium Term Financial Plan to 2020/21**

**Report by: Chief Finance Officer**

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### **1 SUMMARY**

- 1.1 This report provides an update to the Authority on the budget development process for 2017/18 and the medium term position for Hampshire Fire and Rescue Authority's (HFRA) finances to 2020/21.
- 1.2 Since the last update of the Medium Term Financial Plan (MTFP) in September 2015, the final Local Government Finance Settlement (LGFS) has been published, and in addition to notifying the grant allocations for the current year, has provided provisional Revenue Support Grant (RSG) figures for HFRA for the period up to 2019/20.
- 1.3 These provisional figures for RSG are around £0.7m better than was assumed in the current MTFP published in September 2015, and provides helpful additional support in enabling the Authority to plan and deliver a balanced budget position. The plan has been extended to 2020/21 in order to maintain a 4 year financial planning period, albeit we have no detailed grant figures for the final year at this stage.
- 1.4 As part of the LGFS announcement, the Government made an offer to Local Authorities and Fire Authorities of a 4 year settlement, which would guarantee the level of funding over the next 4 years (current year plus 3) to 2019/20 - albeit with caveats which may mean the figures would change under certain circumstances.
- 1.5 This offer was on the proviso that authorities would be required to demonstrate that they have efficiency plans in place, and delegated authority was approved as part of the budget report in February this year to the Chief Finance Officer, in consultation with the Chief Fire Officer, Chairman of the Authority and Chairman of F&GP Committee to submit an efficiency plan should it be considered financially advantageous to the Authority
- 1.6 Accepting a firm 4 year settlement is considered to be in HFRA's interests as it provides planning certainty on government grant, and therefore a proposed Efficiency Plan for submission to the Home Office is attached as Appendix 1.
- 1.7 As set out in last years Medium Tern Financial Plan (MTFP), the Authority's early action in implementing its efficiency programme, in preparation for

significant grant reductions over the coming years, has placed it in a strong position to meet its budget challenge through to 2020/21; this position is strengthened further with the provisional RSG to 2020/21 being greater than originally assumed.

- 1.8 Whilst significant efficiencies have been achieved since 2010, when the first grant reductions were made, it is anticipated that further savings will be required over the period 2017/18 – 2020/21. The previous MTFP assumed that with annual increases in council tax of 1.99% plus delivery of the phase 2 savings of £10.2m, further savings of around £2.7m would be required to close the budget deficit.
- 1.9 Assuming a further cut in grant of 10% in 2020/21 and a council tax increase of 1.99% in that year, the revised assumption in this MTFP update is that phase 3 savings of £1.75m will now be required. The early phase 3 savings plan indicates potential savings and income in the order of £2.2m.

## **2 RECOMMENDATIONS**

That the Finance and General Purposes Committee:

- 2.1 Notes the update to the Medium Term Financial Plan and the changes to the financial forecasts to 2020/21.
- 2.2 Agrees the assumption that for financial planning purposes council tax will increase by 1.99% year on year to 2020/21.
- 2.3 The Committee agrees to submit an Efficiency Plan to guarantee the level of RSG funding for the current and next 3 years, and agrees to submit and publish the plan set out in Appendix 1, subject to any comments and amendments from HFRA.
- 2.4 Notes the current Business Rates consultation and Fair Funding review, and the potential for Fire to be removed from the existing business rates funding system.
- 2.5 Notes the request for additional funding of £155,000 towards the Basingstoke Fire Station project for asbestos removal, to be funded from the Capital Payments Reserve.

That is be **RECOMMENDED** to the Full Authority that:

- 2.6 The Authority notes the update to the Medium Term Financial Plan and the changes to the financial forecasts to 2020/21.
- 2.7 The Authority agrees the assumption that for financial planning purposes council tax will increase by 1.99% year on year to 2020/21.

- 2.8 The Authority agrees to submit an Efficiency Plan to guarantee the level of RSG funding for the current and next 3 years, and agrees to submit and publish the plan set out in Appendix 1, subject to any comments and amendments from HFRA.
- 2.9 Delegated Authority be given to the Chief Officer in consultation with the Chairman to make any final amendments to the Efficiency Plan before submission if required.
- 2.10 The Authority notes the current Business Rates consultation and Fair Funding review, and the potential for Fire to be removed from the existing business rates funding system, and delegates authority to the Chief Financial Officer, in consultation with the Chief Officer and the Chairman, to respond to the consultation in accordance with paragraphs 4.27 to 4.35.
- 2.11 Additional funding of £155,000 be granted towards the Basingstoke Fire Station project for asbestos removal, to be funded from the Capital Payments Reserve.

### **3 INTRODUCTION AND BACKGROUND**

- 3.1 This report provides an update to the MTFP which was considered by HFRA in September 2015, and builds on HFRA Budget report approved in February 2016.
- 3.2 The purpose of this report is to set out the MTFP and key financial assumptions for the period through until 2020/21, including government funding, council tax assumptions, inflation and spend assumptions and the overall level of forecast savings required to balance the budget by 2020/21.
- 3.3 The report also sets out the key service changes and improvements planned to take effect over the period, the forecast position for Reserves and the forecast position for the Capital Programme.
- 3.4 As set out in last years Medium Tern Financial Plan (MTFP), the Authority's early action in implementing its efficiency programme, in preparation for significant grant reductions over the coming years, has placed it in a strong position to meet its budget challenge through to 2020/21.
- 3.5 In addition, the report includes a proposed efficiency plan for submission to Government to secure a guaranteed 4 year settlement on Fire RSG.

### **4 MEDIUM TERM FINANCIAL STRATEGY TO 2021**

- 4.1 This section sets out the key assumptions on funding and expenditure for this update of the MTFP to 2021, and builds on the previous MTFP report in September 2015 and the 2016/17 Budget report from February 2016.

## **Funding**

### **Government Funding**

- 4.2 The final LGFS for 2016/17, published on 8<sup>th</sup> February this year, set out the firm Fire RSG for 2016/17, and the provisional Fire RSG for the period up to 2019/20.
- 4.3 Based on the these provisional RSG numbers, the LGFS confirmed that RSG would be around £0.7M higher on an ongoing basis than had been assumed in the MTFP published last September, although it is important to recognise that overall Fire RSG has been reducing year on year and will continue to do so based on the figures set out in the LGFS.
- 4.4 No figures are available for 2020/21, so for planning purposes an estimate of RSG has had to be made for that year. At this stage, given continued uncertainty around the global and national economy and the potential impact of the Brexit vote, it is considered prudent to assume that grant reductions will continue and a forecast reduction of 10% has therefore been built into the figures below.
- 4.5 The RSG figures are set out below:

<b>Year</b>	<b>Status</b>	<b>Revenue Support Grant £m</b>	<b>Annual Decrease £m</b>	<b>Percentage Reduction Per Annum %</b>
2015/16	Actual	14.40		
2016/17	Actual	12.53	(1.87)	12.98
2017/18	Provisional	9.63	(2.90)	23.08
2018/19	Provisional	8.12	(1.51)	15.74
2019/20	Provisional	7.22	(0.90)	11.12
2020/21	Forecast	6.50	(0.72)	10.00%

- 4.6 Overall, RSG will reduce by £6.03m between the current year 2016/17 and 2020/21, a reduction of **48.1%**.
- 4.7 In addition, it was confirmed that the Authority would receive Transitional Grant of £126,000 for 2017/18, following representations that were made around grant redistribution set out in the provisional settlement released last December.

## **Efficiency Plan**

- 4.8 As part of the LGFS announcement, the Government made an offer to Local Authorities and Fire Authorities of a 4 year settlement (including 2016/17), which would guarantee the level of funding for the current and next 3 years (albeit with caveats which may mean the figures would change under certain circumstances).
- 4.9 This offer was on the proviso that authorities would be required to demonstrate that they have efficiency plans in place, and delegated authority was approved as part of the budget report in February this year to the Chief Finance Officer, in consultation with the Chief Fire Officer, Chairman of the Authority and Chairman of F&GP Committee to submit an efficiency plan should it be considered financially advantageous to the Authority.
- 4.10 The Home Office has recently written to the Chairman, re-affirming the offer of *'firm four year funding allocations to 2019/20 in return for robust and transparent efficiency plans'*.
- 4.11 The added security of locking into the financial settlement already published by Government for HFRA for the current and next 3 years would provide certainty on the Authority's largest funding stream, and would help HFRA to plan for the necessary changes to deliver a high quality service within the resources available. On that basis, it is recommended that HFRA agree to submit an efficiency plan requesting firm four year funding allocations to 2019/20.
- 4.12 The letter sets out that Fire and Rescue Authorities (FRAs) have flexibility as to the exact form of these plans, and suggest that such plans could be combined with a MTFP covering the period, although some guidance was provided as to what should be included in the plan. The proposed efficiency plan is attached as appendix 1.
- 4.13 Whilst as an Authority we have flexibility in the form of plan to be submitted, the Home Office have nevertheless also provided a standard 'Funding and Budget Assumptions Template' which they require all FRAs to complete.
- 4.14 The Home Office have set out that the template is *'intended to provide high level indicative figures of how the certainty afforded by the four year settlement will allow for a forecast balanced net position over the four year period'*.
- 4.15 The template is attached to the efficiency plan as part of Appendix 1 (the template is Appendix B), and will be completed for submission.

## Council Tax

- 4.16 This update to the MTFP assumes that the Authority will increase the council tax precept by 1.99% each year for the period 2017/18 – 2020/21. This assumption is predicated on there being no change to the referendum limit.
- 4.17 A 1.99% increase in council tax in 2017/18 would raise additional revenue of £0.76m, and cumulatively would raise £3.12m over the period to 2020/21.
- 4.18 The council tax for HFRA currently stands at £62.60, and on average accounts for around 5% of a household's council tax bill. A 1.99% increase over the period would see council tax increase as follows:

Year	Band D Council Tax £	Annual Increase £	Total Precept £m	Increase in Precept £m
2016/17	62.60		38.03	
2017/18	63.85	1.25	38.79	0.76
2018/19	65.12	1.27	39.56	0.77
2019/20	66.42	1.30	40.35	0.79
2020/21	67.74	1.32	41.15	0.80

- 4.19 The annual increase equates to just over a 2 pence per week increase in council tax.
- 4.20 In determining the Core Spending Power figures for each Authority, as set out in the final LGFS, the government have assumed that all classes of Authorities (of which one class is 'Combined Fire Authorities') will increase council tax over the period to 2019/20. The assumption underpinning this update of the MTFP, for a 1.99% increase in council tax each year, is consistent with government assumptions on council tax increases over the period, and is consistent with the feedback from stakeholders received as part of the formal consultation carried out in 2015.
- 4.21 In order to continue to forward plan the finances of the Authority in the medium to long term, the Authority is requested to re-affirm that the current assumptions around council tax increases are prudent for the purposes of planning the budget over the medium term.

#### Business Rates

- 4.22 Presently the Authority receives a top up grant in respect of business rates from the government, together with a 2% share of retained business rates collected by District and Unitary councils in the County.

#### **Top Up Grant**

- 4.23 The Top Up grant is fixed (with an allowance for inflation) for the current period through to 2019/20, as set out below:

	<b>Top Up Grant</b>	<b>Uplift</b>
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<b>Year</b>	<b>£m</b>	<b>%</b>
2016/17	6.65	
2017/18	6.78	1.97
2018/19	6.98	2.95
2019/20	7.20	3.20
2020/21	7.20	0.00

- 4.24 No business rate Top Up figures are available for 2020/21, so for planning purposes, the business rate top up figure for 2020/21 has been set at the same level as for 2019/20; in theory there will be a Business Rates Revaluation and a Business Rates Reset by that date which will have an impact, and also as set out in the Business Rates consultation section below (see paragraphs 4.27 to 4.35), HFRA may no longer receive any funding from Business Rates.

#### **Retained Business Rates**

- 4.25 The share of retained business rates is more difficult to estimate, as the sum received is entirely based on the level of overall business rates collected across the 11 District and 2 Unitary councils.
- 4.26 The level of retained business rates estimated to be received in 2016/17 is £6.84m. For planning purposes, growth of 1% has been assumed in the medium term per annum from 2017/18 onwards:

<b>Year</b>	<b>Retained Business Rates £m</b>	<b>Uplift %</b>
2016/17	6.84	
2017/18	6.91	1.00
2018/19	6.98	1.00
2019/20	7.04	1.00
2020/21	7.12	1.00

#### Business Rates Consultation

- 4.27 The government launched a consultation on the 5<sup>th</sup> July entitled 'Self-sufficient local government: 100% business rates retention', which seeks views on the government's proposal to allow local government to retain 100% of the business rates they raise locally.
- 4.28 Within the consultation, there is a section which specifically raises the question as to whether '*Fire funding should remain part of the scheme and the local government finance system in future*'.
- 4.29 The consultation recognises that Police (which like Fire is under the auspices of the Home Office) is not part of the business rates retention system and receives its funding in full direct from Home Office grant, and that therefore

Fire being funded through business rates could be seen as an anomaly, and this is set out in the consultation as follows:

*'We could go further by removing fire from the business rates retention scheme, with fire funding provided through a separate grant administered by the Home Office'*

4.30 Whilst at the same time as consulting on whether FRAs should continue to receive funding from business rates, the Government have offered all FRAs the opportunity for firm funding allocations to 2019/20 for RSG, as set out above.

4.31 The business rates consultation recognises that if Fire funding is removed from the business rates retention system, it will impact on RSG and the offer of firm funding allocations, and sets out the following:

*'In common with other local authorities, fire and rescue authorities have been offered firm four year funding allocations to 2019/20 in return for robust and transparent efficiency plans. If fire funding were to be removed from the business rates retention scheme, we would seek to replicate published allocations for 2019/20 through a separate fire grant for any authorities who take up that offer. The approach to allocating fire funding in future would be subject to consultation'*

4.32 This implies that funding lost from business rates would be replaced by like for like funding in fire grant, although the paragraph does end with a caveat that this would still be subject to consultation.

4.33 The key question within the consultation document which the Authority will need to respond to is:

*Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?*

4.34 The deadline for consultation responses is 26<sup>th</sup> September 2016. This update of the MTFP seeks a delegation to the Chief Financial Officer, in consultation with the Chief Fire officer and the Fire Authority Chairman, to respond to the above question.

4.35 The proposed response will be along the lines that as an Authority we agree with the proposal to remove FRAs from the business rates retention system, and support the move to this funding being replicated on a like for like basis via Home Office grant. This does carry some risks;

- i) Where there is growth in business rates, HFRA will not benefit from such growth
- ii) Any grant can be subject to funding cuts and this change would place a higher reliance on government grant funding

The counter to this is that business rates as a source of funding is very volatile in its own right and complexities around future changes to the system, the potential for re-sets and the ongoing problems with appeals do not make it an attractive or stable form of funding.

Furthermore, whilst Fire Authorities provide valuable help and assistance in keeping businesses and their customers safe, on balance there is little correlation between the funding collected via business rates and the way a fire and rescue authority operates and there is limited scope for FRA's to generate additional economic activity in their own right. The receipt of direct grant in lieu of business rates would therefore remove a complicated and unpredictable funding stream.

### Funding Forecast

- 4.36 Based on the assumptions set out above around key funding streams, the forecast position for future funding is as follows:

	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
Fire RSG	12.53	9.63	8.12	7.22	6.50
Council Tax	38.03	38.79	39.56	40.35	41.15
Business Rates Top Up	6.64	6.78	6.98	7.20	7.20
Business Rates - Retained (1% share)	6.84	6.91	6.98	7.05	7.12
Collection Fund – Council Tax Surplus	0.60	0.00	0.00	0.00	0.00
Collection Fund – Business Rates Deficit	(0.08)	0.00	0.00	0.00	0.00
<b>Total Funding</b>	<b>64.56</b>	<b>62.11</b>	<b>61.64</b>	<b>61.82</b>	<b>61.97</b>

### Expenditure

- 4.37 The key budget assumptions which impact on expenditure (leaving aside how savings will be delivered) are mainly a view on inflation across the medium term.
- 4.38 Recent events e.g. Brexit, are testament to that fact being able to accurately forecast too far into the future is not straightforward, but nevertheless for planning purposes the following key assumptions underpin the medium term forecast for expenditure:

	2016/17	2017/18	2018/19	2019/20	2020/21
Pay Award	1.5%	1.5%	1.5%	1.5%	1.5%
Utilities Inflation	3.5%	3.5%	3.5%	3.5%	3.5%
All Other Non Pay Inflation	1.5%	1.5%	1.5%	1.5%	1.5%
Employers Pension Rate - Past Service Deficit	8.8%	8.8%	8.8%	8.8%	8.8%

- 4.39 **Pensions** – the employers’ contribution rate is expected to be reassessed at the actuarial valuation carried out as at 31 March 2016. The next revision to the employer rate is expected to take effect from 1 April 2019. Whilst this is a difficult area to predict given the changes to the schemes since the last valuation, the forecast figures allow for an increase in the employer contribution rate of 1%.

### **Medium Term Position – Forecast Budget Gap**

- 4.40 Taking into account the assumptions as set out above for both income and expenditure, and planned savings already approved and in progress (see below paragraph 5.3) the medium term forecast position shows a forecast gap to 2020/21 of £1.75m, as set out below:

	Funding Gap/(Surplus)				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Budget	64.56	63.02	64.56	63.35	63.72
Funded By	64.56	62.11	61.64	61.82	61.97
<b>Funding Gap/(Surplus)</b>	<b>0</b>	<b>0.91</b>	<b>2.92</b>	<b>1.53</b>	<b>1.75</b>

- 4.41 Whilst the gap in the final year of the plan is £1.75m there are expected to be deficits in the preceding years with 2018/19 in particular showing a deficit of nearly £3m due to the level and timing of grant cuts and delivery of the savings programme.
- 4.42 Historically, the Authority has been in this position before and has successfully closed these intervening gaps through accelerated delivery of savings and as a result of favourable changes in elements of the forecast such as council tax base and pay awards.
- 4.43 At this stage therefore it is not proposed to set a specific strategy for dealing with the gaps in the intervening years, but to keep these under review, in the knowledge that phase 3 savings will close some of the gap and we also have significant reserves and flexibility around the level of revenue contributions to capital that can be used to meet any one off gaps during the period.

## 5 STRATEGY FOR ACHIEVING A BALANCED BUDGET

5.1 HFRA has always demonstrated strong leadership on financial management issues and this has served it well in managing the significant financial challenge since the period of austerity began.

5.2 The Authority will have saved over £16m on a recurrent basis by 2019/20, since implementing a significant savings programme in 2011/12 in response to the austerity measures implemented for the Spending Round 2010.

### **Phase 2 Savings**

5.3 As part of the overall savings for the current MTFP, the Authority has approved a Phase 2 savings plan which will deliver savings of £10.19m (with £5m already delivered as part of setting the 2016/17 budget). The savings which underpin this plan are set out in the attached as appendix C to the Efficiency Plan (see appendix 1)

5.4 Successful delivery of the Phase 2 savings, together with the funding and expenditure assumptions set out above, will mean that for the final year of the current MTFP in 2020/21, there will remain a forecast shortfall in the budget of £1.75m.

5.5 It is anticipated that the majority of the phase 2 savings, with the exception of Service Delivery Redesign, will be secured by the 2017/18 financial year.

### **Service Delivery Redesign Savings**

5.6 The Service Delivery Redesign saving is the largest single savings item within the Phase 2 savings, securing £4.1m of the total phase 2 savings of £10.19m.

5.7 The Service Delivery Redesign savings flow from the Risk Review (the most comprehensive risk management review that has been carried out for decades), and will deliver a new operational delivery model design that will better cover identified risks whilst at the same time reducing revenue costs for the services provided. For example, the new delivery model includes a fundamental review of the crewing arrangements based on the risks that are faced across the county, which will result in changed arrangements for staff across all 51 fire stations.

5.8 The full risk review document setting out proposed changes to way the service is to be delivered, can and be accessed using the following link:  
<http://www.hantsfire.gov.uk/EasySiteWeb/GatewayLink.aspx?allId=13820>

5.9 The savings which flow from the Service Delivery Redesign are by nature more complex to deliver than the other savings streams in phase 2, and have been phased towards the back end of the MTFP period. This is a deliberate policy following further consultation with staff, unions, and other parties, that will allow for greater natural turnover in the workforce, provide more time for training, and aligns with the timescales for replacing existing vehicles.

- 5.10 In addition, the phased roll-out will mean that we can learn as we go and will allow the service to make appropriate adjustments to the delivery model based on piloting / evaluation of implementation.
- 5.11 It is recognised that the greatest risk within the phase 2 savings plan is associated with the non-delivery or late delivery of the Service Delivery Redesign project. This is the single biggest savings item within the plan and the most complex area that the service has left to deliver. Therefore strong programme and project management is in place to oversee this implementation, and resources have been approved from revenue reserves to fund the implementation, and independent oversight and scrutiny is being provided by the Performance Review and Scrutiny Committee.

### **Phase 3 Savings**

- 5.12 As part of the planned approach to ensuring that in the medium term HFRA has a sustainable and balanced budget, a phase 3 savings programme is already in development which is expected to close the remaining forecast budget gap of £1.75m by 2020/21.
- 5.13 The current proposals which underpin the phase 3 savings are shown in appendix E to the Efficiency Strategy (see Appendix 1), and anticipate the delivery of savings of circa £2.2m
- 5.14 The planned phase 3 savings exceed the forecast budget gap of £1.75m by over £400,000, and therefore this provides a contingency which could be used to offset any under-delivery of savings or, preferably be used for reinvestment and service improvement.

## **6 RESERVES**

- 6.1 HFRA has followed a clear strategy on the use of reserves since the period of austerity began. This has involved:
- planning well ahead of time to ensure that savings programmes are delivered to agree timescales
  - delivering savings in advance of need, which in turn provides spare resources in the form of reserves
  - using those reserves to fund capital investment and transformation activity in order to fund the cost of changes associated with delivering the next phase of savings.
- 6.2 Significant contributions have been made to both the Capital Payments Reserve and the Transformation Reserve over the last five years. These have been used to deliver appropriate changes across the service to support the release of efficiency savings.

- 6.3 The current position on reserves, as set out in the 2015/16 outturn report (Finance and General Purposes Committee 4 July 2016), is that overall reserves totalled £40.07m at the end of March 2016. The majority of these Reserves have been set aside for specific purposes, the exception being that £2.5m of the overall reserves are held as a General Balance, in line with the advice of the Chief Finance Officer and in accordance with good financial management practice.
- 6.4 A detailed exercise was undertaken last year to risk assess the level of general balance that the Authority should hold, and a further review has again been undertaken this year. Based on these latest reviews, it is considered that there is no requirement to alter the level of general balance, and it can be maintained at £2.5m. The level of general balance will be risk reviewed again as part of setting the 2017/18 budget.
- 6.5 The breakdown of reserves, including the forecast position to 2020/21 is as set out below:

	Year End Position					
	2015/16 £m	2061/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
<b>Earmarked Reserves</b>						
Transformation	8.767	1.578	0.809	0.244	0.244	0.244
Capital Payments	23.590	11.784	10.123	8.997	7.910	6.976
Earmarked Underspends	0.107	0	0	0	0	0
Revenue Grants	0.430	0	0	0	0	0
Capital Grants	1.759	0	0	0	0	0
Capital Receipts	2.914	0	0	0	0	0
<b>Total Earmarked Reserves</b>	<b>37.567</b>	<b>13.362</b>	<b>10.932</b>	<b>9.241</b>	<b>8.154</b>	<b>7.220</b>
General Balance	2.500	2.500	2.500	2.500	2.500	2.500
<b>Total Reserves</b>	<b>40.067</b>	<b>15.862</b>	<b>13.432</b>	<b>11.741</b>	<b>10.654</b>	<b>9.720</b>

## 7 2017/18 BUDGET

- 7.1 Detailed work on the 2017/18 budget will commence shortly and will involve a review of all budget lines to ensure that they are appropriate and necessary. This will encompass inflation levels, both pay and non-pay, and incorporate any approved budget changes that have taken place during 2016/17 to date.
- 7.2 As part of setting the 2017/18 budget, progress on delivery of current phase 2 savings will be reviewed, and further work will be undertaken to firm up the phase 3 savings.

- 7.3 An initial proposal for the 2017/18 budget will be presented to the Authority in December, although the timing of this may be affected by the date of any detailed budget announcement from government, which in recent years have been made mid December; that said, if HFRA's Efficiency Plan is accepted, then HFRA RSG allocation for 2017/18 – 2019/20 should be in line with the provisional figures already announced in the final LGFS for 2016/17.
- 7.4 The final budget and council tax will be put to HFRA in February for approval.

## **8 CAPITAL**

- 8.1 The current capital programme is fully funded through until 2020/21, although later years of the programme make general assumptions around the level of spend required for vehicle replacement in line with previous years.
- 8.2 As general capital grant is no longer received from Government, any future expenditure on capital will need to be met from either capital receipts, borrowing, reserves or direct from revenue (known as revenue contributions to capital outlay - RCCO).
- 8.3 The current approach is to seek to fund additional capital expenditure (over and above available capital receipts) direct from revenue, rather than via borrowing or reserves.
- 8.4 In order to support this approach, HFRA has a 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 future capital investment requirements.
- 8.5 The current revenue budget forecasts set out in this update to the MTFP include additional RCCO for the period 2017/18 – 2020/21 of £10.99m, in addition to RCCO of £2.02m in the current year. The recurrent sum included for RCCO is forecast to be £3.005m by 2020/21.
- 8.6 As there will remain flexibility and an element of choice around future capital expenditure, there is an understanding that the RCCO budget and contributions can act as a further buffer should unforeseen revenue issues arise.
- 8.7 Further work is required to fully understand the capital investment implications of both the vehicle replacement strategy (as part of the SDR project) and the estate strategy and until this is completed it is not possible to present a full picture of future investment requirements and funding.
- 8.8 However, the longer term strategy was to try to achieve revenue contributions to capital on a recurring basis of at least £4.0m per annum and therefore a further £1m will be required on top of the current projections, which will need to be taken into account in future updates of the MTFP.

### Basingstoke Fire Station

- 8.9 Construction of the new Basingstoke Fire Station is now in progress and initial ground excavation works have identified a significant quantity of asbestos contamination on the site.
- 8.10 The broad nature of the contamination was unforeseen until excavation took place on site and therefore the project contingency offers inadequate provision to cover these additional costs.
- 8.11 Further surveys have identified that maximum costs in the order of £155,000 will need to be incurred to safely remove the asbestos and allow the project to progress.
- 8.12 An extensive value engineering exercise to reduce the scope and cost of the project has previously taken place and therefore further value engineering to mitigate this additional cost is not considered viable. Given the nature of the additional costs and the fact that these could not have been foreseen additional funding of £155,000 is being requested from the Authority, to be met from the Capital Payments Reserve.

## **9 CONCLUSIONS**

- 9.1 The period to 2020/21 will see Government funding via RSG reduce by a forecast 48.1%, although for the final year of the MTFP (2020/21) no allocations have been announced, so there remains an element of uncertainty in the overall position as a forecast has had to be made for that year.
- 9.2 Similarly for Business Rates, the Government have only announced the Top Up figures through until 2019/20, so a forecast has had to be made for the final year of the plan, 2020/21. In addition, there are due to be significant changes to business rate through both a Revaluation and a Reset, which could significantly impact the Top Up position.
- 9.3 There also remains the possibility that following the outcome from the current 'Self-sufficient local government: 100% business rates retention' consultation, that FRAs may no longer receive any funding via business rates.
- 9.4 The MTFP assumes that Council Tax will increase every year 2017/18 – 2020/21 by 1.99% and the Authority is asked to re-affirm this as a prudent planning assumption as part of this report.
- 9.5 Recognising that there are funding issues and risks outside of our control, the work underpinning the MTFP forecasts that core RSG funding will decrease by a further £6.03m between 2016/17 and 2020/21.
- 9.6 Taking this funding decrease into account, together with inflationary pressures on the expenditure budget, offset by the planned phase 2 savings and Council

Tax increases, there remains a forecast budget deficit to be closed of £1.75m by 2020/21.

- 9.7 There are further savings being developed in the Phase 3 savings plan which are forecast to deliver £2.2m, which will be sufficient to close the remaining budget shortfall, whilst also leaving a buffer to allow for any potential non-delivery of planned savings.
- 9.8 Overall, reserves remain healthy, and will enable investment to be made where required to support the delivery of savings, whilst also maintaining a buffer in the General Balance of £2.5m to mitigate the impact of any unforeseen financial shocks.
- 9.9 The capital programme remains fully funded, and the MTFP assumes that additional RCCO will be made between 2017/18 and 2020/21 of £10.99m to aid the funding of future capital expenditure requirements. Significant progress in building up annual revenue contributions to capital has already been made but a further £1m may need to be taken into account in future updates of the MTFP.