

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item: 6

1 February 2017

Revised 2016/17 budget & draft budget 2017/18

Report by Treasurer and Chief Officer

Contact: Rob Carr, Treasurer; Telephone: 01962 847508

1 Summary

- 1.1 In September 2016 this committee was presented with an update of the Medium Term Financial Plan (MTFP), which laid out the expected financial position to 2020/21. The detail for 2017/18 has now been refined with the revised budget for 2016/17 and the forward budget for 2017/18 presented in this report.
- 1.2 The 2017/18 budget incorporates savings produced by the Service Delivery Redesign programme. This will start to take effect from April 2017, with full roll-out taking place over the following 3 years. Other relevant savings from the efficiency programme have also been built into the budget.
- 1.3 The government provisional grant settlement has been announced. The government have accepted the efficiency plan put forward by Hampshire Fire and Rescue Authority (HFRA) in September and have agreed the four year settlement. The grant figure announced is therefore in line with the provisional figures stated by the government in December 2015, which were included within the latest MTFP. Estimates of the council tax base for 2017/18 have been obtained and included within this report, although these will change when more accurate details are received.
- 1.4 At this stage business rates are still only an estimate and are not due to be finalised until after publication of this report. The value of the section 31 grant that the government will be issuing in relation to business rate relief schemes in 2017/18 (including an element covering the capping of the increase in business rates) is yet to be announced. It has been indicated that the total section 31 grant for 2017/18 will reduce, but the amount of reduction is currently uncertain. Therefore £197,000 has been removed from the budget at this stage, based on latest estimates and will be updated as soon as more definite information is available. 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 21 February 2017.
- 1.5 Council Tax was increased by the Authority in 2016/17 for the first time since 2010/11. Government policy and their future funding assumption is now for

Authorities to increase the precept by the maximum referendum level. This report therefore recommends a council tax increase of 1.98% for 2017/18 in line with the planning assumption in the MTFP.

- 1.6 The latest forecast for the 2016/17 budget shows a planned underspend of £2.2m. It is expected that this amount will be transferred to the Transformation Reserve at year end to help fund the savings and improvement programmes over the coming years.

2 Recommendation

The Finance and General Purposes Committee is invited to;

- 2.1 Note the latest 2016/17 budget position (Appendix A) and the changes to the capital programme (Appendix D).
- 2.2 Approve the proposal to transfer the 2016/17 year end underspend and the 2017/18 budget surplus to the transformation reserve.
- 2.3 Approve the proposed Phase 3 efficiencies programme (Appendix B).
- 2.4 Approve the proposed use of reserves (Appendix C).
- 2.5 Approve the use of £0.838m of Transformation Reserve funding for the ICT Transformation Programme as detailed in section 7.3 of this report.
- 2.5 Approve the transfer of ICT savings to a specific reserve to provide for future replacement requirements, as explained in section 7.4 of this report.
- 2.6 Adopt the principles for allocating funding sources for the capital programme as outlined in section 8 of this report.
- 2.7 Delegate authority to the Chief Financial Officer in consultation with the Chief 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.
- 2.8 **RECOMMEND** to the Authority that council tax is increased by 1.98% (equivalent to £1.24 for average Band D households) for 2017/18.
- 2.9 **RECOMMEND** to the Authority the draft budget for 2017/18 (summarised at Appendix F).
- 2.10 **RECOMMEND** to the Authority the updates to the capital programme and the proposed financing of it (Appendix G & H).
- 2.11 **RECOMMEND** to the Authority the Treasury Management Strategy (Appendix I) and approve that the:

- Treasury Management Strategy and Annual Investment Strategy for 2017/18, (and the remainder of 2016/17) including:
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20 – Annex C
 - Minimum Revenue Provision (MRP) Statement – Annex D
- That authority is delegated to the Treasurer to manage the Fire & Rescue Authority's investments according to the risk assessment process in the Investment Strategy as appropriate.

3 Third Quarter Monitoring 2016/17

- 3.1 A report on the third quarter budget monitoring position has been incorporated into this report.
- 3.2 A detailed summary is provided in Appendix A, which shows that the overall position is an anticipated underspend by the end of the year of £1.8m, mainly as a result of planned vacancy savings made through the year in preparation for restructures coming in during 2017/18. There are also savings on pension costs, due to the number of firefighters who were transferred or have joined the new 2015 scheme, which has a lower employer's contribution than the 1992 scheme. The majority of these savings will be on-going and have been built into the 2017/18 budget. It is recommended that this underspend be transferred to the Transformation Fund at the end of this financial year, as in previous years.

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. The budget position for 2017/18 presented in this report is testament to that.
- 4.2 The final elements of the first phase of savings have been implemented as part of the 2015/16 budget. Phases two and three are now in progress and many projects are well advanced. Details of the programme are attached at Appendix B.
- 4.3 The Efficiency Plan approved by the Authority in September provided savings of £10.192m. This phase of savings is slightly over achieving and is currently expected to create £10.284m reduction in budget requirement. Of this, £1.944m has been included in the 2017/18 budget, with £5.016m having already been included in previous years.
- 4.4 There have been some changes to the planned savings, including the start of a third phase, of which £0.805m has been included in the 2017/18 budget. The total expected savings for phases 2 and 3 currently stands at £11.089m
- 4.5 The Professional Services Redesign (PSR) change programme originally incorporated an element of savings from the Training department. However, with the development of the new Academy being outside the scope of PSR, the savings target has been separated out and included on its own line. As the Academy is

currently being developed, it is proposed that the savings be delayed and incorporated into the overall plan for the Academy.

- 4.6 In previous MTFPs, prior to September 2015, no precept increase had been included. However, due to the scale of the grant reductions a precept increase does now need to be considered and has been built into the agreed MTFP.
- 4.7 The referendum limit has been set by Government at 2% for 2017/18, which means any precept increases must be below that level. Due to the technical way in which the bandings are calculated based in the Band D figure, a 1.99% increase in Band D would create increases of over 2% for some bandings. The recommendation is therefore to increase the Band D precept by 1.98%, which ensures that all bands remain below the referendum limit.
- 4.8 The budget settlement announcement made by the Government in December 2015 has provided more accurate information on the level of grant now expected. This settlement included an option for FRSs to take up an offer of a 4 year settlement agreement, subject to submission of an efficiency plan. HFRA has taken up this offer and submitted the current efficiency plan, which gives more certainty around future government grant funding.
- 4.9 In addition to the financial challenge presented by revenue grant reductions, changes to capital grant arrangements mean that the Authority in effect must now fund all of its own business as usual capital programme expenditure. 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.
- 4.10 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 might be faced. 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, which feature again in the 2017/18 budget.
- 4.11 The current level if RCCO built into the budget for 2017/18 is £2.592m against a target position of £3.95m.

5 Changes to the medium term position

- 5.1 A number of changes have been made to the medium term position since the 2016/17 Budget was approved in February 2016. Overall the budget is now balanced and future year forecasts have been updated for known changes. Following the receipt of information from Government and District and Unitary Councils the revised position is more favourable.

- 5.2 The following table summarises the changes to the estimates made to the MTFP figures and the changes to the figures since the MTFP update report to the Full Authority in September 2015.

	£000's
Total predicted 2017/18 deficit reported to this committee in September 2016:	909
Changes in assumptions:	
Reduction in inflation	-199
Increase in Revenue Contribution to Capital	144
Reduction in base budget cost	-67
Changes to pension costs	-560
	<hr/> -682
Savings:	
Increase in 2017/18 Efficiencies	-687
	<hr/> 687
Funding Changes:	
Higher increase in Council Tax Base than expected	-602
Increase in Business Rates Top-Up Grant	-297
Increase in Locally Retained Business Rates	-42
Increase in S31 Grant	-129
Contribution from surplus on collection funds	-587
	<hr/> -1,657
Recommended use of extra income (in line with financial strategy):	
Contribution to the Transformation Reserve	2,117
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Projected 2017/18 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 1.57%, which is a favourable position since this generates extra council tax revenue for the Authority on an ongoing 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 2017/18. Overall, these show a surplus of £513,000 allocated to the Authority. This is a one-off sum and can only be taken into account in 2017/18.

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 2017/18 announced last year suggested the business rates multiplier would be 1.95%, meaning a top up grant of £6,776,800 was expected. The actual top up grant announced is £7,074,068. Section 31 grant in compensation for the actual loss of income is expected again. Indicative figures suggest this grant will reduce by £197,000, but has yet to be confirmed.
- 5.7 Initially this year's retained 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 £6,836,800 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 slightly higher at £6,948,000. Although these figures are not due to be finalised until the end of January, due to the complexity of account for appeals, this appears to be positive news for the Authority at this point as it looks likely there will be an increase in rates which should continue on an ongoing basis.
- 5.8 The billing authorities have also estimated a surplus on their business rates collection fund and the authority's share of this is £12,100 for 2016/17. This will be a one off receipt to the Authority in 2017/18, in the same way that the council tax collection fund operates.

6 Budget requirement 2017/18

- 6.1 Appendix E sets out the details of the base budget calculation in more detail and Appendix F outlines the base budget for 2017/18.
- 6.2 The format in which the budget is presented has changed slightly from previous years. This is in order to align it with the new accounting guidelines and to help link the budget to the final accounts at year end. All internal accounting entries have been removed from the budget figures and some of the grant income has been re-categorised. The 2016/17 Original Budget has been re-stated in the new format so that it can be accurately compared to the 2017/18 Proposed Budget.
- 6.3 Phase 2 and Phase 3 of the efficiency programmes are now underway and are expected to achieve £11.030m by 2019/20. A summary of the plans is shown at Appendix B of this report and a further £2.690m has been removed from the 2017/18 budget.
- 6.4 The Transformation Reserve is being used to fund significant pieces of work to enable the efficiencies programmes. These have not been included within the

budget and the funding will be transferred to cover the spend as required.

Government Grant

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

	2017/18
	£000
Sources of income	
Revenue Support Grant (now includes all CTFG's)	9,634
Other Non-Specific Grant	487
Retained business rates	6,951
Business rates top up grant (including 11/12 BRFG)	7,074
Collection fund surplus / (deficit)	587
Council tax	39,393
TOTAL INCOME	64,126
Draft Budget	64,126
TOTAL SURPLUS (+) / DEFICIT (-)	0

7 Level of reserves and general balance

General balance

7.1 In recent years, detailed exercises have been carried out to risk assess the level of general balance that the Authority should hold. No significant changes have taken place since that time. It is therefore considered that there is no requirement to alter the level of general balance and it is recommended that the balance remain at £2.5m.

Specific reserves

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

- 'Transformation Reserve'. This is used to help generate savings, deliver value for money improvements and to 'pump-prime' environmental improvement initiatives. There are currently plans to spend £1.361m of this reserve during 2017/18. These have not been built into the revenue budget.
- '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 Grants 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.

- 7.3 The ICT Transformation Programme has been included within the 2017/18 budget and has contributed £0.805m of savings. In addition to this there are further annual savings due to a one off initial payment for some items being made where previously an annual charge was paid. The one-off implementation cost for the project is expected to be £1.805m, which is £0.838m higher than the original approved allocation from reserves. Authority is therefore sought to fund this additional one-off cost from the Transformation Reserve.
- 7.4 As this one-off payment allows further savings from the revenue budget, it is also recommended that the savings over and above the £0.805m included within the budget be transferred to a specific reserve in order to fund future replacement of these items.
- 7.5 As available funding reduces with the reduction in grant it will become more difficult to find funds for the replacement of equipment. Therefore, the approach of using savings made through one-off payments to fund future replacement is seen as prudent and good financial planning. It is expected that this will be used for other replacements and a service wide plan is currently being formulated.
- 7.6 Details of the expected balance on each of the specific reserves and the general balance over the period 2016/17 to 2019/20 are set out in Appendix C.

8 Capital programme and financing

- 8.1 The proposed capital programme from 2017/18 is set out at Appendix G and the proposed financing of this and the outstanding programme (Appendix D) can be found at Appendix H.
- 8.2 The Vehicle Replacement Programme (VRP) has been updated to reflect changing needs following the Service Delivery Redesign (SDR) programme. This was approved by this committee at the November meeting and has been incorporated into the overall capital programme.
- 8.3 During 2015/16 and into 2016/17, work has been undertaken to transform the Eastleigh Headquarters site into a joint strategic headquarters with Hampshire Constabulary. The final phase of this work is due to take place during 2017/18, with the addition of the conference facility and command suite.
- 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 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.
- 8.5 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.

- 8.6 An expected outcome of the Service Delivery Redesign 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 There is currently no standard policy on which sources of capital funding should be used on any specific capital works. It is therefore proposed that the follow policy be adopted.

The capital programme will be funded using the most appropriate capital resources depending on the resources available at the time. Generally resources will be used in the following order:

1. Partner contributions – scheme specific
2. Capital Grant – these are all S31 grants – only condition is they should be used for the same purpose a capital receipt should be used for. However as some of the capital grants relate to Transformation grant bids we are using these for the specific Transformation schemes (Estates Transformation (ET) and SD Transformation) where possible.
3. Capital receipts
4. RCCO – budgeted or use of reserves other than CPR
5. Capital Payments Reserve (CPR)
6. Loan - last resort

Where possible the same funding source will be used for a scheme but this will not always be possible so there may be a mix of funding (e.g. RCCO and Capital Fund) If there is slippage in the programme it may mean that how a scheme is funded changes during the course of the year or over the life of the scheme.

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 2017/18 follow a similar format and have a similar content to previous years.
- 9.3 The report recommends that the following be approved:
- Treasury Management Strategy and Annual Investment Strategy for 2017/18, (and the remainder of 2016/17) including:
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20 – Annex C
 - Minimum Revenue Provision (MRP) Statement – Annex D
 - That authority is delegated to the Treasurer to manage the Fire &

Rescue Authority's investments according to the risk assessment process in the Investment Strategy as appropriate.

10 Supporting our corporate aims and objectives

- 10.1 The draft budget and future spending plans underpin the Authority's 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 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.

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.
- 11.3 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.

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 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. The most relevant point to note for 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.

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:

Medium Term Financial Plan Update – Report to Finance and General Purposes

Committee meeting on 1st September 2016

Finance Update – Report to Full Hampshire Fire and Rescue Authority meeting on 8th December 2016.

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 2 and 3 efficiency savings programmes
Appendix C	Level of specific reserves and general balance 2016/17 to 2019/20
Appendix D	Capital monitoring 2016/17
Appendix E	Calculation of base budget 2017/18
Appendix F	Outline of revenue base budget 2017/18
Appendix G	Proposed capital programme 2017/18 to 2019/20
Appendix H	Financing of capital programme
Appendix I	Treasury Management Strategy Statement