

Hampshire Fire and Rescue Authority

09 February 2012

Item 10

Budget 2012/13

Report by Treasurer and Chief Officer

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1 Introduction

1.1 This report is an updated version of that presented to the Finance and General Purposes Committee last month. It now reflects their support to add the budget surplus to the capital payments reserve, incorporates the feedback from the budget consultation meetings and changes as a result of the final taxbase and billing authorities' collection funds. The final grant settlement is expected on 8 or 9 February. The report therefore includes a recommendation that should the final settlement be different to the provisional settlement, the Chairman, Chief Officer and Treasurer be given delegated authority to adjust the revenue budget accordingly. In practice, this would just be the contribution to the capital payments reserve from the budget surplus.

2 Recommendations

1. That, if the grant settlement has not yet been received, the Chairman, Chief Officer and Treasurer be given delegated authority to reflect the actual settlement in the budget.
2. That the revenue budget for 2012/13 as set out in Appendix 2 be approved.
3. That the Capital Programme for 2012/13 set out in Appendix 7 be approved.
4. That the recommendations set out in Appendix 9 covering the Treasury Management strategy which incorporates the Prudential Indicators and the Policy on Minimum Revenue Provision be approved.
5. That the Treasury Management Policy Statement set out in Appendix 10 be approved.
6. That the Council Tax requirement for the general expenses of the Authority for the year beginning 1 April 2012 be £39,153,057.21.

7. That the Authority's council tax for the year beginning 1 April 2012 for the properties in each band be:

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

8. That precepts be issued totalling £39,153,057.21 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 taxbase of each billing authority's area as determined by them which are set out below:

| | |
|---------------------------------------|-------------------|
| Basingstoke and Deane Borough Council | 65,071.00 |
| East Hampshire District Council | 48,600.68 |
| Eastleigh Borough Council | 44,823.67 |
| Fareham Borough Council | 43,465.00 |
| Gosport Borough Council | 27,731.00 |
| Hart District Council | 38,262.16 |
| Havant Borough Council | 43,126.00 |
| New Forest District Council | 73,274.30 |
| Portsmouth City Council | 59,916.10 |
| Rushmoor Borough Council | 31,838.98 |
| Southampton City Council | 67,144.00 |
| Test Valley Borough Council | 46,303.00 |
| Winchester City Council | 48,323.83 |
| Total | <u>637,879.72</u> |

9. That in accordance with the set of principles set by the Secretary of State for Communities and Local Government for the year, it is determined that the relevant basic amount of council tax for 2012/13 is not excessive.

10. That the Pay Policy as set out in Appendix 12 be approved.

3 Changes to the draft budget

- 3.1 A number of changes have been made to the draft budget presented to the Authority in December 2011, the details of which are set out in the following paragraphs.

- 3.2 The provision for general inflation has been decreased to take account of the Chancellor's announcement that pay increases in the public sector will average 1% in 2013/14 and 2014/15. This is in comparison to the 2% that had been assumed.
- 3.3 Some more up to date estimates of the cost of extending the leases on the frontline appliances have been received. These have slightly increased the costs for future years in comparison to that originally estimated.
- 3.4 Some other smaller changes have also been made to update the budget such as the removal of the business rates budget for Copnor Fire Station now that the property has been sold.
- 3.5 The Council Tax freeze grant payable for 2011/12, which is guaranteed until 2014/15, has been consolidated into formula grant and will therefore now form part of the council tax calculation rather than the main revenue account (it was incorporated within the draft revenue budget that was presented to Members). However the Council Tax freeze grant for 2012/13, which is for one year only, is a specific grant and is therefore included within the revenue budget.
- 3.6 In previous years, the Authority has been required by law to set a budget requirement figure which is shown in the calculation of the council tax in Appendix 4 and is the final figure for the Authority's budget in Appendix 2. As a result of changes set out in the Localism Act, the Authority is now statutorily required to set a Council Tax Requirement as part of its budget setting process, this represents the net amount of expenditure that is met from council tax income after taking into account formula grant and the collection fund surplus all of which are shown in Appendix 4. The recommendations within this report reflect these changes in line with the new requirements.

Council tax collection fund and tax base

- 3.5 The final returns have now been received from the billing authorities on their collection fund surpluses/deficits for years prior to 2012/13. Overall, these show a surplus of £253,000 which is allocated to the Authority. This is a one-off sum and can only be taken into account in 2012/13. It is therefore prudent to use this to increase reserves.
- 3.6 The final taxbase figures have also been received from billing authorities. There is a small increase in the taxbase which has improved the financial position by £255,000 and in addition increased the council tax freeze grant by £7,000.

4 The current year: 2011/12

- 4.1 The latest budget monitoring report reported to the Finance and General Purposes Committee last month forecast that there will be an underspend of £3.6m. Given the projected shortfall against the proposed capital programme and the uncertainties over future capital funding it is proposed that the Authority should add the projected budget surplus to the capital payments reserve.

5 Budget requirement 2012/13

5.1 This table summarises the adjustments to the draft base budget (previously agreed by the Authority in December) over the next four years and takes account of the issues described above:

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Estimated budget as reported to HFRA in December 2012 | 65,940 | 68,288 | 69,629 | 71,903 |
| Changes to inflation provision - pay | 0 | -409 | -929 | -1,062 |
| Leasing changes | 0 | 51 | 50 | 116 |
| Other changes | -54 | -103 | -101 | -104 |
| Less 2011/12 council tax freeze grant now incorporated within formula grant | 973 | 973 | 973 | 0 |
| Base budget | 66,859 | 68,800 | 69,622 | 70,853 |

5.2 Appendix 1 sets out the details of the base budget calculation and Appendix 2 outlines the medium-term revenue base budget for 2012/13 to 2015/16.

5.3 Efficiencies totalling £1.3m are expected to be generated in 2012/13 (as set out in Appendix 3). These significantly contribute towards the surplus of £4.9m for 2012/13 that is anticipated (as set out in Appendix 4). This can be added to reserves and it is recommended that this be added to the capital payments reserve.

6 Medium term financial strategy

6.1 The Draft Budget Report presented to the Authority on 7 December, set out a baseline medium-term financial strategy model, which was based on a 2% pay award from 2013/14, grant reductions of 12.5% in each of the financial years 2013/14 and 2014/15, together with the dropout of the first council tax freeze grant and a grant freeze for 2015/16. The baseline also assumed no increase in council tax over the period.

6.2 This gave a baseline gap of just under £10 million by 2015/16. However, following the Chancellor's announcement in the autumn statement of a public sector pay limit of 1% in 2013/14 and 2014/15, the baseline gap has been amended to reflect this change and is now estimated to be £9.1m by the end of the current planning period.

6.3 The savings proposals shown in Appendix 3 will help to meet a large part of this gap, but in order to balance the position by 2015/16 it is estimated that council tax increases of around 2.5% per annum will be required assuming no other changes in the broad assumptions that have been made.

6.4 Whilst this means that the financial strategy put in place to address the reductions as part of the current Comprehensive Spending Review (CSR) are on track to deliver a balanced budget, there have already been further signs that the next CSR will be equally tough for the public sector and require further efficiencies and savings if the

service is to remain on a solid financial footing for the future.

- 6.5 As part of the development of the efficiency programme there remains some element of flexibility to produce higher levels of savings in certain areas, however the pace of implementation of these will be influenced by the levels of cuts in government grant in 2013/14 and 2014/15 and further information on what the next CSR may have in store for the public sector in this country. What is promising however is that the early action taken by the Authority in addressing financial challenges that lay ahead mean that we are in a much better position to take the time to manage future changes in a planned and informed way without the need to make potentially damaging cuts over a short space of time.
- 6.6 The focus for the future therefore is to continue with the efficiency savings programme that has been put in place and to wait for details of the grant settlement for the last two years of the current CSR which will give the Authority the ideal opportunity to review its medium-term financial strategy at that point accepting that further uncertainty will remain whilst we await the outcome of the next CSR.

7 Level of reserves and general balance

General balance

- 7.1 The detailed work re-assessing the Authority's major financial risks has now been undertaken. The analysis is summarised in Appendix 5. There is no requirement to alter the level of the 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:
- 'Improvement and sustainability reserve'. This is used to help deliver in-year value for money improvements, and to 'pump-prime' environmental initiatives. The expectation is that the level of the reserve will be largely maintained by reinvesting any tangible efficiency gains from actions which the reserve has funded. The balance on this reserve is £2,295,000. Up to £500,000 may be required for 'FireWatch'. At the Authority's last meeting it was agreed that a report would be presented in June on energy saving measures. Any costs would be met from this reserve.
 - 'Capital payments reserve'. This provides an essential resource for the capital programme and helps to reduce the need for borrowing. As mentioned elsewhere in the report it is recommended that both the underspend from the current year and the budget surplus in 2012/13 be added to this reserve. This would bring the balance at the end of the financial year to £12,168,000. This will eliminate the expected shortfall in funding of the proposed capital programme. In addition it will put the Authority in a more secure position from 2013/14 if the capital grant secured is not as high as currently received. The capital programme in recent years has also placed great reliance on capital receipts. The expected capital receipts from the sale of the site of the former Winchester Fire Station and the

surplus land at Basingstoke have already been assumed in the proposed financing plans. Therefore this source of finance would need to be replaced if the programme is to remain at the current level.

- 'Grant reduction reserve'. The balance on this reserve will be £1,887,000 by 31 March 2012. This is sufficient to pay the worst case redundancy costs and so no further contributions are required.

7.3 Details of the expected balance on each of the specific reserves and the general balance over the period 2012/13 to 2015/16 are set out on Appendix 6.

8 Capital

8.1 No changes have been made to the proposed capital programme presented to the Authority in December and this is reproduced as Appendix 7. However, given the unclear position on Government support in financing the programme from 2012/13 it is recommended that the Authority approve only the 2012/13 capital programme and that the programme for 2013/14 onwards remains - at this stage - an indication of the Authority's capital proposals.

9 Capital financing

9.1 The Government has announced that the capital grant for 2012/13 will be at the same level as that received for 2011/12. This is what had been assumed when the draft budget was initially prepared.

9.2 The proposed financing is set out in detail in Appendix 8. On the assumption that the Authority supports the proposal that the budget surplus from 2012/13 and underspend from 2011/12 are added to the capital payments reserve then the financing shortfall has been eliminated. This however does assume that the level of financial support from the Government does not decrease in future years.

10 Treasury Management

10.1 Attached as appendix 9 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 Appendix 10 is the Authority's Treasury Management Policy Statement. This only requires the Authority's approval when a change is made to it. This has been revised to reflect the latest guidance issued by CIPFA which has a greater emphasis on the monitoring and control of risks, whilst reiterating the importance of the security of capital in relation to investments. Members are asked to approve both documents.

11 Referendum

11.1 Under the Localism Act there is a requirement for an Authority to formally determine whether its council tax increase is excessive. A set of principles determined on an annual basis by the Secretary of State for Communities and Local Government will form the basis of that decision.

- 11.2 The principle for Fire Authorities for 2012/13 is that if the council tax increase exceeds 4% then the increase would be deemed excessive and would require the approval of the local electorate.
- 11.3 Given that the Authority is not increasing its council tax, Members are recommended to determine that the increase is not excessive.

12 Consultation

- 12.1 Formal consultation on the budget took place on 9 January 2012. The consultation focused on the Authority's medium-term financial strategy. The discussions at these meetings explored the long term spending and funding levels, and a variety of service related topics (for example, the proportion of the budget spent on prevention, partnership working, staffing levels and hoax calls). There were no particular concerns raised about the Authority's plans regarding council tax in future years.
- 12.2 The notes of the meetings are set out as Appendix 11.

13 Pay Policy Statement

- 13.1 The Authority is required under the Localism Act 2011 to prepare and publish a pay policy statement. The draft document was considered by the Human Resources Committee last month.
- 13.2 The document has been slightly amended since that meeting To include an explanation of the tax implications associated with the receipt of 'Benefit in Kind' by employees. The table containing pay information has been adapted to include those items
- 13.3 The revised Pay Policy Statement is set out as Appendix 12 for Members' approval.

14 Robustness of estimates and adequacy of reserves

- 14.1 Under S.25 of the Local Government Act 2003 the Chief Financial Officer (the Treasurer) has to report to the Authority when setting its council tax on two issues:
- the robustness of the estimates included in the budget and
 - the adequacy of the financial reserves in the budget.
- Members are required to have regard to this in approving the budget and council tax.
- 14.2 The estimates have been prepared on an incremental basis derived from existing commitments and adjusted for inflation. With the effective budgetary and management control arrangements that are in place, the majority of the budget can be regarded as robust. However, a few budgets such as inflation are higher risk in the current economic climate. In particular the budget has been prepared assuming that there will not be any pay awards during the year. There are also other uncertainties such as the timing of capital payments or capital receipt from surplus property sales which are difficult to budget accurately for. These have been taken into account when proposing retaining the general balance level of £2.5m in the draft budget. The budget is also reliant on achieving a significant level of efficiency savings however, with the Financial Challenge Programme Board overseeing the

progress, the Authority is on target to achieve the necessary savings.

- 14.3 Provided that the Authority accepts the budget recommendations, including the level of earmarked reserves and balances, the Treasurer can give a positive opinion under Section 25 on the robustness of the estimates and level of reserves.

15 Supporting our corporate aims and objectives

- 15.1 One of the Authority's priorities is to manage resources (staff, buildings and IT systems) in a cost-effective way. The unprecedented pressures on our budget for the foreseeable future will demand that current and future corporate objectives focus on driving down costs. Any new initiatives are likely to be on the basis of investing to save.

16 Risk analysis

- 16.1 The Authority's Strategic Risk Register includes: 'Failure to plan and react to the implications of Comprehensive Spending Review'. A number of current and proposed controls are described. The better than expected formula grant settlement for the first two years, will enable the Authority to increase reserves and balances to help mitigate the impact of significant grant reductions from 2013/14. Appendix 5 deals specifically with the assessment of financial risk.

17 People impact assessment

- 17.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998, and the Race Relations (Amendment) Act 2000.
- 17.2 Any proposals for reductions in staffing and any other savings initiatives will be subject to specific people impact assessments.

Background papers

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.

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