

Hampshire Fire and Rescue Authority

8 December 2010

Item

Draft Budget 2011/12

Report by the Chief Officer and Treasurer

Contact: Sarah Pook , Deputy Treasurer Telephone:01962 847045
David Howells, Director of Corporate Services Telephone 02380 626833

1 Summary

- 1.1 The draft budget is based on the strategy approved by the Finance and General Purposes Committee at its meeting in October. The strategy takes into account the national spending review announcements which set very tight constraints on the public sector over the next four years with formula grant reductions nationally of 25% over four years for fire authorities. The local government financial settlement is expected in early December which will give the detail at individual local authority level. An update will be given at the meeting on the implications for the Authority.
- 1.2 For 2011/12 the focus will be on base budget pressures and the expenditure reductions required by the cuts in formula grant from Government. For the subsequent three years of the spending review period (2012-2015) a number of budget scenarios are considered as a draft medium term financial strategy (MTFS). These are based on 0% and 2.5% council tax increases (in line with the Authority's continuing aim to keep average council tax increases at or below increases in state pensions) and grant reduction assumptions. The strategy also assumes that the Authority will volunteer for the council tax freeze scheme for 2011/12 in return for a Government grant equivalent to a 2.5% council tax increase.
- 1.3 Based on these assumptions the current estimated budget shortfall for 2011/12 is £1.4m and the range of the shortfall over the further three years of the MTFS period is £6.4m to £9.4m by 2014/15. The report sets out the expenditure reduction and efficiency programmes underway to address this shortfall, in line with the corporate strategy objectives for service delivery.

2 Recommendations

- 2.1 That the Authority sets a zero per cent council tax for 2011/12, in return for additional Government grant equivalent to a 2.5% council tax increase.
- 2.2 That the Authority consults on the savings required to set a budget for 2011/12 with

a zero per cent council tax increase and on the draft medium term financial strategy which sets out options for 0% and 2.5% council tax increases for 2012-2015.

- 2.3 That the final budget and council tax be set, following consultation, at the Authority's meeting on 9 February 2011.

3 General context

- 3.1 On 20 October 2010 the Government announced its funding intentions for local government over the next four years. For fire and rescue authorities there will be a 25% reduction in Government formula grant over the four-year period. The reduction in formula grant is to be 'back-loaded', but at the time of preparing this report the detailed settlement figures - and the year-on-year implications - were not known. The Fire Minister announced that the settlement would be a single figure reduction in the first year for fire authorities, as such the draft budget and medium term financial strategy currently assume formula grant reductions of 6% in 2011/12, 3% in 2012/13 and 8% in both 2013/14 and 2014/15. More information may be available on the day of the Authority's meeting.

- 3.2 The Finance and General Purposes Committee considered the provisional budget strategy at its meeting on 28 October and agreed that the key financial policy aims for this coming four-year period should be:

- To focus on improving efficiency and making savings that have the least detrimental impact on our ability to deliver our core services. Given the potential scale of the challenge, this will require the thorough review of how we currently manage and deploy our resources.
- To plan to underspend in 2010/11 and carry forward funds to mitigate the difficult position expected from 2011/12.
- To keep reserves and balances sufficient to match identified financial risks - including that of uncertainty in the economy.
- To take account of the pressures on council tax payers and to restrict council tax increases as much as practically possible. The Government's proposals for a council tax freeze for 2011/12 are awaited and will be a significant factor in determining the level of savings required.
- To take into account likely increases in general inflation and pensions' increases over the next three years.

4 The current financial year – 2010/11

- 4.1 A forecast underspending of £300,000 and ongoing cashable efficiency gains totalling £327,000 (as at the end of September 2010) were reported to the Finance and General Purposes Committee. These can be used to ease the pressure on future years' budgets. The Service will continue to seek opportunities for further savings for the remainder of the year.

- 4.2 The current 2010/11 budget includes provision for national pay awards of 1%. If no awards are made in 2010/11 – which now seems likely – then an additional £396,000 is available (£310,000 from uniformed staff budgets and £86,000 from support staff).
- 4.3 In line with the financial policy aims the service will continue to look to maximise the underspend to mitigate the difficult position for the coming years, looking at the risks and the levels of reserves and balances to match those risks. One key risk is future capital resources and the level of the capital payments reserve will require consideration once the settlement details are known.

5 Base Budget

5.1 The base budget set out in Appendix A is the full year cost (from 2011/12 onwards) of carrying forward policies approved in the 2010/11 budget. The base budget has been updated making the following assumptions:

- Pay award of 0%. The ongoing impact of the provision for a pay award in 2010/11 has been removed from the 2011/12 base budget (see para 4.2). The Government has announced a pay freeze for all public sector workers for 2011/12 and 2012/13, except those earning under £21,000 pa who will receive a flat rate increase of £250 each. There are just over 100 FTE earning under £21,000 which will cost £32,000.
- Employer's national insurance – 1% increase from April 2011.
- Price inflation of 2.5%.
- The base budget already includes a 1% increase for employers pension contributions for firefighters, which was anticipated - but not implemented – from April 2010. Pension costs are currently difficult to predict until both the actuarial valuation is completed on the Local Government Pension Scheme and the outcome of the Hutton report on the future of public sector pensions is known. It is therefore prudent at this stage to leave this 1% in the base budget.
- Pension payments continuing at 2.5%.
- The costs of financing the existing capital programme.
- Revenue contributions to capital of £530,000 in 2011/12.

5.2 Recognising the current financial constraints, for the first time the net cost of pay increments for support staff have not been added to the base budget as a growth item and the service will absorb these as efficiency savings.

5.3 The draft base budget is set out in Appendix A. Appendix C sets out a funding gap for 2011/12 of £1.4m. This report goes on to set out the efficiency and expenditure reduction programmes underway to address this funding gap.

6 Medium term financial strategy: 2012/13 to 2014/15

6.1 This report sets out a draft budget for 2011/12 together with a draft medium term financial strategy (MTFS) with future budget assumptions for: grant reductions, pay

and price increases, budget pressures and capital funding requirements in the subsequent three years. For 2012/13 to 2014/15 the draft strategy sets out two options for council tax increases: 0% and 2.5%. More detail is awaited from the Department for Communities and Local Government (CLG) on the grant settlement itself, and on the principles that will establish levels of council tax increase deemed to be excessive (including the proposal for holding local referenda on council tax increases). This guidance may be helpful in considering the range of future council tax increases for consultation purposes. In the meantime, the range 0% to 2.5% is consistent with the Authority's strategy of taking account of state pensions increases in setting the council tax.

6.2 The MTFs has been developed making the following assumptions

- Pay awards of 1% from 2013/14
- Price inflation of 2.5% per annum
- Pension payments continuing at 2.5%
- Financing the capital programme – the existing commitments and proposed capital programme have been based on the Authority receiving the same level of supported borrowing as in 2010/11
- Revenue contributions to capital – base of £730,000 each year with a small reduction of £22,000 in 2012/13 reflecting the costs of selling assets.
- Grant reduction assumptions – 6% reduction in 2011/12, 3% in 2012/13 and 8% in each of 2013/14 and 2014/15.

6.3 Appendix B sets out the four year base budget and Appendices C and D set out the funding gaps for each year assuming no council tax increase (Appendix C) and an increase of 2.5% (Appendix D).

6.4 After taking these factors into account, the potential cumulative funding gap, as a range for each year is set out in the table below:

	2012/13 £000	2013/14 £000	2014/15 £000
Gap with council tax increase of 2.5%	1,780	3,840	6,100
Gap with council tax increase of 0%	2,745	5,795	9,090

We can then establish the scale and timing of the expenditure reductions and efficiencies required from the four key programmes which will deliver these savings (outlined in the paragraphs below).

7 Reducing expenditure

7.1 The following paragraphs describe the main projects that are underway to reduce expenditure over the four years 2011/12 to 2014/15 to address the potential funding gaps set out above. Given the scale of the savings required, it is inevitable that substantial reductions in staffing across the service will be required. The aim will be

to avoid making compulsory redundancies where this is possible, but they cannot be ruled out. With the changes required we are developing proposals for a scheme for voluntary redundancy. The plan is for proposals to be presented to the next meeting of the Human Resources Committee in January and then taken to the Authority in February for approval. To be viable the scheme would need to enable proposals to be delivered to meet the challenging timescales. As this will involve potentially significant up-front implementation costs, the budget will need to make provision for them.

Efficient and flexible crewing (EFC) at fire stations

- 7.2 This corporate objective will deliver significant savings by optimising the way we crew our front-line emergency vehicles. The aim is to reduce expenditure by 15% (about £3.5m) over the next four years. In line with the Authority's vision for the next five years the intention is to operate from the same number of fire stations, but the types of emergency response vehicles in some of them will change. The freeze on recruitment – that has been in operation since the end of 2009 – is expected to deliver savings of about £1m in 2011/12. It is anticipated that this recruitment freeze will need to continue for at least a further 1 or 2 years.

Review of staff numbers

- 7.3 This corporate objective will deliver savings on all non-station-based staffing. The review, which is already underway, also has a target to reduce expenditure by 15% (about £2.5m) over the next four years.

Retained Duty System review

- 7.4 We are developing more cost-effective contracts for the way we employ retained firefighters. This - together with other efficiency measures - will help to contain expenditure within the current retained pay budget provision and deliver a 15% reduction in expenditure (about £0.9m) over the next four years.

Savings programme

- 7.5 While it is expected that the three staffing reviews [outlined above] will produce the bulk of the savings required, work is underway to identify the scope for further savings. These will be pursued in the event that: (a) the grant settlement over the next four years is worse than expected; and/or (b) the planned savings are unlikely to be delivered in full and on time. They are likely to form the basis of future corporate objectives and would be presented to the Authority for consideration at its meeting in June 2011.

8 Current budget pressures and risks

- 8.1 The following paragraphs set out the potential significant financial risks facing the Authority which will need to be considered when developing the final budget. The principle expected is that such pressures should be met from within existing budgets through savings and efficiencies, the unallocated efficiency gains reported

earlier will be the first call to meet these pressures.

Regional Control Centre (RCC)

- 8.2 This was identified as a risk when the 2010/11 budget was compiled and was one of the main factors behind including a £250,000 contingency in the base budget. Continuing uncertainty over the future of the scheme and/or timing of its implementation has meant that we will be spending resources on identifying alternative or interim mobilising solutions. This is not expected to be an issue for the 2011/12 budget but rather will be reflected as a risk for the MTFs.

Implementation of the 'FireWatch' (management information system)

- 8.3 The Finance and General Purposes Committee received a report at its last meeting on the financial implications of implementing this system. A contract has now been awarded for the supply of the system with anticipated payments of £1.4m in 2010/11, £0.5m in 2011/12, and £0.4m in subsequent years. The estimated total cost over five years (£3.1m) is within the estimate reported to the Finance and General Purposes Committee. This expenditure will be met from existing budgets wherever possible and the shortfall funded from the Improvement and Sustainability Reserve.

Staff turnover/EFC/staff review

- 8.4 A key risk in the budget will be the ability to deliver the expenditure reductions and efficiencies to the timescales required. This risk will need to be reviewed once the details of settlement are known and closely monitored in future reports to the Finance and General Purposes Committee. The potential to bring into scope other potential savings initiatives (see 7.4 and 7.5 above) will provide a way of mitigating this risk.

Firelink

- 8.5 The initial installation of the radio system was completed at no cost to the Authority. However all future costs will be charges to the Authority, we know that there will be no further government funding to cover this. It is estimated that the cost will be £235k in 2011/12 and £283k from 2012/13 and each year thereafter. Some relatively minor savings (about £34k) have already been achieved from decommissioning of the former radio station sites. It is proposed that the ongoing costs be met from the balance of cashable efficiencies previously identified.

Proposed corporate objectives

- 8.6 The proposed corporate objectives – currently out for consultation – are not expected to give rise to significant additional expenditure. Any set-up or ongoing costs will have to be met from within budgets.

Capital receipts

- 8.7 There has already been reductions and delays in the anticipated value of capital receipts as a result of the downturn in the property market. It is now assumed that no receipts (other than a small number of vehicles) will be received in 2010/11. Receipts expected from the former firefighters housing in Winchester and the current Winchester Fire Station site have been factored into the available capital resources. Given uncertainties surrounding sale of the former Copnor Fire Station and the land at Carpenters Down, Basingstoke these have not yet been built in.

9 Capital

- 9.1 There is insufficient information in the spending review announcements concerning the likely level of capital funding for fire and rescue services. Therefore, for the purposes of this report, the capital programme is based on supported borrowing funding continuing at the current level. Appendix E sets out the existing capital commitments and Appendix F the proposed capital programme 2011/12 – 2014/15.

Vehicle replacement programme

- 9.2 The vehicle replacement programme was presented to the Finance and General Purposes Committee in October 2010. The estimated cost of the proposed programme, which has been kept at November 2010 prices, have been assumed in preparing this draft budget.

Revenue Contributions to Capital

- 9.3 In recent years 'revenue contributions to capital' for vehicle replacement have been set at £730,000. One of the implications of the new capital financing regulations (which came into force on 31 March 2008) is the requirement to make a larger provision for debt repayment if unsupported borrowing is used to finance the acquisition of vehicles and equipment. As a result the Authority's strategy has been to seek to maximise the use of revenue contributions. It is therefore proposed that the current base level of revenue contributions (£730,000) be maintained. It should be noted however that this has been reduced to £530,000, as reported to the Finance and General Purposes committee in July, to finance equipment in 2011/12.

Asset management – buildings maintenance

- 9.3 The current level of buildings maintenance and improvements is assumed at £450,000 in each financial year. This will enable some work to be undertaken to improve energy efficiency.

Basingstoke Fire Station

- 9.4 Following the provision for a feasibility study for a new station in Basingstoke in the current year's capital programme (£100,000), the programme now includes £5m for a new station to start in 2012/13.

Capital financing

- 9.5 Appendix G sets out how, taking account of the proposals above, the capital programme could be financed. It can be seen that there would be greater reliance on unsupported borrowing in the latter years if the proposed programme were to be approved.

10 Level of general balance and specific reserves

General balance

- 10.1 The Authority currently has £2m set aside in its general balance to meet unexpected expenditure. The detailed work to reassess the risks underlying this judgement has not yet been undertaken. For the purposes of the draft budget it proposed to continue planning for this level of general balance.

Specific reserves

- 10.2 The Authority currently holds specific reserves for expected future funding:
- Improvement and Sustainability Reserve. This is used to help deliver in-year value for money improvements and to pump-prime environmental initiatives. To date the level of the reserve has been largely maintained through recycling of underspends achieved in the year as a result of the efficiency measures facilitated by its use. This reserve is expected to be at £2,295,000 at the end of the year, however up to £1m of this may be required for the FireWatch project.
 - Capital Payments Reserve. This provides an essential resource for the capital programme. It had been hoped to add the 2010/11 LPSA2 grant to this reserve, however as Members will be aware, this was not received. The balance on this reserve is expected to be used to finance the capital programme during 2010/11.
 - Grant Reduction Reserve. This was established to help ease pressures anticipated through Government grant reductions in future years. The balance on this reserve is expected to be £947,000 at the end of the current financial year.

11 Supporting our corporate aims and objectives

- 11.1 Two corporate objectives: 'develop efficient and flexible crewing at our fire stations'; and 'reviewing our staff numbers' are key to delivering the reductions required to meet the difficult financial challenges that lie ahead.

12 Risk analysis

- 12.1 The report sets out the potential risks around the impact of the settlement at authority level with the potential for significant variance in grant reductions, both formula and specific grants and for changes in capital funding. The process of

developing the draft budget, updating the Authority at the meeting on the outcomes of the settlement and public consultation on the potential funding and budget reductions alongside the service impacts if these reductions are implemented are the next steps in analysing the risks to the authority to build them into the budget strategy.

- 12.2 The budget and medium term financial strategy to be brought to the Authority's meeting in February will then have an updated risk assessment and this will inform the budget decisions including the policy for holding reserves and balances.

13 People Impact Assessment

- 13.1 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.

14 Consultation

- 14.1 Public consultation on the budget will take place on the morning of Thursday 13 January 2011 at Headquarters. On the assumption that the Authority will volunteer to freeze council tax in for 2011/12, the focus of consultation will be on the Authority's medium-term financial strategy, the savings that need to be made across the four years of the MTFs and the scope for council tax increases from 2012/13.

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 attached appendices

Appendix A	Calculation of the base budget
Appendix B	Outline revenue base budget 2011/12 – 2014/15 (green)
Appendix C	Budget planning model – funding gap with 0% council tax
Appendix D	Budget planning model – funding gap with 2.5% council tax
Appendix E	Existing capital commitments (yellow)
Appendix F	Proposed capital programme 2011/12 – 2014/15 (yellow)
Appendix G	Financing of proposed capital programme (yellow)