

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

28 October 2010

Provisional Budget Strategy 2011/12 – 2014/15

Report by the Chief Officer and Treasurer

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1 Summary

- 1.1 This report considers various budget issues for the next four years together with parameters for setting the 2011/12 budget and council tax. It needs to be considered alongside the review of the three-year corporate plan which is currently out for consultation.
- 1.2 The opportunity will be taken at the meeting to update members on the implications of the Government's Comprehensive Spending Review (CSR) [due to be announced on 20 October 2010 – the date this report was dispatched]. It is expected that the Spending Review will cover a four-year period: 2011/12 will be the first year. The local government finance settlement is expected to follow in early December and is likely to be a two-year settlement given the Communities and Local Government (CLG) announcement of a review of local government finance for 2013/14.
- 1.3 The Emergency Budget in June set clear expectations about significant reductions in spending across the public sector and the potential for cuts in local government funding of up to 40% in real terms over the four year period have already been discussed with Members.
- 1.4 In setting its budget for 2010/11, the Authority set out a three-year financial plan giving a forward budget position for 2011/12 and 2012/13. This report reviews the assumptions made in the light of the Emergency Budget - anticipating reductions in grant expected the Spending Review announcement - to give an updated financial context for budget and corporate planning to progress. The report also proposes 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.

1.5 Against this background, this report considers the influence of national and local issues likely to impact on the budget preparation process, and recommends the assumptions to be used in forecasting the cost of continuing current service levels.

2 Recommendations

2.1 That the assessment of funding pressures and planning assumptions set out in this report be endorsed as a basis for preparing the Authority's medium-term financial strategy (2011/12- 2014/15) and draft budget for 2011/12.

3 Base Budget

3.1 The base budget represents the cost in 2011/12 of carrying forward the existing level of service and policies from the current year, updated for inflation and the full-year effect of any changes which occurred to funding or service delivery in 2010/11.

3.2 Ordinarily, this is a comparatively straightforward matter, but the context is different with considerable uncertainty around budget assumptions from 2011/12 onwards - particularly in advance of the Spending Review. Consequently, in projecting the likely future position. The 2011/12 projection will be based on the:

- full-year costs of non-pay inflation to November 2011
- provision for inflation from November 2010 to outturn 2012/13 assuming 0% for pay and 2.5% for prices [for 2013/14 and beyond the provisions will be revised after the Spending Review announcements]
- full-year effect of previous years' funded pressures and budget adjustments
- pension costs and employer's contributions for which the Authority is liable

assuming, for the time being, a 0% increase

- expected costs for interest and statutory provision for debt repayment
- net change in leasing costs.

It is reasonable at this stage to make similar assumptions for 2012/13. But, 2013/14 to 2014/15 will be a longer-term forecast, based on the outcomes of the Spending Review.

We need to take into account the risk that some specific grants might be withdrawn by Government. Of particular concern is funding to support the crewing and maintenance of 'New Dimension' / Urban Search and Rescue (USAR) assets and activities. The Authority may need to consider whether it can justify maintaining these facilities without specific funding from central government.

- 3.3 Budget planning is already underway building on the difficult position anticipated when the 2010/11 to 2012/13 budget was set by the Authority. Some scenario modelling was undertaken using different assumptions around grant reductions, pay awards and other variables headlined in the Emergency Budget. More certainty should follow the Spending Review and then the local government finance settlement in December. This modelling will be used at the meeting to provide members with an appreciation of potential scenarios and provisional budget options.
- 3.4 It is suggested that officers continue to prepare a budget for 2011/12 which has regard to the potential grant and expenditure reductions for local authorities. This will be progressed by putting forward different options and by pursuing five main potential means of placing the authority as well as possible for the difficult years to come:
- Take actions early in order to maximise the ability to take a strategic approach to making efficiency gains which comes from the direction of service improvement rather than cuts. One such measure is the current recruitment freeze to help manage staffing reductions.
 - Maximise underspends in 2010/11.
 - Review both the specific contingencies and the level of reserves as part of the final 2011/12 budget setting process - again with the aim of maximising flexibility.
 - Consider the level of council tax anticipating the Government's proposals to freeze or limit increases.
 - Require any new pressures to be challenged and, where unavoidable, to be offset by other budget reductions. It is a normal part of the forward budget process to review demands on services e.g. due to demographic trends or

legislative changes. It is proposed that any such pressures are absorbed by budget holders within their budgets as an initial starting point.

4 Grant distribution

- 4.1 Communities and Local Government (CLG) is consulting now on changes to the funding formula for 2011-13 and have signalled a review of local government finance to take effect in 2013/14. The Authority received a report on the consultation at its last meeting and approved a response. At this stage in preparing the budget it is too early to include any assumptions, and it is likely that the spending review outcomes will have an overriding impact.

5 Capital programme

- 5.1 The Authority has supported a prudent capital programme over the past three years covering new buildings, major repairs to buildings, and a vehicle replacement programme. The current capital programme for 2010/11 to 2013/14 already anticipated the loss of capital grant from 2011/12 and estimated levels of supported borrowing, revenue contributions and capital receipts. The programme and its funding will be reviewed and the proposed capital programme will be presented to the Authority in December.

6 Current and emerging issues and risks

- 6.1 There are a number of issues with potentially significant financial consequences which need to be kept under review as we continue to prepare the draft budget. Some are difficult to quantify at present, but broad assumptions could be made for some of them. These include:
- the risk of delay or cancellation of the Regional Control Centre project, and potential need to implement an interim control system
 - the implementation of the 'Firewatch' management information system and the risk/cost of delay
 - assumptions about staff turnover and the ability to deliver timely savings from the 'Efficient and Flexible Crewing' project and the wider staff review
 - the impact of the transfer of running costs to fire and rescue authorities of 'Firelink' (the new national radio scheme)
 - those corporate objectives (current and proposed) which are aimed at reducing expenditure in the longer term
 - delays in generating capital receipts from the disposal of surplus property (owing to the downturn in the property market).

7 Reserves

7.1 The following table sets out the estimated reserves at the end of 2010/11:

	£000
Capital payments	1,171
Improvement & sustainability reserve	2,295
Grant reduction reserve	947
General balance	2,000
Total	<hr/> 6,413

7.2 The position will be reviewed as we continue to prepare the budget.

8 Council tax

8.1 Current indications are that the council tax base will not increase in 2011/12. In past years this has provided a means of reducing the precept increase which would otherwise have been required, this wasn't the case for 2010/11 and is not forecast for the near future.

8.2 In the Emergency Budget the Chancellor announced that the Government will work in partnership with local authorities to implement a freeze on council tax in England for 2011/12. The Government will clarify in due course the terms under which local authorities that commit to freeze or reduce their council tax will be compensated. The details are still awaited and it is anticipated that they will form part of the spending review announcements. At this stage the forecast is working from a worst case assumption of a council tax freeze for 2011/12 with no ongoing or one-off compensation.

9 Conclusion

9.1 If members agree, then the base budget and draft four-year capital programme will be prepared using the approach set out in this report and presented, as usual, to the Authority's December meeting.

10 People Impact Assessment

10.1 There are no particular issues arising from the proposals put forward in this report and they 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.

11 Background papers

11.1 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.

