

Purpose: Approval

Date 20 February 2019

Title **Budget and Precept Requirement 2019/20**

Report of Treasurer



**HAMPSHIRE
FIRE AND
RESCUE
AUTHORITY**

EXECUTIVE SUMMARY

1. In September 2018, the Authority was presented with an update of the Medium Term Financial Plan (MTFP), which laid out the expected financial position to 2021/22. This was followed by a brief update in December, which provided an update of changes to the assumptions that had occurred since the initial MTFP.
2. The detail has now been refined, with the 2018/19 revised budget and the 2019/20 forward budget being presented in this report.
3. The Government have confirmed that the referendum limit will be set at 3%, as had been assumed within the MTFP.
4. This report sets out details of the precept increase, showing the level of precept and increase for each Council Tax band. It is recommended that due to the uncertainties surrounding local government finance after 2019/20 and the need to close the budget gap in future years that the council tax is increased by 2.99% for 2019/20, as assumed in the MTFP.
5. The government accepted the efficiency plan put forward by Hampshire Fire and Rescue Authority (HFRA) and have agreed a four year settlement. The grant figure announced is therefore in line with the provisional figures stated by the government in December 2015.
6. The capital programme for 2019/20 and the funding of this is set out in this report and are recommended for approval.
7. Approval is also sought for funding to implement the new Combined Fire Authority, approved by the Hampshire Fire & Rescue Authority and the Isle of Wight Council at their meetings on 24 January 2019.

BACKGROUND

8. 2019/20 is the final year of the four-year settlement agreement which the Government announced in 2015. This settlement agreement has provided a level of stability which has enabled savings plans to be made and implemented in time for a balanced budget to be set for each of those years without any need to use reserves or other short-term measures.
9. Not only has this been achieved, but during this period of funding reductions we have been able to build the level of contributions to reserves, both capital and revenue, which has set us in good stead for the future.
10. The MTFP reported that savings from the Service Delivery Redesign (SDR) programme would not be sufficient to cover the full funding reduction in year, as some of the savings would not be achieved until 2020/21. The expected deficit at that time was £0.7m, with an expected increase to the council tax base which would result in £0.2m increase in precept to partially offset that.
11. The SDR programme, however, is now very close to completion and the majority of the savings will be available for the 2019/20 budget. This will allow the full amount of the planned Revenue Contribution to Capital Outturn (RCCO) to be budgeted for in 2019/20, with additional funding being transferred to the Transformation Reserve to allow future savings plans to be implemented.

2018/19 BUDGET MONITORING – QUARTER 3

12. The forecast position for 2018/19 is showing a surplus of £2.647m, which is higher than that reported to the Authority in December 2018.
13. The table below shows the budget monitoring for 2018/19 as at 31st December 2018.

	2018/19 Current Budget	2018/19 Forecast as at end Quarter 3	Variance Underspend / (Overspend)
Employee Costs	52,828	49,299	3,529
Premises	5,737	6,041	-304
Transport	1,794	1,901	-107
Supplies & Services and Third Party Payments	10,792	11,326	-534
	71,151	68,567	2,584
Income	-3,943	-3,985	42
Specific Grant	-1,915	-1,935	20
Contribution from Transformation Reserve	-4,048	-4,048	0
	61,245	58,599	2,646
Revenue Contributions to Capital	2,276	2,276	0
Interest payable / (receivable)	185	184	1
Net Cost of Service	63,706	61,059	2,647

14. The majority of the underspend relates to employee costs, particularly wholetime firefighters. The increase of £1.1m in the projected underspend since the quarter 2 forecast is mainly due to the lower than anticipated firefighter pay awards for 17/18 and 18/19, which have now been confirmed. This is partially offset by pressures in non-pay areas, particularly ICT and property.

- (a) **Wholetime Firefighters** – the forecast position is an underspend of £2.688m. In addition to the impact of the pay awards mentioned above, this underspend is due to the removal of posts in preparation for the SDR savings required for financial year 2019/20. Currently some posts required to achieve SDR savings are occupied by fixed term contract firefighters covering long term sickness. Within this underspend there is a forecast pressure of £240,000 relating to staff bank.
- (b) **Retained Firefighters** - the forecast position for retained firefighters is on budget. In the year to date, payments for turnout and attendance have been significantly higher than in previous years, but these have been offset by vacancies during the year. The forecast assumes that the exceptionally high amounts of activity do not continue for the remaining months.
- (c) **Staff** - the forecast position on staff is an underspend of £853,000. This mainly relates to staff vacancies across the service, particularly within Corporate Services and a small saving on the staff pay contingency as the pay award was lower than budgeted.
- (d) **Premises** – The budget for professional fees has been low historically and this has now been adjusted from 2019/20 but has led to an overspend in 2018/19. Reactive maintenance has been higher than budgeted again this financial year and measures are being taken to try to limit the overspend as far as possible. Both of these items have been reported previously.
- (e) **Supplies & Services** - the forecast position is an overspend of £240,000. This mainly relates to pressures within the Operations function, particularly in the Specialist Response and post-SDR workstream teams, which have been reported previously.
- (f) **Third Party Payments** – the forecast position is an overspend of £294,000. This overspend primarily relates to the misallocation of grant income in 2017/18. The Emergency Services Mobile Communications Programme (ESMCP) control rooms grant was incorrectly applied to Network Fire Service Partnership (NFSP) activity. There is also higher demand of Hampshire County Council (HCC) provided legal services due to specific activity during the year.

2019/20 BUDGET AND PRECEPT

Council Tax

15. The MTFP included an estimated increase to the Council Tax Base of 1.0%, equating to £412,000. The Districts and Boroughs have now confirmed their bases for 2019/20, which now gives an overall increase of 1.48%, giving additional funding of £202,100.
16. The referendum limit had been assumed at 3% in the MTFP and this has now been confirmed by Government. In overall council tax terms, the Fire Authority element is relatively small and the table below shows the impact if all authorities set their increases to the maximum permissible (Test Valley has been used as an example District Council):

	2018/19 Actual £	Maximum Increase %	Maximum Increase £	2019/20 Total £
Hampshire County Council	£1,200.96	2.99%	£35.91	£1,236.87
Hampshire Police and Crime Commissioner	£177.46	13.52%	£24.00	£201.46
Test Valley Borough Council	£141.41	2.99%	£4.23	£145.64
Hampshire Fire & Rescue Authority	£65.74	2.99%	£1.97	£67.71
	£1,498.81	5.73%	£85.86	£1,584.67

17. Whilst HFRA is currently in a fairly healthy financial position, there are a number of factors which still make the future financial position less certain, namely:
- No grant figures are available after 2019/20;
 - We do not know what future council tax referendum limits after 2019/20 might be;
 - Future capital plans for our estate could require new prudential borrowing;
 - By 2021/22 we were predicting a budget gap of at least £4.0m which still needs to be addressed;
 - The increased costs of pensions following the 2018 actuarial review of Firefighter pensions is still uncertain after 2019/20.
18. Given this uncertain position, the fact that HFRA froze council tax for five consecutive years and the clear policy direction set by the Government for increasing council tax, it is recommended that the council tax be increased by 2.99% for 2019/20. All figures in this report assume that this level of increase is applied.
19. The figures below show the council tax rates for the year beginning 1st April 2019 for the properties in each band, based on a 2.99% increase:
- | | | | |
|---------|--------|---------|---------|
| Band A: | £45.14 | Band E: | £82.76 |
| Band B: | £52.66 | Band F: | £97.80 |
| Band C: | £60.19 | Band G: | £112.85 |

Band D: £67.71

Band H: £135.42

20. Combining the council tax base increase and the precept increase, the table below shows the precept funding due from each precepting authority for the year 2019/20.

Basingstoke and Deane Borough Council	£4,453,205
East Hampshire District Council	£3,416,775
Eastleigh Borough Council	£3,104,748
Fareham Borough Council	£2,905,409
Gosport Borough Council	£1,825,204
Hart District Council	£2,756,075
Havant Borough Council	£2,756,359
New Forest District Council	£4,812,448
Portsmouth City Council	£3,864,575
Rushmoor Borough Council	£2,122,858
Southampton City Council	£4,398,374
Test Valley Borough Council	£3,315,488
Winchester City Council	£3,338,609
Total	£43,070,127

21. The Council Tax Collection Fund surplus has now been confirmed at £374,060, which is an increase of £62,100 on the figure included within the MTFP.

Business Rates

22. 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. In addition to this, 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.
23. As per the four year settlement offered by the Government a top up grant of £7,561,380 was originally notified to the Authority. The actual top up grant announced is £7,463,616, which is £97,402 lower than expected.
24. An additional one-off grant has been announced by the government to distribute a surplus in the business rates levy account. This equates to £219,902 for Hampshire and more than offsets the shortfall on the top up grant.
25. Within the MTFP, the 2019/20 locally retained business rate figure was assumed to be the 2018/19 figure inflated by 1.00%. This would have given the authority a £7,108,000 share of business rates. Billing authorities have now confirmed the authority's share of business rates will be £7,056,800. This is a reduction of

£51,200 against forecast and is disappointing for the authority as it represents a reduction to the baseline on an ongoing basis.

26. However, Section 31 grant amounting to £243,214 will be provided in compensation for the 2% cap, and £842,673 will be provided for other business rates relief schemes, which is significantly higher than had been forecast.
27. The billing authorities have now confirmed that there is a small overall surplus on their business rates collection fund and the authority's share will be £27,276 in 2019/20. This will be one-off funding to the Authority in 2019/20, in the same way that the council tax collection fund operates.

Government Grant

28. 2019/20 is the final year of a four-year funding settlement agreed by the Government. This has given stability and enabled improved budget planning.
29. The grant of £7,215,207 initially forecast by the Government has now been confirmed for 2019/20 within the settlement.

Budget Pressures

30. Within the MTFP a number of budget pressures were identified and the budget was increased to cover these.
31. Since the MTFP it came to light that the ICT Department will require additional funding to maintain the security and efficiency of IT systems. This was detailed in the December 2018 Budget Update report and the approved growth has now been included within the 2019/20 budget.
32. Over recent months, work has been undertaken by the National Joint Council (NJC) who have realigned the staff pay scales ahead of the increases for the National Living Wage. This has an effect on pay for a significant number of HFRS employees and is likely to result in pay increases for a number of staff. Work is still on-going, but it is expected that the additional cost of this will be around £50,000 - £100,000, so this has been incorporated into the 2019/20 budget.
33. This increase has been partially offset in the 2019/20 budget by the lower than anticipated pay award for Firefighters in 2018, although it is expected that future years could be higher.

Efficiencies

34. Service Delivery Redesign is the only remaining project from the current efficiency plans that still has savings to deliver. The programme is wide reaching and was due to be implemented over the years 2017/18 to 2020/21. The first tranche of savings were removed for the 2017/18 budget, with the remainder expected to be split over 2019/20 and 2020/21.
35. Due to the changes being implemented earlier than anticipated, the majority of savings have now been made and therefore the 2019/20 budget has been reduced in line with this.

36. As part of the budget setting process, a zero based budget exercise was also undertaken. This has resulted in the requirement for inflation being reduced and further budget reductions being achieved without the need for changes to service levels. These savings have, however, been used to adjust for some historic under budgeting in certain areas which was outlined in the December 2018 finance update report.

Changes to the Medium Term Position

37. This table summarises the adjustments to the 2019/20 budget position as previously reported in the MTFP.

Gap from Sept 2018 MTFP		699,700
SDR Savings	-619,600	
Change in inflation provision and ZBB Adjs	-254,200	
Budget Pressure – ICT	236,700	
Additional provision for pension increases	2,718,200	
Specific Grant to fund pension increase	-2,950,200	
Increase in Council Tax Base	-202,100	
Change in RSG	-200	
Change in Collection Fund Balances	-56,000	
Increase in Business Rates	-71,300	
Increase in S31 Grant	-725,100	
Contribution to Transformation Reserve	1,224,100	
Total Changes		-699,700
2019/20 Balanced Budget		0

38. The table shows that we have been able to make a contribution to the Transformation Reserve of £1,224,100, in addition to the £250,000 included within the base budget for the year, as a result of the changes applied as part of the final budget setting process. This will give a total contribution to the Transformation Reserve of £1,474,100 in 2019/20. Not all of these changes will be recurring, and the net impact will be reflected in the next update of the MTFP. **Appendix A** outlines the base budget for 2019/20 by both cost type and function.

Capital Programme

39. The proposed capital programme for 2019/20 is set out at **Appendix C** and the proposed financing of this and all continuing capital works can be found at **Appendix D**. **Appendix E** provides an update of the current capital programme, including spend to date.
40. The Vehicle Replacement Programme (VRP) has been updated to reflect changing needs following the Service Delivery Redesign (SDR) programme.

41. The changes to operational delivery as part of the SDR programme have had a significant effect on the numbers and types of some vehicles required. A number of vehicle purchases have been put on hold for the past few years, until the exact details of the requirements could be confirmed.
42. Although purchases are now being made for most vehicles, the hold on purchasing has resulted in a significant underspend over the past few years. This funding has been carried forward and will be used to fund the purchase of the SDR vehicle requirements over the coming years. This has been built into the capital programme.
43. During 2015/16 and into 2016/17, work was undertaken to transform the Eastleigh Headquarters site into a joint strategic headquarters with Hampshire Constabulary. The final phase of this work is now underway, with completion expected early in 2019/20.

Reserves

44. 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.
 - '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 no longer received.
 - '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.
45. Details of the expected balance on each of the specific reserves and the general balance over the period 2017/18 to 2021/22 are set out in **Appendix B**.
46. Due to the early implementation of SDR and favourable changes notified as part of the final budget setting process, there is a surplus on the budget for 2019/20. This will only occur for one financial year, so it is proposed that the surplus of £1,224,100 be transferred to the Transformation Reserve so that it can be used to fund future efficiency programmes and other one off spend, in line with existing policy.

Combined Fire Authority

47. On 24 January 2019, both Hampshire Fire and Rescue Authority and the Isle of Wight Council approved proposals for a new Combined Fire Authority (CFA) for Hampshire and the Isle of Wight and agreed to submit a business case to the Secretary of State.
48. The development of the business case together with the forecast implementation costs associated with creating a new CFA are expected to be in the region of

£600,000 to £800,000 as outlined in the January report, although at this stage this still represents a high level estimate subject to further detailed work being undertaken on a range of different factors.

49. This report seeks approval to spend up to £800,000 on the implementation costs to be met from the Transformation Reserve in the first instance, albeit that further contributions from the Isle of Wight are expected towards these costs both in the form of a direct contribution and through a share of reserves that will be transferred to the new CFA upon its inception.

TREASURY MANAGEMENT STRATEGY STATEMENT

50. The Treasury Management Strategy Statement which incorporates the Investment Strategy is attached at **Appendix F** and requires approval on an annual basis. This document includes the Prudential Indicators and statement on Minimum Revenue Provision.
51. The Treasury Management Strategy Statement for 2019/20 has been updated to take into account the changes required in the 2017 Prudential and Treasury Management Codes.
52. The Authority's strategy for investing surplus monies was changed a number of years ago to target some higher yielding investments that were considered low risk and involved minimal administration. These tended to be in pooled funds and to date the Authority has £3.5m invested in these types of assets as outlined in Appendix F.
53. No formal limit or target was set for these investments, but given the positive impact they have had on the interest earned and the forecast level of balances for the Authority over the next few years, it is now recommended that a target level of higher yielding investments of £7m be set, which will be invested in line with the proposed investment strategy.
54. The report recommends that the following be approved:
 - (a) That the Treasury Management Strategy Statement, including the Annual Investment Strategy for 2019/20, (and the remainder of 2018/19) is approved;
 - (b) That a target level for high yield investments of £7m is set for the Authority; and
 - (c) That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

CAPITAL AND INVESTMENT STRATEGY

55. A new reporting requirement has been introduced for the 2019/20 budget which is included as **Appendix G** of this report. The appendix provides information about the Authority's strategy regarding use of assets and how they help to support the overall financial position. Some of these elements were previously included within the Treasury Management Strategy and have been split out into this separate document to ensure that we comply with the code.

SECTION 25 REPORT

56. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to give an independent view on the robustness of the estimates and adequacy of reserves to the Authority at the time it is setting its budget and council tax. In previous years this has been covered within the body of the budget report but given the enhanced focus on financial management within the public sector, this has been included as a separate paper in this budget report attached at **Appendix H**.
57. The Authority is required to take this report into account in setting the budget and council tax for 2019/20.

INSURANCE STRATEGY

58. In previous years a separate report has been presented to the Authority providing an update on our insurance arrangements. This report does not vary significantly from year to year whilst the current arrangements are in place and therefore, to help improve efficiency, a summary has been included within this report instead.
59. The Fire Authority became a member of a mutual, the Fire and Rescue Indemnity Company (FRIC), on 1 November 2015. FRIC is made up of a group of nine Fire and Rescue Authorities. FRIC was set up to provide indemnity for its Members against risks normally fully covered by a traditional insurance company.
60. There has been a slight increase in our 2018/19 contribution, however, this continues to remain below the 2016/17 contribution. This was partly due to the inclusion of non-mutual insurance premiums (such as Terrorism and uninsured loss recovery) and the addition of project fees.
61. In the last year the number of liability claims made against the Service has remained low, most were as a result of minor injuries. The Service and its insurer have successfully contested a number of claims where it was felt we were not at fault.
62. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal' and to date, we have not made any claims under these additional policies. We are currently awaiting confirmation on final 2018/19 premiums, however, we do not expect this to increase significantly.
63. The charges to date are shown in the table below:

Contribution/Premium	2015/16	2016/17	2017/18	2018/19
FRIC Contribution	£507,022	£522,066	£500,667	£516,402
Additional Covers	£88,881	£92,867	£96,088	Awaited

SUPPORTING OUR SERVICE PLAN AND PRIORITIES

64. This report sets out how the available funding will be directed to the priority areas within HFRS and supports a continuing strong financial position.

CONSULTATION

65. 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 majority of respondents were happy to see a rise in council tax in order to protect services provided by the Authority.
66. The proposals in this report have been the subject of consultation with the Representative Bodies and the Business Community and no issues of concern were raised. Any further comments or issues will be reported back verbally to the Authority.

RESOURCE IMPLICATIONS

67. This report does not specifically request additional funding over and above those items that have been included within the budget for approval. It covers the overall financial position for 2019/20, on revenue, capital and reserves.

LEGAL IMPLICATIONS

68. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation and do not change any policies. They meet the Authority's legal requirement to set a balanced budget and council tax for the next financial year prior to 1 March.

PEOPLE IMPACT ASSESSMENT

69. The proposals in this report are considered compatible with the provisions of equality and human rights legislation.

OPTIONS

70. There are no options for consideration within the report, although budget setting and forecasting by its very nature mean that assumptions are made around a number of variables that can change over time.

RISK ANALYSIS

71. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant which have affected the available funding over the past 9 years.
72. 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.

73. 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, however as a backstop position, the Authority has sufficient reserves to meet the gap in the short term, thereby mitigating the risk.

CONCLUSION

74. It is recommended that the Authority approve the proposals made within this report, including a 2.99% increase in the precept for 2019/20.

RECOMMENDATIONS

75. That the revenue budget as set out in Appendix A be approved by Hampshire Fire and Rescue Authority.
76. That the Capital Programme as set out in Appendix C and the funding of this as set out in Appendix D be approved by Hampshire Fire and Rescue Authority.
77. That a total of £1,474,100 is budgeted to be transferred to the Transformation Reserve in 2019/20.
78. That funding of up to £800,000 for the new Combined Fire Authority implementation is approved from the Transformation Reserve.
79. That the Treasury Management Strategy Statement including the Investment Strategy (Appendix F), and the Capital and Investment Strategy (Appendix G) for 2019/20, (and the remainder of 2018/19) are approved.
80. That a target level for high yield investments of £7m is set for the Authority.
81. That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
82. That the Section 25 Report from the Chief Finance Officer as set out in Appendix H be taken into account by the Authority in setting the budget and precept for 2019/20.
83. That the budget requirement for the general expenses of the Authority for the year beginning 1st April 2019 of £66,512,500 be approved by Hampshire Fire and Rescue Authority.
84. That the council tax requirement for the Authority for the year beginning 1st April 2019 of £43,070,127 be approved by Hampshire Fire and Rescue Authority.
85. That the Authority's council tax be increased by 2.99% for the year beginning 1st April 2019 and for the properties in each band, as set out below, be approved by Hampshire Fire and Rescue Authority:

Band A:	£45.14	Band E:	£82.76
Band B:	£52.66	Band F:	£97.80
Band C:	£60.19	Band G:	£112.85
Band D:	£67.71	Band H:	£135.42
86. That the precepts set out in paragraph 20 of this report, totalling £43,070,127 are issued 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.
87. That in accordance with the set of principles set by the Minister for Housing, Communities and Local Government for the year, it is determined that the relevant basic amount of council tax for 2019/20 is not excessive.

APPENDICES ATTACHED

Appendix A – 2019/20 proposed budget in subjective and objective format

Appendix B – Reserves

Appendix C – Proposed Capital programme

Appendix D – Capital Funding

Appendix E – Current Capital Programme and Spend

Appendix F – Treasury Management Strategy & Investment Strategy 2018/19 –
2020/21

Appendix G – Capital and Investment Strategy 2019/20 - 2021/22

Appendix H – Section 25 Report of the Chief Finance Officer