

Purpose: Decision

Date **4th OCTOBER 2017**

Title **MEDIUM TERM FINANCIAL PLAN**



**HAMPSHIRE
FIRE AND
RESCUE
AUTHORITY**

Report of Chief Finance Officer

EXECUTIVE SUMMARY

1. This report provides an update to the Authority on the budget development process for 2018/19 and the medium term position for Hampshire Fire and Rescue Authority's (HFRA) finances to 2021/22.
2. The Medium Term Financial Plan (MTFP) was last present to the Authority in September 2016 and this update contains changes due to pressures from external sources, as well as policy changes to enable improved financial management.
3. As part of the Local Government Funding Settlement for 2016/17, four years of provisional funding were agreed, which has given a level of stability to 2019/20. This was subject to an efficiency plan being submitted, covering the four year settlement period and showing that plans were in place to ensure balanced budgets up to that point.
4. The efficiency plan is on track to achieve the savings required and further details of updates to the plan are included within this report.
5. Further reductions in Government grant have been assumed although there are no announcements beyond 2019/20 and increases at the current referendum limit of 1.99% on the precept have been included in the figures, in line with current Government policy on funding.
6. The Authority is asked to review these updates and agree to these changes being built into the 2018/19 budget, which will be presented to the Authority in February.

BACKGROUND

7. The Authority has an excellent track record in financial management and in staying ahead of the curve in response to a sustained period of austerity that has had a major impact on the public sector.
8. Medium Term Planning on a mid to worse case scenario basis has enabled the Authority to put savings plans in place that have not only successfully balanced the budgets over a period of 6 years, but have also provided surplus resources to fund the cost of transformation and improvement across the Service.

9. Prudent forecasting has also meant that the Authority has benefitted from favourable changes in the budget which has softened the impact of grant reductions and enabled savings to be planned and implemented in a sensible way.
10. As part of the current update of the MTFP which extends the period to 2021/22 to keep that forward view, a conscious decision has been made to include items in the forecast that will help with the long term financial stability of the Authority (e.g. increasing the revenue contribution to capital) but at the same time we have also taken the opportunity to (prudently) build in some of the favourable items we have benefitted from in the past such as increases in the council tax base.
11. This balanced approach is based on the experience of the last 6 years and the fact that the outlook over the next few years remains stable based on the plans we already have in place.

MEDIUM TERM FINANCIAL PLAN 2017/18 TO 2021/22

12. This section sets out the key assumptions on funding and expenditure for this update of the MTFP to 2021/22. It builds on the previous MTFP report of September 2016 and the 2017/18 Budget Report of February 2017.
13. Appendix A sets out the forecast for the years to 2021/22, in both subjective and functional format.

Funding

14. A four year grant settlement, which commenced from 2016/17, is currently in place. This gives stability for the next two years and allows for a good level of planning.
15. From 2020/21, no grant figures are available, therefore estimates have been built into the MTFP based on similar annual reductions to those included in the four year settlement, but also taking account of the expected improvement in the national funding picture.
16. The table below shows the Government Grant estimates that are included within the MTFP and the expected changes over time.

Year	Status	Revenue Support Grant £m	Annual Decrease £m	Percentage Reduction per Annum
2016/17	Actual	12.53		
2017/18	Actual	9.63	2.89	23.1%
2018/19	Provisional	8.12	1.52	15.7%
2019/20	Provisional	7.22	0.90	11.1%
2020/21	Forecast	6.50	0.72	10.0%
2021/22	Forecast	6.17	0.33	5.0%

17. For the financial year 2017/18, HFRA received a Transitional Grant, following changes to the grant distribution methodology. This will be removed from 2018/19.

Precept

18. Annual increases of 1.99% have been included in this MTFP for each year to 2021/22. This is on the assumption that the referendum limit will remain at 1.99%. However, it has been suggested that more flexibility should be given to allow a greater increase if agreed locally. If further details on this are available, an update will be provided to the December Authority meeting, to allow discussion on any available options.
19. In past years, no increase in the council tax base has been included within the MTFP. However, in each of those years increases have been built into the budget due to the levels of housing growth within Hampshire. This MTFP has therefore built in a 0.5% increase in the Council Tax Base, which is still prudent, but gives a more realistic funding forecast in line with the principles outlined in the Background section. A 0.5% a year provides around an extra £200,000 of recurring council tax income to the Authority.
20. The table below shows the increase in Band D council tax and the effect this is expected to have on the total precept received by HFRA, this does not include the extra income from the council tax base.

Year	Band D Council Tax £	Annual Increase £	Total Precept £m	Increase in Precept £m
2016/17	62.60		38.03	
2017/18	63.84	1.24	39.48	1.45
2018/19	65.11	1.27	40.47	0.99
2019/20	66.41	1.30	41.49	1.02
2020/21	67.73	1.32	42.52	1.04
2021/22	69.08	1.35	43.59	1.06

Efficiencies

21. Service Delivery Redesign (SDR) is currently the largest savings programme within HFRS. The programme overall is expected to achieve £4.2m of savings by 2020/21. A significant amount of work is on-going to ensure that all changes will enable the excellent service to the community to continue. Pilots are currently taking place, trying out new working patterns and appliances, and these will continue over the coming year.
22. At this time, the next phase of savings from SDR is not expected until 2019/20, however it is likely that some will be available for 2018/19, so this will be reviewed during the detailed budget setting process.
23. Other approved efficiencies are set out in Appendix B and further opportunities will be drawn out as part of the 2018/19 budget setting process.

Growth

24. For this MTFP, the process has been changed and senior managers within HFRS have been asked to put forward requests for additional funding where there are specific pressures across the service.
25. The requests put forward have been considered by the senior officers and three requests are supported at this stage. These are detailed at Appendix E for consideration. If any are agreed as being required, they will be included within the December report to the Authority for final approval and inclusion within the 2018/19 budget.
26. Any additional funding agreed will increase the savings target, however a clear process of prioritisation should ensure that high priority areas are funded, while savings are found from low priority areas.
27. In recent years, funding has been required for new and updated IT, PPE and firefighting equipment. This has been funded from the Transformation Reserve as no other funding has been available. This approach is not sustainable in the longer term, therefore funding has been allocated within this updated financial plan to transfer to specific equipment reserves to be used for this purpose. The figures included at this stage are £500,000 for 2019/20, increasing to £750,000 in 2020/21 and £1.0m from 2021/22 onwards. Work is currently taking place to produce an equipment replacement plan, which will show the expected requirement over the coming years and provide an accurate projection of the annual contribution required.
28. Estate and vehicle maintenance are also areas which have been under-funded for a number of years, mainly due to the budget not keeping pace with the increasing costs of running these services. Therefore, in line with the approach above, additional funding has been included to ensure that buildings and vehicles can be properly maintained on an on-going basis. Detailed analysis has been carried out to assess the requirements in each area, and as a result, £350,000 pa has been added for maintenance and improvement works to building and £75,000 pa for vehicle maintenance. It may be possible to fund the outstanding buildings works from reserves, rather than the revenue budget, and this will be considered as part of the 2018/19 budget setting process.
29. Since 2010, pay restraint has been a key policy for Government and a necessary factor in reducing the cost of the public sector. The pay increases built into the MTFP since that time have therefore been limited to 1.5%. Given recent events, e.g. Grenfell Tower and the terror attacks in London and Manchester, pressure is now been applied from a number of directions to relax this mandate. Unions are pushing for higher pay increases and the employers have made offers above the 1%, although nothing has been agreed as yet. The pay inflation built into the MTFP has therefore been increased to 2.5% for 2018/19 onwards. This will need to be reviewed as the negotiations develop.

Balancing the Budget

30. Appendix A shows a funding gap of £3.4m by 2021/22. All currently planned savings have been included within the MTFP, therefore further savings of £3.4m will be required over the coming years.
31. The majority of the savings will be needed by 2021/22, so plans will need to be developed to find areas where efficiencies can be made in order to achieve these savings.

32. Although the savings will be required, the timescales can be more flexible, as the RCCO and contributions to reserves could be delayed to ensure a balanced budget for the years until the savings are achieved.
33. During the detailed budget setting process for 2018/19, all budgets will be reviewed to ensure that they are still required and need to be maintained at that level. If not, reductions will be made wherever this can be done without impact on service levels.

CAPITAL

34. The Capital Programme is currently fully funded through to 2020/21, although in later years the programme makes general assumptions around the level of spend required for vehicle replacement, in line with previous years' requirements.
35. As capital grant is no longer received from government, all funding for capital expenditure must come from capital receipts, borrowing, reserves or directly from revenue (known as Revenue Contributions to Capital Outlay or RCCOs).
36. RCCOs have been used to fund capital spend where possible over recent years, to avoid the need to borrow. This has been achieved through using ad hoc savings as contributions, rather than to reduce the bottom line cost for the service.
37. However, in the longer term it is anticipated that £3.905m will be required to fund the on-going business as usual requirements of the capital programme (i.e. excluding major investment decisions such as new stations). This figure has therefore now been built into the base budget as RCCO and will become a regular contribution, which has been a longer term aim within the MTFP for some years
38. Funding is required to relocate and renew the Uninterruptable Power Supply (UPS) and associated equipment within the boiler room at SHQ. This will provide a new secure space for the equipment, provide duplicate supplies to assist in electrical testing by ensuring that critical systems are not without UPS cover throughout the installation and testing period and strip out the redundant UPS equipment. The system will be renewed and a new electrical panel board will be installed which will split supplies locally through a new distribution board and localised switches installed across the SHQ site. The funding required is £220,000, which is therefore requested to be drawn from the Capital Payments Reserve.
39. The table at Appendix C shows the expected capital spend and funding over the coming years, including the cost of the UPS requested above.

RESERVES

40. HFRA has followed a clear strategy on the use of reserves since the period of austerity began. This has involved:

- Planning well ahead of time to ensure that savings programmes are delivered to agreed timescales.
 - Delivering savings in advance of need, which in turn provides spare resources in the form of reserves.
 - Using those reserves to fund capital investment and transformation activity in order to fund the cost of changes associated with delivering the next phase of savings.
41. The general reserve is currently held at £2.5m, and based on the latest review, it is considered that there is no requirement to alter that level.
42. The current position, as set out on the table below, shows a current balance of £31.067m in reserves, the majority of which are already earmarked for specific purposes as part of our transformation and savings programmes.

	2016/17 Closing balance	2017/18 Closing balance	2018/19 Closing balance	2019/20 Closing balance	2020/21 Closing balance
	£'000	£'000	£'000	£'000	£'000
Transformation reserve	-4,018	-1,464	-16	-192	-192
Capital Payments reserve	-23,762	-20,277	-9,813	-9,813	-9,813
Capital Receipts unapplied reserve	0	0	0	0	0
Capital Grants unapplied reserve	0	0	0	0	0
Earmarked under spends reserve	-236	-169	-169	-169	-169
Revenue Grants unapplied reserve	-551	-77	-77	-77	-77
General fund balance	-2,500	-2,500	-2,500	-2,500	-2,500
Total	-31,067	-24,487	-12,575	-12,751	-12,751

2017/18 REVISED BUDGET AND MONITORING

43. The 2017/18 revised budget can be seen at Appendix A. Movements within the budget have been made during the year in line with the Financial Regulations.
44. Many of the changes reflected in the revised budget relate to spend agreed from the Transformation Reserve, which are one-off and have been removed for the 2018/19 forecast budget. This includes staff and firefighters working on projects such as Fire as a Health Asset and SDR.

45. The table below shows the budget monitoring for 2017/18 as at 31st July 2017.

2017/18 Current Budget	2017/18 Forecast as at end Period 2	Variance Underspend / (Overspend)
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Employee Costs	50,424	49,132	1,292
Premises	4,318	4,318	0
Transport	1,727	1,727	0
Supplies & Services	9,652	9,862	-210
Support Services	12	12	0
	66,133	62,911	1,082
Income	-2,336	-2,336	0
Specific Grant	-1,257	-1,257	0
Contribution from Transformation Reserve	-4,566	-4,566	0
	57,974	54,752	1,082
Revenue contributions to capital	2,547	2,547	0
Contingency	824	999	0
Net Cost of Service	61,345	62,899	1,082

46. The main points to note are:

- (a) Employee Costs – there are currently a number of vacant posts for firefighter, both retained and whole time, which are being held ready for the reductions required for SDR.
- (b) Supplies & Services - this is due to a delay in the ICT transformation project savings, however the changes have now been implemented and the full savings will be made for the remainder of the year.

TREASURY MANAGEMENT

47. The mid year Treasury Management Report is attached at Appendix D. It contains recommendations for approval arising from changes to legislation that could effect the Authorities investment policies.

SUPPORTING OUR SERVICE PLAN AND PRIORITIES

- 48. Explain how the report links to the Service Plan and our Safer, Stronger priorities.
- 49. Note any other Service plans that relate specifically to the recommendations within the report e.g. People Strategy.

CONSULTATION

- 50. 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.
- 51. Further consultation is expected to take place with business and Unions as part of the budget setting process for 2018/19.

RESOURCE IMPLICATIONS

- 52. Funding of £220,000 is required to upgrade the UPS at the Headquarters site and can be funded from capital reserves.

LEGAL IMPLICATIONS

53. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation and do not change any policies.

PEOPLE IMPACT ASSESSMENT

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

OPTIONS

55. There are no options for consideration within this report, although budget setting and forecasting by its very nature means that assumptions are made around a number of variables that can be changed over time.

RISK ANALYSIS

56. 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.
57. 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.
58. 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.

CONCLUSION

59. It is recommended that the Authority approve the assumptions made within this report, which will be used as the basis for 2018/19 Budget setting.

RECOMMENDATIONS

60. That the update to the Medium Term Financial Plan and changes to the financial forecast to 2021/22 be approved by Hampshire Fire and Rescue Authority.
61. That the assumption that for financial planning purposes council tax will increase by 1.99% year on year to 2021/22 be endorsed by Hampshire Fire and Rescue Authority.
62. That the estimated gap in the budget of £3.4m by 2021/22 be adopted as a new target for savings by the Authority
63. That capital funding of £220,000 to replace and upgrade the uninterruptable power supply and Headquarters be approved by Hampshire Fire and Rescue Authority.
64. That the mid-year review of treasury management activities be noted by Hampshire Fire and Rescue Authority and the recommendations in appendix D are agreed, specifically:
 - i. That the potential impact on investment strategy of defaulting to a retail client with effect from 3rd January 2018 be noted by Hampshire Fire and Rescue Authority.
 - ii. That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be approved by Hampshire Fire and Rescue Authority.
 - iii. In electing for professional client status the Hampshire Fire and Rescue Authority acknowledges and agrees to forgo the protections available to retail clients attached as Annex 1 of Appendix D of this report.
 - iv. That the Hampshire Fire and Rescue Authority approves delegated responsibility to the Section 151 Officer for the purposes of completing the applications and determining the basis of the application as either full or single service.

APPENDICES ATTACHED

- Appendix A – Revised Budget and MTFP
- Appendix B – Savings Plan
- Appendix C – Capital Programme
- Appendix D – Treasury Management Mid Year Report
- Appendix E – Growth Proposals

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