Hampshire Fire and Rescue Authority **Item 8**

21 February 2017

Budget and precept requirement 2017/18

Report by Chief Financial Officer and Chief Officer

Contact: Rob Carr, Treasurer; Telephone: 01962 847508

1 Introduction

1.1 This report is an updated version of the budget report presented to the Finance & General Purposes Committee (F&GP) on the 1st February 2017. This report has been prepared using the agreed principles for managing the budget in recent years. Those being, that one off in year gains are added to reserves, whereas other technical changes are absorbed into the revenue contributions to capital (RCCO) figure to balance the budget.

1.2 The figures now reflect the billing authorities' final tax base, the final position on their council tax collection fund, the share of business rates due to the authority and the position on the business rates collection fund.

1.3 There have been some minor changes to the precept and business rates figures since the report to F&GP for their meeting of 1st February, but with no significant effect on the bottom line. These figures are now final and are not expected to change.

2 Recommendations

2.1 That if any subsequent minor technical changes are required to the budget, the Chief Financial Officer in consultation with the Chief Fire Officer and the Chairman of the Authority is given delegated authority to reflect the actual position in the budget.

2.2 That the revenue budget for 2017/18 as set out at Appendix A is approved.

2.3 That the capital programme for 2017/18 as set out in appendix E and the funding of this as set out in appendix F be approved.

2.4 That the Treasury Management Strategy and Annual Investment Strategy for 2017/18 (and the remainder of 2016/17) as set out in Appendix G is approved, including:

- Prudential Indicators for 2017/18, 2018/19 and 2019/20 – Annex C
- Minimum Revenue Provision (MRP) Statement – Annex D

And that authority is delegated to the Treasurer to manage the Fire & Rescue Authority's investments according to the risk assessment process in the Investment Strategy as appropriate.

2.5 That the budget requirement for the general expenses of the Authority for the year beginning 1st April 2017 be £64,075,000.

2.6 That the council tax requirement for the Authority for the year beginning 1st April 2017 be £39,483,585.09.

2.7 That the Authority's council tax be increased by 1.98% for the year beginning 1st April 2017 and for the properties in each band to be:

Band A:	£42.56	Band E:	£78.03
Band B:	£49.65	Band F:	£92.21
Band C:	£56.75	Band G:	£106.40
Band D:	£63.84	Band H:	£127.68

2.8 That the precepts, as set out below, totalling £39,483,585.09 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, in proportion to the tax base of each billing authority's area as determined by them.

Basingstoke and Deane Borough Council	4,045,981.30
East Hampshire District Council	3,121,826.43
Eastleigh Borough Council	2,816,514.83
Fareham Borough Council	2,705,002.94
Gosport Borough Council	1,685,995.25
Hart District Council	2,518,119.64
Havant Borough Council	2,549,578.08
New Forest District Council	4,478,707.97
Portsmouth City Council	3,532,260.82
Rushmoor Borough Council	1,942,283.48
Southampton City Council	4,015,536.00
Test Valley Borough Council	3,020,589.60
Winchester City Council	3,051,188.75
Total	**39,483,585.09**

2.9 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 2017/18 is not excessive.

3 Summary

3.1 At its meeting on 7 September 2016, the Authority received an update of the Medium Term Financial Plan, in which the financial position was laid out and the need to continue increasing the precept for the next few years was explained in order to avoid further reductions to service over the years to 2019/20.

3.2 Billing authorities have now confirmed their final tax bases and their surplus/deficits on the council tax collection fund, their business rates position, the position on the business rates collection fund and their section 31 grant funding which will be provided for business rates relief. Overall funding from these sources has had a positive impact on the budget position of the authority in 2017/18.

3.3 Efficiency and savings plans are continuing, with significant savings being included in the 2017/18 budget. As savings plans have been put in place earlier than required, it has been possible to include a one-off contribution to the transformation reserve within the 2017/18 budget.

4 The current year 2016/17

4.1 The latest budget monitoring position reported to F&GP forecasts that there will be an underspend of £1.8m in 2016/17. It was agreed at the F&GP Committee that this underspend would be transferred to the transformation reserve at year end.

5 Changes to the medium term position

5.1 A number of changes have been made to the medium term position presented to the Authority on 7 September 2016. Following the receipt of information from Government and District and Unitary Councils the 2017/18 budget position is more favourable than previously anticipated and has now been balanced in line with the accepted financial strategy.

5.2 The table below summarises the changes to the estimates made to the MTFP figures, since the report to the Full Authority in September 2016 and sets out the proposal to balance the 2017/18 budget.

Total predicted 2017/18 deficit reported to Full Authority in September 2016:	£000's
	909
Changes in assumptions:	
Reduction in inflation	-199
Increase in Revenue Contribution to Capital	144
Reduction in base budget cost	-67
Changes to pension costs	-560
	-682
Savings:	
Increase in 2017/18 Efficiencies	-687
	-687
Funding Changes:	
Higher increase in Council Tax Base than expected	-693
Increase in Business Rates Top-Up Grant	-297
Decrease in Locally Retained Business Rates	151
Increase in S31 Grant	-204
Contribution from surplus on collection funds	-563
	-1,606
Recommended use of extra income (in line with financial strategy):	
Contribution to the Transformation Reserve	2,066
Projected 2017/18 surplus / deficit	**0**

Council tax collection fund and tax base

5.3 Final figures from the billing authorities have confirmed the tax base has increased from last financial year by 1.80%, which is a favourable position since this generates extra council tax revenue on an on going basis.

5.4 The referendum limit has been set by Government at 2% for 2017/18, which means any precept increases must be below that level. Due to the technical way in which the bandings are calculated based on the Band D figure, a 1.99% increase in Band D would create increases of over 2% for some bandings. The recommendation is therefore to increase the Band D precept by 1.98%, which ensures that all bands remain below the referendum limit.

5.5 Final figures from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2017/18 confirm a surplus of £562,677 allocated to the Authority. This is a one-off sum and will only be of benefit in the financial year 2017/18.

Business rates retention scheme

5.6 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. Furthermore, 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.

5.7 As per of the four year settlement offered by the Government a top up grant of £6,776,776 was expected. The actual top up grant announced is £7,074,068, which is £297,292 higher than expected and is due to the business rates re-valuation which has taken place this year.

5.8 Initially this year's retained business rate figure was assumed to be last year's figure inflated by 1.00%. This would have given the authority a £6,909,600 share of business rates. Billing authorities have now confirmed the authority's share of business rates will be £6,758,294. This is a decrease of £151,306 against forecast, which will have an ongoing effect on the revenue budget.

5.9 However, section 31 grant amounting to £207,782 will be provided in compensation for the 2% cap, and £228,487 will be provided for other business rates relief schemes. This is significantly higher than anticipated.

5.10 The billing authorities have now confirmed that there is a surplus on their business rates collection fund and the authority's share will be £206 in 2017/18. This will be a one off benefit to the Authority in 2017/18, in the same way that the council tax collection fund operates.

6 Budget requirement 2017/18

6.1 This table summarises the adjustments to the medium term financial position over the forthcoming financial year:

	2017/18 £000
Approved 2016/17 Budget	**64,993**
Less 2016/17 one-off contribution to capital reserve	-1,981
Adjustments:	
Inflation provision 2017/18	771
Other minor adjustments and budget pressures	333
2017/18 Efficiencies	-2,749
Increase in revenue contributions to capital	573
Apprenticeship Levy	225
Increase in pension contributions	444
Other pension changes	-612
Interest and statutory provision for debt repayment	12
Contribution to the Transformation Reserve	2,066
Estimate of draft budget requirement 2017/18	**64,075**

Appendix A sets out the base budget calculation in more detail and Appendix B outlines the base budget for 2017/18 by both cost type and function.

6.2 The format in which the budget is presented has changed slightly from previous years. This is in order to align it with the new accounting guidelines and to help link the budget to the final accounts at year end. All internal accounting entries have been removed from the budget figures and some of the grant income has been re-categorised. The 2016/17 Original Budget has been re-stated in the new format so that it can be accurately compared to the 2017/18 Proposed Budget.

6.3 Phase 2 and Phase 3 of the efficiency programmes are now underway and are expected to achieve £11.089m by 2019/20. £2.749m has been removed from the 2017/18 budget and a summary of the plan is shown at Appendix D of this report.

6.4 The Transformation Reserve is being used to fund significant pieces of work to enable the efficiencies programmes. These have not been included within the budget and the funding will be transferred to cover the spend as required.

Government Grant

6.5 The following table sets out the headline grant position for the Authority:

Sources of income	**2016/17 £000**
Revenue Support Grant (now includes all CTFG's)	9,634
Other Non-Specific Grant	562
Retained business rates	6,758
Business rates top up grant (including 11/12 BRFG)	7,074
Collection fund surplus / (deficit)	563
Council tax	39,484
TOTAL INCOME	**64,075**
Budget	64,075
TOTAL SURPLUS (+) / DEFICIT (-)	**0**

6.6 The proposal to increase council tax in this report is in line with our own planning assumptions within the MTFP and is consistent with the Government's assumptions in setting the grant levels. For the lowest cost District Councils and Police Forces, higher levels of increase have been authorised by the Government, if agreed locally, but this does not apply to Fire Authorities.

6.7 The figures in the report therefore assume that the Authority will increase the precept by 1.98%.

7 Level of reserves and general balance

General balance

7.1 Last year a detailed exercise was carried out to risk assess the level of general balance that the Authority should hold. There has been a review again this year and it is considered that there is no requirement to alter the level of general balance and it is therefore recommend that the balance remain at £2.5m.

Specific reserves

7.2 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. There are currently plans to spend £1.361m of this reserve during 2017/18. These have not been built into the revenue budget.
- ‘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 now on a ‘bids’ basis and therefore the Authority may not always be successful in bidding for these funds.
- ‘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.

7.3 Details of the expected balance on each of the specific reserves and the general balance over the period 2016/17 to 2019/20 are set out in Appendix C.

8 Capital programme and financing

8.1 The proposed capital programme from 2017/18 is set out at Appendix E and the proposed financing of this can be found at Appendix F.

8.2 The Vehicle Replacement Programme (VRP) has been updated to reflect changing needs following the Service Delivery Redesign (SDR) programme. This was approved by Finance & General Purposes Committee at the November meeting and has been incorporated into the overall capital programme.

8.3 During 2015/16 and into 2016/17, work has been undertaken to transform the Eastleigh Headquarters site into a joint strategic headquarters with Hampshire Constabulary. The final phase of this work is due to take place during 2017/18, with the addition of the conference facility and command suite.

8.4 As from 2015/16 central government has withdrawn the fixed capital grant for Fire & Rescue Authorities (FRA) over the longer term the Authority will be required to finance their regular capital programme from the revenue budget to avoid the need to borrow. However, with reducing revenue grants from central government this poses a challenge.

8.5 In the past the Authority has maintained a regular capital programme of £3.5m for vehicles and around £0.5m for buildings per year. In recent years additional contributions from revenue have been made to the Capital Payments Reserve and through in year revenue contributions to capital, increasing the amount available for the capital programme and avoiding the need to borrow.

8.6 An expected outcome of the Service Delivery Redesign will be to reduce the standard capital programme in order to prolong the availability of the capital payments reserve and provide more time to try and accommodate the regular capital programme within the Authority's revenue resources

8.7 There has previously been no standard policy on which sources of capital funding should be used on any specific capital works. Therefore, at its meeting on 1st February, the F&GP Committee approved the following policy:

The capital programme will be funded using the most appropriate capital resources depending on the resources available at the time. Generally resources will be used in the following order:

1. Partner contributions – scheme specific
2. Capital Grant – these are all S31 grants – only condition is they should be used for the same purpose a capital receipt should be used for. However as some of the capital grants relate to Transformation grant bids we are using these for the specific Transformation schemes (Estates Transformation (ET) and SD Transformation) where possible.
3. Capital receipts
4. RCCO – budgeted or use of reserves other than CPR
5. Capital Payments Reserve (CPR)
6. Loan - last resort

Where possible the same funding source will be used for a scheme but this will not always be possible so there may be a mix of funding (e.g. RCCO and Capital Fund)
If there is slippage in the programme it may mean that how a scheme is funded changes during the course of the year or over the life of the scheme.

9 Treasury Management

9.1 Attached as Appendix G 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.

9.2 The Treasury Management Strategy and Investment Strategy for 2017/18 follow a similar format and have a similar content to previous years.

9.3 The report recommends that the following be approved:

- Treasury Management Strategy and Annual Investment Strategy for 2017/18, (and the remainder of 2016/17) including:
  - Prudential Indicators for 2017/18, 2018/19 and 2019/20 – Annex C
  - Minimum Revenue Provision (MRP) Statement – Annex D

- That authority is delegated to the Treasurer to manage the Fire & Rescue Authority's investments according to the risk assessment process in the Investment Strategy as appropriate.

10 Supporting our corporate aims and objectives

10.1 The draft budget and future spending plans underpin the HFRA service plan for the medium term. The budgets proposed will allow the Service Plan priorities to be addressed over the coming years.

10.2 The Service will implement the phase 2 savings over the coming years and has begun formulating proposals for phase 3 efficiency savings, building on the work to date of the Safer Stronger Board. The Risk Review, a fundamental examination of the way operational services are provided, is currently being progressed and has been challenged with coming up with savings proposals that will form a major element of meeting the budget deficit.

11 Risk analysis

11.1 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.

11.2 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.

11.3 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.

12 People impact assessment

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

13 Consultation

13.1 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.

13.2 A consultation document on the 2017/18 budget proposals was provided to the business community via existing networks, but to date no feedback or comments have been received.

13.3 A consultation meeting with the Representative Bodies is scheduled for 13/02/2017 and any feedback or comments will be reported verbally to the Authority.

14 Background papers

14.1 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 Appendices

Appendix A	Calculation of the base budget
Appendix B	Outline of the revenue budget 2017/18
Appendix C	Level of specific reserves and general balance 2016/17 to 2019/20
Appendix D	Phase 2 & 3 efficiency savings programme
Appendix E	Proposed capital programme 2017/18 to 2019/20
Appendix F	Financing of capital programme
Appendix G	Treasury Management Strategy Statement