

HAMPSHIRE AND ISLE OF WIGHT FIRE AND RESCUE AUTHORITY (SHADOW AUTHORITY)

10 FEBRUARY 2021 – BUDGET AND PRECEPT REQUIREMENT 2021/22

ADDENDUM TO AGENDA ITEM 11

INTRODUCTION

1. The current financial year has been dominated by the impact of Covid-19 and as set out in the main agenda item this has meant that billing authorities have struggled to provide accurate figures for collection fund deficits and business rates, which has been further complicated by Government grant funding arrangements.
2. The purpose of this Addendum is to set out the final figures notified by billing authorities which also confirms the final local government finance settlement figures published on 4 February. The opportunity has also been taken to re-present the capital programme and funding appendix to incorporate the revenue elements of schemes for completeness. As a consequence, and for ease of reference, the recommendations in this Addendum replace in their entirety the recommendations in the report published at agenda item 11 for the meeting on 10 February 2021.

REVENUE ACCOUNT

3. There are a number of changes to the funding position for the revenue account, which impact on the bottom line deficit and the amount required to be drawn from reserves to balance it. An updated position is provided at Annex 1 to this Addendum and shows that the deficit has reduced by £466,000 from £1.244m to £778,000.
4. The reasons for the improved position is set out in the table below :

Deficit Reported in Papers	1,244
Increase in Retained Business Rates	(249)
Increase in Section 31 grant for Business Rates	(113)
Reduction in Business Rates Deficit	(9)
Government grant for Covid-19 Losses	(95)
Revised Deficit	<u>778</u>

5. This means that the deficit can be balanced by not contributing anything to the Grant Equalisation Reserve next year (£625,000) together with utilising £153,000 of the reserve set aside in the current financial year. This leaves £472,000 in the reserve for future years. Annex 2 to this Addendum shows a balanced budget position in both subjective and objective formats.

6. An additional recommendation has been added at paragraph 18 below to delegate authority to the Chief Financial Officer to make any minor changes to the budget by using compensating adjustments to the level of the draw from reserves, in order to balance the overall budget. This has no impact on the council tax decision.

CAPITAL PROGRAMME

7. The Capital Programme presented at Appendix C to the main agenda item represents expenditure that meets the strict definition of capital expenditure under the regulations and excludes the revenue elements of schemes, which are fully funded but are not shown either in the capital programme or the revenue budget.
8. For transparency it is therefore proposed to show the full value of approved capital schemes within the programme even though this may include some revenue elements. The technical accounting aspects of this will be dealt with at year end by the Finance Team and included in the statement of accounts.
9. Annex 3 to this Addendum shows the full capital programme and financing, which the Shadow Authority is asked to approve and includes the two capital schemes presented for consideration on the main agenda.
10. Annex 4 to this Addendum is a revised Reserves Strategy reflecting the changes in the use of the Grant Equalisation Reserve and the profile of the use of the Capital Payments Reserve.

RECOMMENDATION

It is recommended that the Authority agrees:

11. The use of the Grant Equalisation Reserve to balance the budget for 2021/22.
12. The Revenue Budget, as set out in Annex 2 to this Addendum.
13. The Capital Programme and funding as set out in Annex 3 to this Addendum including the addition of £100,000 to purchase new co-responding vehicles.
14. Funding of up to £2m from the Capital Payments Reserve for the redevelopment of Redbridge Fire Station, to replace prudential borrowing which will be swapped to fund other capital schemes.
15. The Reserves Strategy as set out in Annex 4 to this Addendum.
16. The Treasury Management Strategy as set out in Appendix E to the main agenda item, including the Annual Investment Strategy for 2021/22, (and the remainder of 2020/21).
17. Delegated authority to the Chief Finance Officer to manage the Fire and Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
18. Delegated authority to the Chief Financial Officer to make any final minor changes to the budget using compensating adjustments to the level of the draw from reserves, in order to balance the overall budget.

19. The Capital and Investment Strategy as set out in Appendix F to the main agenda item for 2021/22 (and the remainder of 2020/21).
20. The Section 25 Report as set out in Appendix G to the main agenda item which should be taken into account by the Shadow Authority in agreeing the budget and council tax (noting the reduced deficit and reduced draw required from the GER).
21. The council tax requirement for the Authority for the year beginning 1st April 2021 of £49,158,022.
22. That the new Combined Fire Authority's tax be increased by 1.99% above the Alternative Notional Amount set for 2020/21 (£69.06) for the year beginning 1st April 2021 and for the properties in each band, as set out below:

Band A:	£46.95	Band E:	£86.08
Band B:	£54.78	Band F:	£101.73
Band C:	£62.60	Band G:	£117.38
Band D:	£70.43	Band H:	£140.86

23. That the precepts set out below, totalling £49,158,022 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	£4,692,554
East Hampshire District Council	£3,620,600
Eastleigh Borough Council	£3,364,749
Fareham Borough Council	£3,085,151
Gosport Borough Council	£1,882,087
Hart District Council	£2,891,518
Havant Borough Council	£2,919,184
Isle of Wight	£3,752,482
New Forest District Council	£5,038,471
Portsmouth City Council	£3,978,443
Rushmoor Borough Council	£2,275,529
Southampton City Council	£4,534,917
Test Valley Borough Council	£3,543,756
Winchester City Council	£3,578,581
Total	£49,158,022

					Annex 1
Outline Budget 2021/22 - Subjective					
	September Position	Growth	December Position	2021/22 Proposed Budget	Variation
	£'000	£'000	£'000	£'000	£'000
Whole Time Firefighters	36,616		36,616	35,918	(698)
Retained Firefighters	8,108		8,108	7,890	(218)
Staff	12,926	214	13,140	13,254	114
Net cost of pensions	1,537		1,537	1,500	(37)
Other Employee Costs	839		839	742	(97)
	60,026	214	60,240	59,304	(936)
Premises	5,720	449	6,169	6,199	30
Transport	1,706	56	1,762	1,702	(60)
Supplies & Services	7,407	(27)	7,380	7,452	72
Third Party Payments	2,724	62	2,786	2,378	(408)
Contingencies	0		0	525	525
	17,557	540	18,097	18,256	159
Income	(3,021)		(3,021)	(2,733)	288
	(3,021)	0	(3,021)	(2,733)	288
Revenue contributions to capital	3,965		3,965	3,965	0
Equipment reserve	750	200	950	950	0
Grant equalisation reserve - contribution to / (from)	625		625	625	0
Transformation reserve	250		250	250	0
ICT reserve	500		500	500	0
	6,090	200	6,290	6,290	0
Net Cost of Service	80,652	954	81,606	81,117	(489)
Capital Financing	799		799	949	150
Investment income	(210)		(210)	(210)	0
Budget Requirement	81,241	954	82,195	81,856	(339)
Precept	(49,170)		(49,170)	(49,158)	12
Revenue Support Grant	(8,230)		(8,230)	(8,275)	(45)
Business Rates Top-Up Grant	(8,779)		(8,779)	(9,043)	(264)
Locally Retained Business Rates	(7,624)		(7,624)	(7,492)	132
Pension grant	(3,771)		(3,771)	(3,771)	0
New Dimensions	(974)		(974)	(974)	0
Firelink	(399)		(399)	(399)	0
S31 Business rates	(1,282)		(1,282)	(1,395)	(113)
Bikeability	(11)		(11)	(11)	0
Council Tax Support Grant	0		0	(695)	(695)
CT Collection Fund Balance	0		0	59	59
BR Collection Fund Balance	0		0	171	171
Government Grant for Covid Losses	0		0	(95)	(95)
Funding Gap / (Surplus)	1,001	954	1,955	778	(1,177)

	Annex 2
Budget 2021/22 - Subjective	
	2021/22 Proposed Budget £'000
Whole Time Firefighters	35,918
Retained Firefighters	7,890
Staff	13,254
Net cost of pensions	1,500
Other Employee Costs	742
	59,304
Premises	6,199
Transport	1,702
Supplies & Services	7,452
Third Party Payments	2,378
Contingencies	525
	18,256
Income	(2,733)
	-2,733
Revenue contributions to capital	3,965
Equipment reserve	950
Grant equalisation reserve - contribution to / (from)	(153)
Transformation reserve	250
ICT reserve	500
	5,512
Net Cost of Service	80,339
Investment income	-210
Capital Financing	949
	81,078
Budget Requirement	81,078
Precept	(49,158)
Revenue Support Grant	(8,275)
Business Rates Top-Up Grant	(9,043)
Locally Retained Business Rates	(7,492)
Pension grant	(3,771)
New Dimensions	(974)
Firelink	(399)
S31 Business rates	(1,395)
Bikeability	(11)
Council Tax Support Grant	(695)
CT Collection Fund Balance	59
BR Collection Fund Balance	171
Government Grant for Covid Losses	(95)
Funding Gap / (Surplus)	0

Budget 2021/22 - Objective

	2021/22 Proposed Budget £'000
People and Organisational Development	4,288
Risk and Strategy	1,095
Operations	44,291
Performance and Assurance	1,592
Enabling	21,535
Finance	2,025
	74,827
Revenue contributions to capital	3,965
Equipment reserve	950
Grant equalisation reserve - contribution to / (from)	(153)
Transformation reserve	250
ICT reserve	500
	5,512
Net Cost of Service	80,339
Investment income	-210
Capital Financing	949
	81,078
Budget Requirement	81,078
Precept	(49,158)
Revenue Support Grant	(8,275)
Business Rates Top-Up Grant	(9,043)
Locally Retained Business Rates	(7,492)
Pension grant	(3,771)
New Dimensions	(974)
Firelink	(399)
S31 Business rates	(1,395)
Bikeability	(11)
Council Tax Support Grant	(695)
CT Collection Fund Balance	59
BR Collection Fund Balance	171
Government Grant for Covid Losses	(95)
Funding Gap / (Surplus)	0

Annex 3 – Proposed Capital Programme and Funding										
<i>Project Details</i>	Approved Spend	Previous Years' Spend	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Latest Estimate	Balance Over / Under (-)
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Basingstoke Fire Station	6,955	6,644	310						6,954	-1
Fire control system - (FGP 4/12) NFCSP	729	671	58						729	0
Solar photovoltaic panels	1,076	1,059	17						1,076	0
Estates Transformation -HQ Phase 2	4,660	4,509	153						4,662	2
Estates Transformation -HQ Phase 1 £260K F&E	260	260							260	0
Vehicles	40,194	3,654	1,504	10,716	9,094	7,392	3,558	4,376	40,294	100
Replacement Fire Training Facility	3,500			1,750	1,750				3,500	0
Fleet Maintenance Centre - Sprinkler Installation	0			400					400	400
Cosham (SIP)	200		200	4,006	9,293	5,113	1,846		20,458	20,258
Gosport Land Purchase (SIP)	200			200					200	0
Bishops Waltham Station (SIP)	3,700		100	1,800	1,800				3,700	0
Redbridge Station (SIP)	24,100		282	3,993	5,116	10,735	3,974		24,100	0
Total Programme Cost	85,574	16,797	2,624	22,865	27,053	23,240	9,378	4,376	106,333	20,759
Financed by:										
Capital payments reserve		14,673	2,084	14,766	12,644	7,392	3,558	4,376	59,493	
Prudential Borrowing			482	7,999	14,409	15,848	5,470	0	44,208	
Revenue Grant unapplied reserve			58						58	
Capital receipts		1,624					350		1,974	
Capital Grant									0	
Partner contributions		500		100					600	
Total financing		16,797	2,624	22,865	27,053	23,240	9,378	4,376	106,333	

Hampshire and Isle of Wight Fire and Rescue Authority Reserves Strategy

1. Introduction and Background

- 1.1 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies and risks.
- 1.2 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties. In contrast to this the Covid-19 pandemic experienced this year starkly highlights why a prudent approach to reserves is needed in order to deal with unexpected financial shocks.
- 1.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan (MTFP) or be a stand-alone document.

2. Strategic Context

- 2.1 There are a number of reasons why Authorities might hold reserves, these include to:
 - a) Mitigate potential future risks such as increased demand and costs;
 - b) Help provide for the costs of future liabilities;
 - c) Temporarily plug a funding gap should resources be reduced suddenly or as part of an agreed medium term financial strategy;
 - d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
 - e) Spread the cost of large scale projects which span a number of years.
- 2.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term financial plan.
- 2.3 Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority has been facing significant year on year reductions in grant funding and uncertainty over the medium term. Due to the fact that funding for future capital projects is held as an earmarked reserve, the overall level of reserves held by the Authority is currently still relatively high but will reduce as the capital programme progresses.
- 2.4 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified

risks. As a minimum, there are sufficient balances to support the budget and capital programme and provide an adequate contingency for financial risks.

2.5 There are two different types of reserve, and these are:

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs. Generally, this is deemed to be a reserve of 'last resort' and the Authority has never been required to use its General Reserve.

3. Determine the Adequacy of the General Reserve

3.1 A well-managed Fire Authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, HIWFRA has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

3.2 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

3.3 A number of years ago, the Authority agreed to increase the General Reserve to £2.5m to reflect the increased risk in the budget as a result of the period of austerity and year on year grant reductions. At the same time the Authority was also receiving 4 year grant settlements which significantly helped in planning for future financial sustainability, even during a period of grant reductions. The continuing uncertainty over public sector finances and the lack of a multi-year settlement would indicate that keeping the General Reserve at the same level is sensible at this time.

3.4 At the start of 2021-22, the General Reserve will represent around 3% of the Authority's net revenue budget, which is considered adequate to mitigate the risks that it faces. Whilst this may be below the percentage level of General Fund Reserves of other Authorities, this also takes into account the fact that the base revenue budget has nearly £6.3m a year for contributions to reserves built in (equivalent to 7.7% of the net revenue budget) and this therefore offers a very significant mitigation to any potential unexpected spending before use of the General Reserve is required.

3.5 The level and adequacy of reserves is assessed annually by the Chief Financial Officer in preparing the Section 25 report that Members must take into account in setting the annual budget and precept.

4. Earmarked Reserves

- 4.1 The Authority has a number of earmarked reserves which have been established for specific purposes where there have been emerging risks, future cost pressures or as part of sensible medium term financial planning.
- 4.2 The relevance of, and balance in, each of these is reviewed annually as part of the update of the MTFP and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy.
- 4.3 The Earmarked Reserves for the Authority are presented and analysed as outlined below.

5. Transformation Reserve

- 5.1 This is used to help deliver value for money improvements, implement change programmes and to 'pump-prime' environmental improvement initiatives. Any budget surpluses or underspends achieved at the end of the year are generally transferred to this reserve in order to maintain its level and provide funding for further improvements or change programmes as they arise.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Opening Balance	-2,243	-183	-376	-606	-856
Draws	3,346	57	20	0	110
Contributions	-1,286	-250	-250	-250	-250
Closing Balance	-183	-376	-606	-856	-996

- 5.2 The majority of commitments against this reserve currently relate to the Combined Fire Authority (CFA) Project and various ICT projects. Funding for future years is currently limited to the annual contribution but may be supplemented by any underspend for the current financial year.

6. Capital Payments Reserve

- 6.1 This provides an essential resource for the capital programme and helps to reduce the need for borrowing. This is essential as no capital grant is now received from government and no recent bidding processes for capital have been announced. Regular contributions are now made to the reserve from the base budget, set at the amount required to fund the vehicle replacement programme and a contribution to retained station replacements.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Opening balance	-22,981	-23,596	-11,879	-3,200	227
Draws	3,350	15,682	12,644	7,392	3,558
Contributions	-3,965	-3,965	-3,965	-3,965	-3,965

Closing balance	-23,596	-11,879	-3,200	227	-180
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6.2 Vehicle purchases had been expected to be higher for 2020/21, however unavoidable delays have been encountered due to COVID-19 issues resulting in manufacturers not being able to supply in line with their original timescales. In addition, reserve funding has been approved for the rebuild of Bishop's Waltham Fire Station, which was reviewed as part of the Station Investment Programme. Most costs for redevelopment of other stations will be funded through Prudential Borrowing.

6.3 Over the period of the Programme all of the available funding in the Capital Payments Reserve is used up, which limits the flexibility available to commit to new capital investment priorities.

7. Equipment and ICT Reserves

7.1 Information and Communications Technology (ICT) and other equipment purchases are not often spread evenly across years. This makes it difficult to budget for replacement within the annual revenue budget. Reserves have therefore been set up for both ICT and other equipment to allow larger items to be purchased whilst retaining a constant contribution from the revenue budget.

Equipment	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Opening Balance	-344	-650	-1242	-478	-1151
Draws	644	358	1714	277	1151
Contributions	-950	-950	-950	-950	-950
Closing Balance	-650	-1242	-478	-1151	-950

ICT	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Opening Balance	-75	0	0	0	0
Draws	575	500	500	500	500
Contributions	-500	-500	-500	-500	-500
Closing Balance	0	0	0	0	0

8. Grant Equalisation Reserve

8.1 In October 2019 the results of the Hampshire Local Government Pension Scheme (LGPS) revaluation and de-grouping exercise were announced. The revaluation has indicated that the scheme is now almost 100% funded and therefore the annual deficit contribution is no longer required. Against this, there has been a small increase in the future service contribution rate for HFRS, leaving a net saving of around £625,000.

- 8.2 Given the uncertainty around all pension schemes and the fluctuating nature of all changes of this type, it was agreed at the December 2019 HFRA meeting that this saving should be transferred to reserves in the interim 3 year period to provide funding to protect against unexpected grant changes in the future. This retains the provision within the budget which will be reviewed once the results of the 2022 valuation are known and could be used at that point to protect against future swings in the pension scheme charges.
- 8.3 Due to the shortfall in funding for 2021/22, this reserve will be needed to balance the budget in the short term, to allow time for efficiencies to be identified and implemented.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Opening Balance	0	-625	-472	-1,097	-1,097
Draws	0	153	0	0	0
Contributions	-625	0	-625	0	0
Closing Balance	-625	-472	-1,097	-1,097	-1,097