



HAMPSHIRE
& ISLE OF WIGHT
**FIRE AND
RESCUE**
AUTHORITY



Shadow Authority

Purpose: Decision

Date **22nd SEPTEMBER 2020**

Title **BUDGET SETTING 2021/22 AND MEDIUM TERM FINANCIAL PLANNING**

Report of Treasurer

EXECUTIVE SUMMARY

1. From 1st April 2021, a new Combined Fire and Rescue Authority for Hampshire and the Isle of Wight will come into existence. As a completely new entity, this Authority currently has no current budget and no Medium Term Financial Plan (MTFP).
2. An MTFP will be presented in February alongside the first budget for the Hampshire and Isle of Wight Fire Authority and will hopefully incorporate a three year settlement in line with the proposed Comprehensive Spending Review (CSR).
3. This report will lay out the plans to develop these important documents and request that the Shadow Authority provide provisional guidance for future funding assumptions. It also provides some initial information in respect of the impact of Covid-19 on budget setting for next year.
4. It is requested that the Shadow Authority support the principle of setting the precept increase in line with the maximum allowed within the Referendum Limit set by Government, which is currently expected to be 1.99%.
5. As the future funding position is currently unknown for the new CFA there are no existing efficiency plans. However, it is anticipated that there will be a requirement for savings over the coming years and these will be drawn up to ensure that budget reductions can be made as required, together with the

previously agreed principle that we will use reserves or reduce contributions to reserves to balance the budget in the first year of the CFA.

6. This report also includes an update on the current year forecast for HFRA and the IWFRS as at 30 June and the latest Capital Programme for HFRA only.

BACKGROUND

7. Over recent years there has been significant uncertainty around levels of Government funding that will be available for Fire and Rescue Services. Within Hampshire and the Isle of Wight, this has been further complicated by the combination order which is due to come into full effect from 1st April 2021.
8. In addition, the current Covid-19 crisis is putting significant pressure on local and Government finances, which may lead to further cuts to public sector spending.
9. The budget setting process for 2021/22 has started and detailed plans will be drawn together over the coming months. An update of the latest position will be presented to the Shadow Authority at the December meeting. It is unlikely to contain final figures for the government grant, but will provide an overview of the expected position, including what measures may be necessary to balance the budget in the first year of the CFA.
10. The MTFP will be presented in February, alongside the final Budget and Precept Report assuming that the planned three year Comprehensive Spending Review (CSR) goes ahead. This will need to make some assumptions about future funding levels but will take the latest available information and will provide a guide to the expected levels of efficiency savings that are likely to be needed over the coming years.

EXPECTED REVENUE EXPENDITURE AND FUNDING

11. Appendix A of this report gives an early indication of the funding expected to be available and the expenditure required, based on the currently available information. At this stage, this represents a 'normal' roll forward of the combined budgets for HFRA and the Isle of Wight Fire and Rescue Service (IWFRS), although it does include proposed base budget changes or new spending some of which have been previously agreed by HFRA, which are contained in Appendix B.
12. These figures include a number of assumptions around pay awards, inflation, grant funding, council tax base and a number of other areas and is

therefore expected to change during the budget setting process as additional information enables more accurate figures to be used. However, it does provide an overall estimate of the scale for the CFA budget in 2021/22 and Appendix A shows that the initial 'base' level of deficit which would need to be addressed is £1.001m. This is before potential growth bids are considered and before the impact of Covid-19 on council tax and business rate income is taken into account.

Precept

13. At its July meeting, of the Shadow Authority agreed to recommend to the Secretary of State that the Alternative Notional Amount be set at £69.06. This effectively sets the equivalent average band D council tax at this level for 2020/21 and can be increased in future years by the percentage approved by the Authority.
14. At this stage there has been no indication by central government on the level that the referendum limit for precept increases might be set at. The figures in Appendix A assume a 2% limit.
15. For the purposes of budget preparation, the Shadow Authority is asked to provisionally endorse the maximum level of increase to council tax within the referendum limit set by Government, to be included within the 2021/22 budget proposal to be presented to the Shadow Authority for agreement in February 2021.

Council Tax Base

16. In general, the Council Tax Base would be expected to increase each year as more houses are built within Hampshire and the Isle of Wight. Due to the impact of Covid-19, it is expected that there will be a reduction to the Council Tax Base during 2020/21, which will continue into 2021/22 as a result of more people qualifying for council tax support. It is currently too early to predict the full effect of this, but unlike previous years no increase has been included within the estimates for next year. In reality we are likely to see a reduction in the council tax base next year, for the first time ever and this will have a one-off negative effect on the Council Tax Collection Fund, along with a longer term reduction to the overall Precept level.
17. The latest estimates are for the Council Tax Base to reduce by approximately 5% during 2020/21, before increasing gradually over the following years. Based on this estimate, the initial reduction in council tax base would create a deficit of around £2.4m in 2020/21. The Government have stated that this could be spread over the following 3 years, giving a budget pressure of £0.8m in each of those years on the Council Tax Collection Fund. In addition, the longer term effect of a reduced council tax base on future precept income would be around £2m per year.

18. At this stage, billing authorities have not been able to provide any reliable estimates for council tax or business rate income reductions as the position has been masked by Government support that has been made available to businesses and individuals through grants and the furlough scheme. Once these end however the full impact on income losses and the council tax base will become clearer. Furthermore, the Government have announced that they will share in council tax and business rate losses but have provided no indication on the level or which years this will cover.
19. Given this level of uncertainty, no figures for these losses have been included in the forecast for 2021/22 at Appendix A, however we are currently undertaking scenario planning to look at the potential impacts and when further information becomes available, consideration will need to be given to how this shortfall will be covered. As a minimum, a draft budget position will need to be reported in December, together with options for how any deficit may be closed.

Business Rates

20. A significant proportion of funding is achieved through Business Rates, which are also expected to be affected by the Covid-19 crisis in a similar way to the Precept as described above. The values are lower and will therefore not have such a significant impact, however this will still reduce the overall levels of funding available for 2021/22.

Revenue Support Grant (RSG)

21. Whilst a three year CSR has been announced by the Government, at this stage there is no further information available. The forecasts in Appendix A assume no change in the RSG available to the new CFA, which is in line with submissions that the Fire Sector are making to the review.
22. Clearly any change to this position will affect the bottom line of the new CFA, but in overall terms is unlikely to be as significant as the impact of the reductions in council tax and business rate income.

Budget Setting Process

23. As this will be the first budget set for the new CFA, a detailed process will be carried out, along similar methodology as previous HFRA budgets over recent years. Employee budgets take the highest proportion of funding and these will be calculated based on the structure planned for the combined Service.
24. For non-pay budgets, the current expenditure from both current services will be reviewed and either removed where there is duplication or increased (subject to approval) where insufficient funding is currently allocated.

25. This process will take several months to complete and will commence in September, to ensure time for review and completion for approval in February 2021. An interim report will be submitted to the Shadow Authority in December, providing an update on progress and requesting any decisions that may be necessary at that point, which will include any requests for growth as outlined below.

Efficiencies

26. There have been significant efficiency programmes within both HFRS and IWFRS since the start of austerity in 2010. Even before the impact of Covid-19, it is expected that the new CFA will require efficiencies to maintain a balanced budget over coming years, since an increase in precept and even a small increase in Revenue Support Grant (RSG) is not enough to cover pay and inflationary increases. The scale of this will be estimated in the MTFP which will be presented alongside the Budget & Precept Report in February 2021.
27. An efficiencies plan will need to be developed, which will address any future expected shortfall in funding assuming that the CSR goes ahead as planned. For 2021/22 options for closing the deficit will need to be considered but will almost certainly rely on reserves being used to cover the deficit in line with the interim MTFP, albeit this principle was agreed before the Covid-19 crisis began, which may require alternative solutions.

Growth

28. In June 2020, the process to build the budget was commenced. The first stage was to review where increases in budget would be needed, either due to legislative changes or in line with Service Priorities. These include both Hampshire and IoW requirements and will form part of the budget update report to be presented in December, once they have been reviewed and prioritised by the Executive Group.
29. Some of these requirements will be as a result of the move to a new CFA and will need clarification as to whether they already exist within the existing detailed Isle of Wight FRS budget.

2020/21 BUDGET MONITORING

30. The current forecast position in Hampshire for 2020/21 is showing a deficit of £23,000.
31. The table below shows the budget monitoring for 2020/21 as of 30th June 2020.

	2020/21 Current Budget	2020/21 Forecast as at 30th June	Variance (Underspend) / Overspend
Employee Costs	53,478	54,339	861
Premises	6,067	6,118	51
Transport	1,547	1,726	179
Supplies & Services	9,429	9,905	476
Third Party Payments	3,361	3,361	0
Expenditure	73,882	75,448	1,566
Income	-3,855	-3,763	92
Net Current Expenditure	70,027	71,685	1,658
Non-Current Expenditure	799	799	0
Net Cost of Service	70,826	72,484	1,658
Funded By:	-70,826	-72,461	-1,635
(Surplus) / Deficit	0	23	23

32. The main factors in the overspend of £23,000 in the HFRS budget are as follows:

Employee Costs - £861,000

- COVID-19: £350k RDS increased availability costs (although £250k of this forecast may not materialise given availability has returned to normal levels)
- Operations (RDS): £550k pressure due to unbudgeted pensions costs of £200k and underlying pressures of £350k driven by SDR savings now deemed unachievable
- Operations (Control): £170k pressure mainly due to an unfunded SM post and unbudgeted bank holiday allowances
Other: £(£100k) underspend driven by vacancies

Premises Costs - £51,000

- £130k pressure due to insufficient budgets for business rates, offset by an underspend in utilities.

Transport Costs - £179,000

- COVID-19: £9k pressure from a reduction in car sharing due to COVID-19

- Operations: £170k pressure on stations due to unbudgeted spend on mileage claims from those working in temporary postings elsewhere.

Supplies & Services - £224,000

- COVID-19: £170k pressure due to additional spend on PPE and cleaning, offset by (£100k) underspend on smoke alarms as a result of not being able to do community safety visits due to COVID-19
- £100k pressure in operational assets mainly driven by additional spend on the introduction of a second jacket and £55k pressure in ICT due to a budget issue for the Phoenix Support contract.

Income - £92,000

- COVID-19: £150k reduction in income related to 3SFire and MOT income due to lower activity
- Corporate Services: £60k pressure due to shared service income budget issue, offset by income from the Isle of Wight for fleet maintenance

Grant Funding – (£1.635m)

- The pressures above are currently being offset by additional Government funding to cover the costs of Covid-19.

33. The forecast is currently for a slight overspend due to the additional grant offsetting the majority of the increased spend, however, a significant proportion of the increased costs are underlying budget pressures which are not related to Covid-19. Work is currently underway with Directors to agree how these costs can be mitigated, although some have already or may in the future need to be built into the base budget for future years as growth bids.

34. The Isle of Wight FRS is currently forecasting an overspend of £224,000, details of which are shown in the table below.

	2020/21 Current Budget	2020/21 Forecast as at 30th June	Variance (Underspend)/ Overspend
	£'000s	£'000s	£'000s
Fire Fighters Salaries	3,839	4,044	205
Fire Support Staff	416	407	-9
Injury Pensions	427	427	0
FRS Pension Board	0	0	0
Diversity & Workforce	164	164	0
Total Employee Costs	4,846	5,042	196
Business Supp.- Fire	373	403	30

DDIP Project	177	177	0
Combined Fire Authority	37	37	0
Road Safety	174	143	-31
Community Safety	9	9	0
Business Fire Safety	-3	0	3
Fire Control	267	268	1
Fire Operations	-4	21	25
Fire Technical Supp	298	298	0
Net Cost of Service	6,172	6,397	224

35. The main factors in the underspend of £0.224m in the IWFRS budget are as follows:

Employee Costs - £149,000

- There is a £205,000 pressure due to the reduction of the Retained Firefighter budget, which cannot be achieved without impacting on operational capability.
- Vacancy savings of £56,000 and other salary savings are partially offsetting the overspend.

Premises Costs - £30,000

- Various utility costs are higher than budgeted in year.

Income and Grant Funding - £44,000

- Income is expected to be £19,000 lower than budgeted following cancellation of IoW Festival and some courses due to Covid-19.
- The New Dimensions grant has been reduced by £25,000, which was not anticipated within the budget.

36. The main variance in the Isle of Wight budget relates to the reduction in Retained Firefighter budget, which is included as a base change in Appendix B for 2021/22.

CAPITAL

37. The table at Appendix C shows the expected capital spend and provides the funding plan over the coming years for Hampshire only at this stage.

38. HFRA currently makes Revenue Contributions to Capital Outlay of £3.965m, which has been the level needed to fund the on-going business as usual requirements of the capital programme (i.e. excluding major investment decisions such as new stations).

39. The contribution to capital will need to continue for the new CFA, but the amount will need to be reassessed to account for the requirements for the new combined Service, including both vehicles and estate.

RESERVES

40. The level of reserves held by HFRA as at 31st March 2020 was £31.32m. This will be transferred to the new CFA in full as of 1st April 2021. The IoW Council currently holds the reserves for all of its services, including around £0.7m for Fire and Rescue. At the end of this financial year, a proportion of the Isle of Wight's actual reserves will be transferred, but these could be impacted by the need to deal with Covid-19 financial pressures.

SUPPORTING OUR SERVICE PLAN AND PRIORITIES

41. This report sets out plans for the development of the budget for the new CFA in line with the Safety Plan Priorities, to ensure that the available funding is used in the most effective ways, albeit that Covid-19 has had a significant impact on resources going forward.
42. The longer term timescales of the plan will allow for efficiency plans to be developed, which enables time to work through operational implications without needing to make snap decisions to reduce costs.

CONSULTATION

43. Significant consultation was undertaken across Hampshire and the Isle of Wight prior to the Combination Order being approved.
44. As in previous years, consultation on budget proposals will be carried out with the business community once more detailed figures are available.

RESOURCE IMPLICATIONS

45. There are no specific resource implications contained within this report, however the overall themes within the report do have a significant effect on the financial position of the new Authority and will be considered as part of the budget setting process.

LEGAL IMPLICATIONS

46. The new CFA is required to set a balanced budget and council tax level by 1 March each year and this report provides background information to the Shadow Authority on the budget prospects for 2021/22.

PEOPLE IMPACT ASSESSMENT

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

OPTIONS

48. 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

49. The figures presented in this report show that even before the impact of Covid-19 and potential growth in expenditure there is a deficit of over £1.0m in the budget. There are also numerous assumptions that create this base position which could change adversely and worsen the overall deficit position. Options for meeting the deficit in the base budget position will need to be drawn up which could impact on service delivery in the long run and would need to be considered in line with the agreed Safety Plan. However, as a backstop position, the Authority has sufficient reserves and contributes on an annual basis to reserves through the revenue budget, both of which could be used to meet any budget gaps thereby mitigating this risk in the short term and giving the new CFA the time and capacity to develop and implement proposals in a planned and safe way.

CONCLUSION

50. A Budget, Precept and MTFP is required to be approved by the Shadow Authority in February. The preparation for this as set out in the report above should be noted by the Shadow Authority who are also requested to approve a council tax increase for financial planning purposes (subject to a final decision in February 2021) at the maximum allowed under the referendum limit.

RECOMMENDATIONS

The Shadow Authority is recommended to :

51. Approve that for financial planning purposes only, the assumption that council tax will be increased by the maximum allowed within the referendum limit set by Government, currently expected to be 1.99% for the 2021/22 budget.
52. Note the 'base' position for the combined roll forward budget as set out in Appendix A.
53. Approve the base changes and adjustments in Appendix B.
54. Note the updated Capital Programme and funding as set out in Appendix C.

APPENDICES ATTACHED

55. Appendix A – 2021/22 CFA Forecast Base Budget
56. Appendix B – Base Changes to 2021/22
57. Appendix C – Capital Programme and Funding

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	2020/21 HFRS Budget £'000	2020/21 IWFRS Budget £'000	2020/21 Total Budget £'000	Inflation £'000	Other Known Changes £'000	2021/22 CFA F'cast Budget £'000
Whole Time Firefighters	32,273	3,335	35,608	890	245	36,743
Retained Firefighters	6,776	859	7,635	191	420	8,245
Staff	11,764	526	12,290	307	64	12,661
Net cost of pensions	1,087	413	1,500	37	0	1,537
Other Employee Costs	695	211	906	23	-90	839
	52,594	5,344	57,938	1,448	639	60,026
Premises	5,095	363	5,457	82	181	5,720
Transport	1,542	139	1,681	25	0	1,706
Supplies & Services	6,326	489	6,815	68	524	7,407
Third Party Payments	2,561	458	3,019	91	-385	2,724
	15,524	1,449	16,973	266	319	17,558
Income	-3,488	-149	-3,637	-18	424	-3,231
Specific Grant	-3,443	-471	-3,914	0	-92	-4,006
	-6,931	-620	-7,551	-18	332	-7,237
Revenue contributions to capital	3,965	0	3,965	0	0	3,965
Planned Contribution to / (from) reserves	2,125	0	2,125	0	0	2,125
Other Contribution to / (from) reserves	1,036	0	1,036	0	-1,036	0
Net Cost of Service	68,313	6,172	74,486	1,696	255	76,436
Capital Financing	799	0	799	0	0	799
Budget Requirement	69,112	6,172	75,284	1,696	255	77,235
Precept	-44,492	-3,348	-47,840		-1,330	-49,170
Revenue Support Grant	-7,333	-897	-8,230			-8,230
Other Non-Specific Grants	-2,343	-88	-2,431			-2,431
Business Rates Top-Up Grant	-7,585	-1,194	-8,779			-8,779
Locally Retained Business Rates	-7,158	-390	-7,549		-75	-7,624
Collection Fund Balances	-201		-201		201	0
	-69,112	-5,917	-75,029	0	-1,205	-76,234
Funding Gap / (Surplus)	0	255	255	1,696	-950	1,001

Base Budget Changes

2020/21 Combined Budget	75,284	
Pay Inflation	1,448	Based on 2.5% for 2021/22 increases
Non-Pay Inflation	248	Based on expected required levels
Incident command	50	£25k for previously unfunded costs and £25k for additional capacity
Power apps and posts	340	Microsoft approved changes to Microsoft licencing and additional staff to utilise
Other IT Pressures	171	Includes Phoenix support contract and WAN improvements
Shared Services net changes	60	
Basingstoke Rates	54	Corrections to prior year budget
Rates Inflation	77	
Warsash Service Charge	50	Approved service charge for proposed Live Fire Training site
Corporate service restructure	5	Minor increase in costs following restructure
Control allowances	39	Previously unbudgeted allowances
RDS Pensions	200	Re-evaluation of the impact of pension increases on RDS and the effect of increased uptake due to auto-enrolment
IoW RDS Shortfall	220	Reinstating temporary saving removed from IWFRS base budget in 2020/21
Remove 2020/21 Surplus to Trans Res	-1,036	One off transfer to the Transformation Reserve for 2020/21
Reduction in New Dimensions Grant (IoW)	25	Grant funding reduced unexpectedly in 2020/21 for IWFRS
Increase to Hampshire 2020/21 Specific Grant	-117	Grant funding increased unexpectedly in 2020/21 for HFRS
Recruits intake 2021/22	245	Cost of recruits training for new intakes flagged in financial monitoring
DDiP - net effect	-21	Slight variation in budget for income and expenditure on current budgets for DDiP.
Remove duplicate budgets	-107	Budgets which are currently required for HFRS and IWFRS, which can be consolidated.
2021/22 Forecast Requirement	<u>77,235</u>	

Capital Programme and Funding to 2024/25

Project Details	Approved Spend	Previous Years' Spend	2020/21	2021/22	2022/23	2023/24	2024/25	Latest Estimate	Balance Over / Under (-)
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Basingstoke Fire Station	6,955	6,644	310					6,954	-1
Fire control system - NFCSP	729	671	58					729	
Solar photovoltaic panels	1,076	1,059	17					1,076	
Estates Transformation -HQ Phase 2	4,660	4,509	153					4,662	2
Estates Transformation -HQ Phase 1 F&E	260	260						260	
Vehicles	27,135		3,055	10,348	5,825	3,542	3,818	26,588	-547
Warsash Replacement Fire Training Facility	3,500		1,750	1,750				3,500	
Station Improvement Programme Cosham	200		200					200	
Station Improvement Programme Gosport	200		200					200	
Bishops Waltham Station (Retained Station Programme)	3,180		100	1,540	1,540			3,180	
Total Programme Cost	47,895	13,143	5,843	13,638	7,365	3,542	3,818	47,349	-546

Financed by:

Capital Payments Reserve	11,019	5,785	13,638	7,365	3,542	3,818	45,167
Prudential Borrowing							
Revenue Grant unapplied reserve		58					58
Capital Receipts	1,624						1,624
Capital Grant							
Partner Contributions	500						500
Total financing	13,143	5,843	13,638	7,365	3,542	3,818	47,349