



**Hampshire
& Isle of Wight**
FIRE & RESCUE AUTHORITY

Shadow Authority

Purpose: Approval

Date: **9th December 2020**

Title: **BUDGET UPDATE**

Report of Treasurer

SUMMARY

1. This report is to provide an update to members of the current financial position for the 2020/21 Hampshire FRA Revenue Budget and an update on the 2021/22 Hampshire and Isle of Wight FRA budget setting process.
2. An underspend of £1.002m is currently forecast against the 2020/21 budget as detailed in paragraphs 8-10 below.
3. The report submitted to the HIW Shadow Authority in September this year provided information on the expected timescales for the budget setting process and the potential impacts of the Covid-19 pandemic on future funding. This report will provide an update to reflect the changes since that time.
4. As part of setting the budget for 2021/22, Budget Holders were asked whether they required any additional funding for changes to legislation or service pressures. A number of requests were submitted and have been reviewed and prioritised by the Executive Group. Approval will be requested in this report for the high priority budget increases to be built into the 2021/22 Base Budget.

BACKGROUND

5. The budget setting process for 2021/22 is particularly challenging as we face a range of issues that significantly increase the uncertainty of our financial position going forward, namely :

- This is the first budget for the new Combined Fire Authority (CFA).
 - We have no information from the Government about the settlement for next year and it has been announced that there will only be a single year Spending Review.
 - We do not know what the impact of Covid-19 will be on the budget going forward particularly relating to council tax income.
6. The Spending Review was announced on 25 November, but there was no detailed information on the likely grant settlement for Fire Authorities. The key issues as they relate to Fire Authorities were :
- 2% council tax referendum limit as in previous years.
 - Inflation increases on Revenue Support Grant (although this could be an average position and may vary between sectors).
7. In terms of Covid funding for next year the following was also announced :
- £1.55 billion grant to help meet additional expenditure pressures, although we suspect most of this will go to local authorities
 - £670 million additional grant to help local authorities support the more than 4 million households that are least able to afford council tax payments. Whilst this doesn't impact us directly it will help with collection levels next year.
 - Estimated £762 million to compensate authorities for 75% of irrecoverable losses of council tax and business rates revenues in 2020/21 which is clearly a key issue for us.
 - Extending the existing Covid sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021 which is relatively minor for us but may help to secure some additional funding.
8. Current intelligence suggests that the provisional local government finance settlement will not be available until just before or after Christmas, which will make timescales very difficult for budget setting.
9. At this stage therefore, there is little additional information with which to update the Shadow Authority compared to what was reported in September this year.

2020/21 QUARTER 2 HFRA BUDGET MONITORING

10. The table below shows the budget monitoring for 2020/21 as at 30th September 2020.

	2019/20 Current Budget Quarter 2	2019/20 Forecast as at end Quarter 2	Variance Underspend / (Overspend)
Employee costs	53,810	53,711	99
Premises	6,272	6,265	7
Transport	1,544	1,617	-73
Supplies & services	9,525	9,886	-361
Third Party Payments	4,229	4,259	-30
	75,380	75,738	-358
Grants and Contributions	-2,221	-2,059	-162
Interest payable / (receivable)	-210	-210	0
Other Income	-1598	-1498	-100
	-4,029	-3,767	-262
Funding	-71,351	-72,973	1,622
Net Cost of Service	0	-1,002	1,002

11. This position has improved significantly since quarter 1 as a result of proactive management across directorates. The main points to note are:
- (a) There is now a forecast underspend on employees of £99,000. This is made up of overspends on RDS, as previously reported, and other operational posts, however this is more than offset by vacancies on some stations and in other areas of the Service.
 - (b) The overspend on Transport costs which had been forecast at Q1 has now reduced due to the continuing reduced cost of fuel.
 - (c) The Supplies & Services costs are expected to overspend by £361,000, due to the requirement for PPE, however this is lower than the Q1 forecast as the on-going purchase levels have reduced more than anticipated.
 - (d) The forecast for income has reduced and is not now expected to achieve budgeted levels due to the effects of the Covid-19 restrictions.
12. Overall, this is a much more positive forecast than predicted at the end of Q1 and provides a reassurance that costs can be controlled over the coming years where budget reductions are expected to be required. However, it should be noted that around £700,000 of the underspend relates to Covid-

19 grant that has yet to be spent, although clearly the latest lockdown and increasing prevalence of the virus will impact on this going forward.

2021/22 HIWFRA BUDGET SETTING

13. The 2021/22 HIWFRA budget is being set on a 'bottom up' basis, as it has been for HFRA for a number of years. This process is underway and this year is incorporating both the Hampshire and Isle of Wight budget requirements to form the new Combined Fire Authority budget.
14. In the report to the Shadow Authority in September this year it was reported that a 3 year settlement was expected and therefore an MTFP would be produced alongside the Budget and Precept Report in February. The government has now confirmed that this will no longer be the case due to the uncertainties over the longer term national costs of the Covid-19 pandemic. A one year Spending Review was announced on 25 November as outlined above, with the CSR and 3 year settlement being delayed by a further year.
15. Alongside this, there are further uncertainties on the level of Council Tax Base in the current and future years. In normal years, the base is always expected to increase, providing additional funding on top of the Council Tax increase. Due to the high number of redundancies and reduced hours for many individuals in Hampshire and the Isle of Wight, it is anticipated that the council tax base will reduce in year, which will have a double effect.
16. Firstly, this will mean that a lower level of council tax is raised in 2020/21 than had been budgeted for, which will lead to a deficit on the Collection Fund that will need to be repaid in future years. In the past, any surplus or deficit would have been included in the following year in its entirety, however due to the expected high level of deficit expected this year, the Government have stated that this can be spread over three years, rather than one. The Spending Review also announced that support to meet 75% of council tax and business rate losses from the current year will be put in place, which is very positive news.
17. Secondly, the reduction on the Council Tax Base will have a longer term effect on the funding available for 2021/22 and the coming years. It will reduce the available budget and lead to further savings being required.
18. At this stage, no information is available as to the magnitude of the reduction, as the furlough scheme has recently changed and we have just experienced a further lockdown and therefore the long term implications of

the restrictions may not be fully felt and acted upon by businesses in the area.

19. Whilst there is support for collection fund losses in the current year, it is less likely that reductions in the council tax base in 2021/22 will be similarly reimbursed which will add to the predicted deficit next year.
20. As a result, of all the uncertainties and lack of information regarding future years, it will not be possible to produce an MTFP alongside the Budget Report in February. This will need to be delayed until more clarity is available on future grant and precept funding.
21. Due to the tight timescales and lack of clarity around the level of funding available for 2021/22, it will not be possible to achieve sufficient savings in time to set a balanced budget. It may therefore be necessary to use reserves to temporarily balance the budget, until efficiencies can be found for the longer term as has been the policy in previous years.
22. The Grant Equalisation Reserve was set up in 2020/21 following reductions in the employers rate for the Local Government Pension Scheme and currently has a balance of £625,000 which could partly be used for this purpose.

GROWTH PRESSURES

23. As explained in the September report to this committee, all budget holders were given the opportunity to request additional funding for areas such as legislative changes or service pressures. These have been reviewed by the Executive Group and prioritised.
24. A number of lower priority requests have been rejected or have been postponed and will be looked at in future years when the financial position is more certain. The list shown at Appendix A are those which are deemed as essential, with a number related directly to the combination. The total value is £953,800 and if approved will obviously add to the predicted deficit for next year.

BUDGET POSITION

25. The September report highlighted that the 'roll forward' budget for 2021/22 showed a predicted deficit of £1.001m including base changes and provision for inflation. This also assumed no change to our revenue support grant level and the continuation of the pension grant.

26. If the growth bids outlined in Appendix A are approved then this increases the deficit to £1.955m before any account is taken of the potential impact of Covid-19 on council tax income.
27. Whilst the new Authority can balance the budget through the use of reserves or reducing contributions to reserves, it is clear that savings will be required in the budget over time and it is therefore suggested that options for savings are developed for next year once the final budget has been set in February 2021. This will enable work to commence quickly in the new financial year in order to maximise potential savings that could be achieved to have an impact during the 2021/22 financial year, with a full year impact from 2022/23.

TREASURY MANAGEMENT

28. The mid-year Treasury Management Report is attached at Appendix B. It provides an update of the Authorities return on investment as at 30th September 2020.
29. It draws attention to the fact that we are in the fairly unique position of having negative interest rates for short dated investments in the market. Whilst our investment strategy has been adjusted to limit the impact of this as far as possible, there may be instances where it is considered that the potential risk to capital is greater than the risk of achieving a very small negative return and it may therefore be necessary to invest on this basis.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

30. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. Good budget management in the past has allowed underspends to be achieved, which will help to fund the Service priorities and enable key changes required to make the budget reductions at the same time as service improvements.
31. At the current time, with the expected funding reductions, prioritisation of the available funding is vital to ensure that resources are directed to the highest priority areas, in line with the Service Plan.

CONSULTATION

32. Consultation on the budget proposals is expected to take place with businesses and Unions as part of the budget setting process for 2021/22.

RESOURCE IMPLICATIONS

33. Decisions made in this report will be reflected in the final 2021/22 Budget and Precept Report, to be presented to the Shadow Authority in February 2021.

IMPACT ASSESSMENTS

34. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation, Data Protection and Health & Safety legislation.

LEGAL IMPLICATIONS

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

OPTIONS

36. Budget setting and forecasting by its very nature means that assumptions are made around several variables that can be changed over time.
37. The list of growth pressures is included at Appendix A. Members are asked to agree the inclusion of these within the 2021/22 budget, albeit there may be other options that could be considered for some of the bids.

RISK ANALYSIS

38. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant over previous years.
39. The lack of information for 2021/22 and for future years on top of the complications of a new CFA are a concern. The Service continues to consider options as to how a shortfall could be overcome, including examining other potential income sources. However, as a backstop position, the Authority has sufficient reserves and makes substantial contributions to reserves each year, thereby mitigating this risk. The Grant Equalisation Reserve created in 2020/21 could be utilised to partly mitigate the potential risks faced in the short term.

EVALUATION

40. The current lack of clarity around funding for 2021/22 makes longer term decision making very difficult at the current time. Budget reductions are expected to be required for 2021/22 onwards, however, the scale of this is not yet known and therefore rather than make quick reductions that could affect service levels, use of reserves would allow a more considered approach and give time to ensure that efficiencies or reductions are planned and implemented properly to limit the impact on service provision and staff as far as possible.

CONCLUSION

41. It is recommended that the Authority approve the assumptions made within this report, which will be used as the basis for 2021/22 budget setting.

RECOMMENDATION

42. That the Growth Pressures as set out in Appendix A be approved by the Shadow Authority for inclusion in the 2021/22 budget.
43. That, if necessary, the use of reserves to balance the 2021/22 budget be approved by the Shadow Authority.
44. That the Shadow Authority notes that options for efficiencies and savings will be developed once the budget has been set in February 2021.
45. That the mid-year review of treasury management activities be approved by the Shadow Authority.

APPENDICES ATTACHED

46. Appendix A – Growth Pressures.
Appendix B – Treasury Management Mid-Year Report.

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