



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

Shadow Authority

Purpose: Approval

Date: **10th February 2021**

Title: **BUDGET and PRECEPT REQUIREMENT 2021/22**

Report of Treasurer

SUMMARY

1. This report presents the 2021/22 forward budget to the Hampshire and Isle of Wight Fire and Rescue Shadow Authority (HIWFRSA) for approval. The baselines of the 2020/21 budget for both the Hampshire and Isle of Wight Fire and Rescue Services have been used as the starting point, to which changes agreed in the December 2020 Budget Update report have been incorporated.
2. Within the original business case for the Combined Fire Authority, figures were presented which were based on expected costs and future funding. Significant detailed work has been undertaken on the budget required to provide services to the new Combined Fire Authority area, together with what income is expected to be received from Government and through Council Tax. There have been some growth and increases in costs as set out in the previous reports to the Shadow Authority and income from council tax is less than anticipated due to the impact of Covid-19 on the council tax base in particular.
3. These costs and income losses have been partially offset by additional Government council tax support grant and the expectation that public sector pay will be frozen in 2021/22. Overall, the net impact of all these changes is that there is now expected to be a shortfall of £1.244m, based on a 1.99% increase in council tax, which will need to be covered from reserves in 2021/22, with a savings plan being required after that point.
4. **Please note that given the complexities of Covid-19 and the various grant and business rate schemes put in place by the Government, the figures in this report are not final and an updated budget position will be provided at the Shadow Authority meeting.**

5. The HFRA budget monitoring as at Q3 of 2020/21 is contained within this report and shows that a net underspend of £1.242m is predicted by the end of the year, although some of this relates to unspent Government grant in respect of Covid-19 support.
6. This report sets out details of the precept increase, showing the level of precept and increase for each council tax band. As part of the provisional settlement figures, the Government have announced that the referendum limit for Fire Authorities will be set at 2%. It is recommended that due to the uncertainties surrounding local government finance and the expected funding pressures over future years, the council tax is increased by the maximum level of 1.99% for 2021/22.
7. It had been expected that 2021/22 would be the first of a three-year funding settlement, however due to Covid-19 and the current economic uncertainties, this has been postponed by a further year and is not expected to be announced until the autumn of 2021.
8. Due to this uncertainty around future levels of government grant and precept, no Medium Term Financial Plan (MTFP) will be presented at this time. It is hoped that sufficient information will be available for this to be included within the September 2021 report or by February 2022 at the latest.
9. The capital programme for 2021/22 onwards and the funding of this are set out in this report, with details at **Appendix C**, and are recommended for approval.
10. A Reserves Strategy is presented for approval in this report at **Appendix D**, which includes details of the current level of reserves, the reason for holding each reserve and plans for future usage.

BACKGROUND

11. 2021/22 will be the first budget for the HIWFRA and there are therefore no prior year comparisons for the overall budget.
12. In July 2020, a report was approved by both the HIWFRSA and the IoW Council, approving the Alternative Notional Amount for Council Tax setting. This was submitted to the Secretary of State for formal approval and notification was received from him in December that the proposed level (subject to public consultation on the provisional settlement) for the notional 2020/21 HIWFRA council tax will be the current level within HFRA (£69.06). The figures within this report are therefore calculated from that notional baseline.

2020/21 BUDGET MONITORING – QUARTER 3

13. The forecast position for 2020/21 is showing a surplus of £1.2m, which is higher than that reported to the Authority in December 2021.
14. The table below shows the budget monitoring for 2020/21 as at 31st December 2020.

	2020/21 Current Budget	2020/21 Forecast as at end Quarter 3	Variance (Underspend) / Overspend
Employee Costs	53,882	53,726	(156)
Premises	6,259	6,316	57
Transport	1,544	1,572	28
Supplies & Services	9,479	9,705	226
Third Party Payments	4,302	4,355	53
Expenditure	75,466	75,674	208
Income	(3,990)	(3,779)	211
Net Current Expenditure	71,476	71,895	419
Funded By:	(71,476)	(73,137)	(1,661)
(Surplus) / Deficit	0	(1,242)	(1,242)

15. The overall position is a net underspend of £1.2m. The position for 2020/21 is obviously complicated by the additional costs relating to Covid-19 offset by the receipt of grant from the Government.
16. By the end of the year it is anticipated that there may be a small element of the grant that is unspent, but that this will be carried forward into next year to help with any further Covid-19 support in that year. In addition there are other savings across the service mostly in staff savings that contribute to the overall net saving position.

2021/22 BUDGET AND PRECEPT

Council Tax

17. The Budget Update report to the December 2020 HIWFRSA explained that although in previous years the council tax base has always increased, due to the current global pandemic and resultant economic crisis, the baseline was expected to reduce.
18. The council tax base figures have now been finalised and included with the proposed budget at Appendix A. The base is much higher than had been anticipated at one stage and has only reduced by a marginal amount of 0.02% compared to the 2020/21 base. Whilst this is very positive this does still represent a reduction against the minimum of 1% growth that we normally expect every year. To compensate authorities for this loss of income the Government have announced a council tax support grant for 2021/22 and HIWFRA's share of this is £695,000. It is not yet clear if this grant will continue beyond 2021/22 but our current planning assumption is that it is one off for 2021/22.
19. In the Budget Update report of December 2020 to the HIWFRSA, it was agreed that due to the continuing uncertainty from a one year settlement and the expected loss of funding through the council tax base, council tax would be set at the maximum allowed within the referendum limit. Whilst the position is better than expected, we are still facing a deficit of £1.244m, and there is still significant uncertainty about future funding settlements, particularly against a backdrop of Government borrowing to support the economy during Covid-19 which is now likely to continue into 2021/22 given the spike in cases in the early part of this year.
20. Furthermore, it has been highlighted previously that even with a 1.99% increase in council tax together with a real terms increase in grant funding, this does not create enough funding to cover anticipated increases in costs due to pay and inflation on an ongoing basis. Given this position a maximum council tax increase within the referendum limit is proposed for 2021/22.
21. The referendum limit for Fire Authorities has been confirmed by the Government at 2% and a 1.99% increase in council tax has therefore been incorporated into the proposed budget funding figures in Appendix A. This equates to an increase of £1.37 for a Band D property. All figures in this report assume that this level of increase is applied.
22. The figures overleaf show the council tax rates for the year beginning 1st April 2021 for the properties in each band, based on a 1.99% increase:

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. Combining the council tax base increase and the precept increase, the table below shows the precept funding due from each precepting authority for the year 2021/22.

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

24. In previous years, the Council Tax Collection Fund has usually been in surplus, providing additional funding in the following year. Due to the current economic situation, with increasing numbers becoming unemployed and therefore eligible for council tax support, the collection fund is in deficit for 2020/21 and would normally need to be recovered in 2021/22.
25. The Government had previously announced that due to the unprecedented situation, with some authorities facing significant funding shortfalls, that any deficit could be repaid over three years. This has been confirmed as part of the Spending Review, alongside a one-off grant that will meet 75% of the deficit, albeit this only applies to some of the elements of losses compared to what we originally anticipated.

26. There is no option other than to spread the deficit arising from losses in 2020/21 over the three years. Due to the complexities surrounding the 75% grant reimbursement it has not been possible to get a final figure from billing authorities. At this stage therefore we have used a net figure of one third of the losses from 2020/21 less the surpluses that have accrued from previous years. This gives an overall deficit of £59,000 which should be reduced slightly by Government grant receipts once final figures have been confirmed at the Authority meeting.

Business Rates

27. 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. In addition to this, 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.
28. The top up grant does not always increase, however for 2021/22 it has been set at £9.043M, which represents an increase of £264,000 or 3% over the combined figure for HFRA and IWFRS in 2020/21.
29. The level of locally retained business rates for 2021/22 is expected to be lower than in 2020/21, due to the continuing economic situation. In recent years, this funding has increased year on year and for 2021/22 a 1% increase would have represented a £71,700 increase.
30. Billing authorities are struggling to provide any sensible estimates for retained business rates for next year given the impact of Covid-19 and complexities around the business rates reliefs provided by Government. At the time of writing this report a number of billing authorities had been unable to provide any estimates at all and therefore a reduction of 5% has been assumed in the latest budget figures representing a loss of £381,000.
31. Section 31 grant compensates authorities for lost income as a result of Government reliefs. At this stage we are assuming we will get the same level of grant as per 2020/21 amounting to £1.282m. Since these figures are also impacted by assumptions on the levels of business rates, this will also need to be updated at the budget setting meeting.
32. The business rates collection fund position relating to 2020/21 is also not complete at this point in time and based on the figures received to date a forecast deficit of £180,000 has been included, but as with council tax, this does not include the impact of Government grants and will be updated at the meeting.

Government Grant

33. The previous budget update reports to the Shadow Authority assumed that Revenue Support Grant (RSG) would stay at the same levels as for 2020/21. The combined RSG totals for HFRA and IWFRS are £8.23m for 2020/21.
34. The provisional local government finance settlement assumes an RSG figure for the new CFA of £8.275m so very close to what had been assumed. Whilst the Spending Review said there would be real terms increases for Fire Authorities this must be measured against both Business Rate Top Up Grant and RSG and taking these together there has been an overall increase in funding of 1.8%.

Growth Pressures

35. As part of the annual budget setting process, a number of growth pressures were identified. These were presented to the HIWFRSA in the December Budget Update report and were agreed to be included within the budget.
36. The pressures fall into two main categories, those specifically relating to the Combination and those required for other reasons. An overview of these increases is below and these amounts are now incorporated within the proposed budget for 2021/22.

(a) CFA Related - £726,500

These costs relate to IT, premises, fleet and equipment. They are required to align standards and processes across the new CFA and ensure that the combined Service is able to function as one.

(b) Non-CFA Specific - £227,300

There are a number of items required to maintain current standards and progress improvements in priority areas.

Overall 2021/22 Budget Position

37. **Appendix A** outlines the base budget for 2021/22 by cost type taking into account all of the changes that have taken place since the September and December updates reported to the Shadow Authority.
38. A comparison against the December figures has been provided which shows that the forecast deficit has reduced by £711,000 to £1.244m. Explanations for the key changes are outlined below but some of the movement between headings is as a result of taking back workforce development and facilities management services from Hampshire County

(which shows as a reduction in Third Party Payments, offset by increases in other areas) :

	£'000
Reduced provision for pay award following the Government's announcement of a pay freeze for next year	(1,112)
Net impact of grant, council tax and business rate changes as outlined above	(372)
Reduced supplies and service costs as a result of the Combination and lower inflation levels across non-staff areas	(174)
Reduction in income as a result of DDiP changes and re-classification of grant income	288
Increased capital financing costs for the Station Investment Programme	150
Recommended contingency level	525
Other net changes	(16)
Total	<u>(711)</u>

39. Given the uncertainties over business rate income, the position on pay increases for the low paid and the first of year of the new CFA itself there are still risks within the budget. It is therefore recommended that a contingency of £525,000 be included in the budget in addition to the other changes highlighted above. Should this not be required then it could be made available to fund some of the growth proposals that were postponed during this year's budget process.
40. The changes highlighted above have resulted in a net deficit of £1.244m which is significantly better than the December position and a very long way from the position we could have been facing if collection fund losses and council tax base reductions were at the worse case scenario levels previously reported.
41. In the absence of a multi-year settlement, the interim Medium Term Financial Plan assumes that any deficit for 2021/22 will be met from reserves in order to provide the time and capacity to consider what savings may need to be put in place over the medium term.
42. In order to protect the proposed contributions to capital spend and to other critical reserves, it is recommended that the contribution to the Grant Equalisation Reserve (GER) be stopped for 2021/22 and that £619,000 of the GER set aside in the current year is used to balance the budget.

43. Appendix B shows the balanced budget position on the assumption that the Shadow Authority agrees this recommendation. It also provides a breakdown of the Budget Requirement by objective headings across the Service.

Capital Programme

44. The proposed capital programme for 2020/21 to 2025/26, including spend to date and the proposed financing, is set out at **Appendix C** of this report.
45. The Vehicle Replacement Programme (VRP) includes the requirements across Hampshire and the Isle of Wight. During 2020/21 there have been some supply issues due to COVID-19 and therefore some of the vehicles which had been expected to be purchased during the year will not be available until 2021/22, which is reflected in the profile.
46. The figure for next year also includes an increase of £100,000 to purchase Co-Responding vehicles, the cost of which will be recovered from South Central Ambulance Service over the life of the asset. For the purposes of funding the programme the contribution from SCAS is shown in full in the same year as the purchase.
47. The Programme also includes the addition of Cosham Fire Station as part of the Station Investment Programme (to be funded by prudential borrowing) and a scheme for installing sprinklers within the Fleet Maintenance Centre, on the assumption that both of these are approved by the Shadow Authority at this meeting.
48. The redevelopment of Redbridge Fire Station was approved by the HFRA at the September 2020 meeting. This included authorisation to borrow up to £24.1m to cover the cost of this project, however as some of these costs will be classed as revenue, which cannot be funded through borrowing, a proportion of the costs will need to be funded from reserves.
49. The expected cost of the revenue elements is £1.877m, but this is only an estimate at this stage, therefore approval is sought for up to £2m to be funded from the Capital Payments Reserve, providing the overall total cost remains within the £24.1m overall approval limit. The intention is still to borrow for the full £24.1m but the equivalent value of revenue for the Redbridge Scheme will be swapped to fund capital spending in a different scheme that was due to be met from the Capital Payments Reserve. This swap will protect the value of funds in reserves.

Reserves

50. The Authority holds specific reserves to provide for future spending as part of its medium term financial planning.

51. An updated Reserves Strategy which outlines the purpose of the reserves that we hold is provided in **Appendix D**. Details of the expected balance on each of the specific reserves and the general balance over the period 2020/21 to 2024/25 are set out within the appendix.
52. A contribution from the Isle of Wight Council reserves will be made following the closure of accounts for the current financial year. At this stage, nothing has been included for this contribution given the uncertainties over costs and funding due to the Covid-19 pandemic throughout this year.

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY

53. The Treasury Management Strategy and Investment Strategy are attached at **Appendix E** and require approval on an annual basis. This document includes the Prudential Indicators and statement on Minimum Revenue Provision.
54. The Treasury Management Strategy and Investment Strategy for 2021/22 takes into account the requirements of the current Prudential and Treasury Management Codes.
55. The report recommends that the following be approved:
 - That the Treasury Management Strategy (TMS), including the Annual Investment Strategy for 2021/22, (and the remainder of 2020/21) is approved; and
 - That authority is delegated to the Chief Finance Officer to manage the Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
56. The strategy also takes into account the fact that the Authority will be taking out significant prudential borrowing as part of the funding of the Station Investment Programme.

CAPITAL AND INVESTMENT STRATEGY

57. A new reporting requirement was introduced for the 2019/20 budget in respect of a Capital and Investment Strategy. This has been updated for 2021/22 and is included as **Appendix F** to this report. The appendix provides information about the Authority's strategy regarding use of assets and how they help to support the overall financial position. Some of these elements were previously included within the Treasury Management Strategy and have been split out into this separate document to ensure that we comply with the code.

SECTION 25 REPORT

58. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to give an independent view on the robustness of the estimates and adequacy of reserves to the Authority at the time it is setting its budget and council tax. In previous years this has been covered within the body of the budget report but given the enhanced focus on financial management within the public sector, it has been included separately as **Appendix G** of this budget report.
59. The Authority is required to take this report into account in setting the budget and council tax for 2021/22.

MEDIUM TERM FINANCIAL PLANNING

60. Members will be acutely aware that since 2019/20 we have not had the benefit of a multi-year settlement to inform our medium term financial planning. Since 2019/20 this has been less of an issue for HFRA as we have also not been subject to grant reductions during this time.
61. Nevertheless, the further delay in the full Comprehensive Spending Review until later this year means that we still have no information beyond 2021/22 on which to base our medium term financial planning and whilst we are hopeful that there may be information available to inform an update of the MTFP in September, it is possible that we will have to wait until December 2021 before we have the necessary level of detail.
62. At this stage therefore, in the absence of any further information we have to plan as a minimum on the basis of being able to meet the estimated deficit for next year of £1.244m. Some allowance also needs to be made of the potential for future budget deficits together with the increased prudential borrowing costs arising from the Station Investment Programme.
63. Given the uncertainty, it is not proposed to set a hard and fast target at this stage, but to instead positively engage with the organisation in considering what savings and efficiencies could be made to deliver £1m, £2m or £3m worth of savings and what steps would be necessary to achieve those and what would the impact be.
64. This would provide the new CFA with a range of options that can be prioritised as appropriate and depending on the complexity and impact could be pursued during 2021/22 to start to create savings for the 2022/23 budget setting process.
65. This early planning is vital to ensure that we do not get 'behind the curve' in delivering savings, but we plan ahead and deliver them in sensible

timeframes, which the Authority has been very successful in doing in the past.

INSURANCE STRATEGY

66. The Fire Authority became a member of a mutual, the Fire and Rescue Indemnity Company (FRIC), on 1 November 2015. FRIC is made up of a group of twelve Fire and Rescue Authorities. FRIC was set up to provide indemnity for its Members against risks normally fully covered by a traditional insurance company.
67. There has been an increase in our 2020/21 contribution of 15%. It was expected that FRIC's Liability and Property costs would rise quite significantly due to claims experience, emerging risks and other external factors. However, a large contributing factor is the increase in liabilities cover, generally, and from reinsurance aspects. The global insurance market is hardening as a result of lots of political and economic issues including Covid which is affecting the stability of the insurance market, however, the FRIC model does help protect Members from these external cost issues.
68. The average price increase for the other Members ranged from 15 – 21% on last year's total invoice.
69. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal and to date, we have not made any claims under these additional policies. Increases are due to assets numbers on the engineering aspect and increase in payroll for the additional covers.
70. We are currently in the process of preparing data from the Isle of Wight Fire Service so that cover is in place for Hampshire & Isle of Wight Fire Authority from 1 April 2021.
71. The charges to date are shown in the table below:

Contribution/Premium	2016/17	2017/18	2018/19	2019/20	2020/21
FRIC Contribution	£522,066	£500,667	£516,402 (£14,089 Non-FRIC Covers)	£541,826 (£12,558 Non-FRIC Covers)	£615,738 (£15,877.94 Non-FRIC Covers)
Additional Covers	£92,867	£96,088	£76,035	£80,473	£80,958

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

72. This report sets out how the available funding will be directed to the priority areas within the new Combined Fire Authority and supports a continuing strong financial position.

CONSULTATION

73. A major consultation process was undertaken as part of the decision making process for the new Combined Fire Authority. This included information about future funding levels and sought residents and stakeholders' views. Previous consultations have revealed that the majority of respondents are happy to see a rise in council tax in order to protect services provided by the Authority.
74. The proposals in this report have also been the subject of consultation with the representative bodies and the business community and any comments or issues will be reported back verbally to the Authority.

RESOURCE IMPLICATIONS

75. The report covers the overall financial position for 2021/22 for revenue spending and seeks approval to the budget and council tax levels, it also provides an update on the capital programme and reserves. It requests the one-off use of reserves for the Redbridge Redevelopment project, which was initially approved to be fully funded by borrowing. This is a technical issue and does not impact on the overall financial position.

IMPACT ASSESSMENTS

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

LEGAL IMPLICATIONS

77. The proposals in this report meet the Authority's legal requirement to set a balanced budget and council tax for the next financial year prior to 1 March.

OPTIONS

78. There are no options for consideration within the report, although budget setting and forecasting by its very nature mean that assumptions are made around several variables that can change over time.

RISK ANALYSIS

79. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in government grant which have affected the available funding over the past 10 years.
80. The absence of any settlement information beyond 2021/22 represents a significant risk to the Authority. However, planning will commence shortly to prioritise spending and define options for efficiency savings to ensure a balanced budget can be set in future years.

EVALUATION

81. It is a legal requirement that a balanced budget is approved by the Authority before 1st March 2021. Due to increased costs partly as a result of the move to a new CFA and reduced funding levels due to the current economic situation caused by COVID-19, reserve funding has been required to cover this shortfall for 2021/22.
82. Efficiency savings are expected to be required for future years, however that had already been anticipated from 2022/23 and plans are therefore being formulated to manage that situation.

CONCLUSION

83. It is recommended that the Authority approve the proposals made within this report, including a 1.99% increase in the precept for 2021/22.

RECOMMENDATION

The Shadow Authority is recommended to approve:

84. The use of the Grant Equalisation Reserve to balance the budget for 2021/22.
85. The Revenue Budget, as set out in Appendix B.
86. The Capital Programme and funding as set out in Appendix C including the addition of £100,000 to purchase new co-responding vehicles.
87. 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.

88. The Reserves Strategy as set out in Appendix D.
89. The Treasury Management Strategy as set out in Appendix E, including the Annual Investment Strategy for 2021/22, (and the remainder of 2020/21).
90. 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.
91. The Capital and Investment Strategy as set out in Appendix F for 2021/22, (and the remainder of 2020/21).
92. The Section 25 Report as set out in Appendix G which should be taken into account by the Shadow Authority in agreeing the budget and council tax.
93. The council tax requirement for the Authority for the year beginning 1st April 2021 of £49,158,022.
94. That the Authority's tax be increased by 1.99% for the year beginning 1st April 2021 and for the properties in each band, as set out in para 18 of this report:
- | | | | |
|---------|--------|---------|---------|
| 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 |
95. That the precepts set out in para 24 of this report, 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.

APPENDICES ATTACHED

96. Appendix A – 2021/22 updated budget in subjective format
97. Appendix B – 2021/22 balanced budget in subjective and objective format
98. Appendix C – Proposed Capital Programme and Funding
99. Appendix D – Reserves Strategy
100. Appendix E – Treasury Management Strategy & Investment Strategy
2020/21 – 2021/22
101. Appendix F – Capital and Investment Strategy 2020/21 - 2023/24
102. Appendix G – Section 25 Report Section of the Chief Financial Officer

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