

Purpose: Approval

Date **26th SEPTEMBER 2018**

Title **MEDIUM TERM FINANCIAL PLAN**

Report of Treasurer



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

## SUMMARY

1. This report provides an update to the Authority on the budget development process for 2019/20 and the medium term position for Hampshire Fire and Rescue Authority's (HFRA) finances to 2021/22.
2. The Medium Term Financial Plan (MTFP) was last present to the Authority in September 2017 and this update contains changes due to pressures from external sources, as well as policy changes to enable improved financial management.
3. As part of the Local Government Funding Settlement for 2016/17, four years of provisional funding were agreed, which has given a level of stability to 2019/20. This was subject to an efficiency plan being submitted, covering the four year settlement period and showing that plans were in place to ensure balanced budgets up to that point.
4. The efficiency plan is on track to achieve the savings required and plans for future requirements are discussed within this report.
5. Reductions in Government grant have been assumed as continuing for the foreseeable future, although there have been no announcements beyond 2019/20. Precept increases at the 2018/19 referendum limit of 2.99% have been included in the figures for 2019/20, then reducing back to 1.99% for future years.
6. The Authority is asked to review these updates and agree to the changes to be built into the 2019/20 budget, which will be presented to the Authority in February.
7. The report also considers the appropriate timescales for dealing with the forecast budget deficit by 2021/22.

## BACKGROUND

8. The Authority has an excellent track record in financial management and in staying ahead of the curve in response to a sustained period of austerity that has had a major impact on the public sector.
9. Medium Term Planning on a mid to worse case scenario basis has enabled the Authority to put savings plans in place that have not only successfully balanced the budgets over many years, but have also provided surplus resources to fund the cost of transformation and improvement across the Service.
10. Prudent forecasting has also meant that the Authority has benefitted from favourable changes in the budget which has softened the impact of grant reductions and enabled savings to be planned and implemented in a sensible way.
11. As part of the current update of the MTFP which extends the period to 2021/22 to keep that forward view, a conscious decision has been made to include items in the forecast that will help with the long term financial stability of the Authority (e.g. increasing the revenue contribution to capital) but at the same time we have also taken the opportunity to (prudently) build in some of the favourable items we have benefitted from in the past such as increases in the council tax base.
12. This balanced approach is based on the experience of the last 8 years and the fact that the outlook over the next few years remains stable based on the plans we already have in place.

## MEDIUM TERM FINANCIAL PLAN 2017/18 TO 2021/22

13. This section sets out the key assumptions on funding and expenditure for this update of the MTFP to 2021/22. It builds on the previous MTFP report of September 2017 and the 2018/19 Budget Report of February 2018.
14. Appendix A sets out the forecast for the years to 2021/22, in both subjective and functional format.

## Funding

15. A four year grant settlement, which commenced from 2016/17, is currently in place. This has provided a good level of stability over recent years and has allowed early planning for budget setting. 2019/20 is the final year of that settlement agreement, so there is a high level of certainty for the grant due in that year, however the following years are now having to be estimated.

16. These estimates have been built into the MTFP based on a slowing down of the reductions over recent years, as had been indicated by the Government. However, given the pressures on the NHS and other protected public services, there is little certainty that this level of funding will be received.
17. The table below shows the Government Grant estimates that are included within the MTFP and the expected changes over time.

Year	Status	Revenue Support Grant £m	Annual Decrease £m	Percentage Reduction per Annum
2016/17	Actual	12.53		
2017/18	Actual	9.63	2.89	23.1%
2018/19	Actual	8.12	1.52	15.7%
2019/20	Provisional	7.22	0.90	11.1%
2020/21	Forecast	6.50	0.72	10.0%
2021/22	Forecast	6.17	0.33	5.0%

#### Precept

18. An increase of 2.99% has been included in this MTFP for 2019/20, in line with the temporary changes to the referendum limit for 2018/19, but reducing to 1.99% in future to 2021/22. This is on the assumption that the referendum limit will remain at 2.00% post 2019/20.
19. The referendum limit had been set at 2% since 2016/17, prior to which no increases had been made. However, Government policy is now moving towards allowing greater increases to local funding to reduce the pressure on services, without the need to increase grant funding from Central Government. It is therefore expected that the referendum limit for 2019/20 will be set at 3%.
20. Prior to October 2017, no increase in the council tax base had been included within the MTFP. However, in each of the years prior to that, increases were then been built into the budget due to the levels of housing growth within Hampshire. In the October 2017 MTFP, a 0.5% increase was therefore built in to the Council Tax Base. As recent increases have been well above that level, this has now been increased to 1%, which is still prudent, but gives a more realistic funding forecast in line with the principles outlined in the Background section. An additional 0.5% a year provides around an extra £200,000 of recurring council tax income to the Authority.
21. The table below shows the increase in Band D council tax and the effect this is expected to have on the total precept received by HFRA, this does not include the extra income from the council tax base increases and assumes the 2018/19 budgeted council tax base level remains constant.

Year	Band D Council Tax £	Annual Increase £	Total Precept £m	Increase in Precept £m
2018/19	65.74		41.21	
2019/20	67.71	1.97	42.44	1.23
2020/21	69.06	1.35	43.29	0.85
2021/22	70.43	1.37	44.15	0.86

### Efficiencies

22. With the exception of Service Delivery Redesign (SDR), all phase 2 and 3 savings plans have now been completed. The original plan had included £296,000 of savings from the Training Academy and £550,000 from sharing our estate.
23. Sharing our estate has already made savings of £534,000, but the original target was an ambitious estimate, and the final £16,000 has not been achievable to date and it is therefore proposed that this be incorporated into future savings plans.
24. The Training Academy has made £85,000 of the savings requirements, which were part of the original Professional Services Redesign, when the Training Department was part of that Directorate. Since that time, a review of the Academy has found that there is currently no available capacity and that further savings would be detrimental to the current operational requirements. It is therefore proposed that this requirement also be removed as part of this MTFP update and this shortfall be built into future savings plans across lower priority areas of the Service.
25. The SDR programme overall is expected to achieve £4.2m of savings by 2020/21. A significant amount of work is on-going to ensure that all changes will enable the excellent service to the community to continue. Pilots are currently taking place, to ensure that the new working practices will be achievable in the long term. These pilots are due to be completed shortly and the teams will start to move to the new model of working.
26. Savings of £1.1m have already been realised and built into the budget and the figures within the MTFP include £2.3m saving due to SDR in 2019/20, with a further £0.8m being achieved in 2020/21. The project has progressed well and it is expected that the majority of the changes will be achieved in 2019/20. However, until the pilots have been completed and the changes fully embedded, some additional resource will be required, therefore the MTFP will continue to forecast the current phasing.

27. With current agreed savings, the funding gap stands at around £4m by 2021/22. The timing of any future savings plans is discussed in more detail below but the Authority needs to ensure it continues to give itself the time and capacity to achieve savings and stay ahead of the curve in terms of planning and delivery.

#### Growth

28. For the 2017 MTFP, a new process was introduced whereby senior managers within HFRS were asked to put forward requests for additional funding where there are specific pressures or ideas for initiatives across the service. This worked well and allowed budget to be allocated in line with service priorities, rather than for historical reasons. This process has therefore been repeated for 2018.
29. The requests put forward have been considered by the senior officers and five requests are supported at this stage. These are detailed at Appendix D for consideration. These have been included within the MTFP at this stage, to show the effect should they be included within the budget in future years.
30. Any additional funding agreed will increase the savings target, however a clear process of prioritisation should ensure that high priority areas are funded, while savings are found from low priority areas.
31. Since 2010, pay restraint has been a key policy for Government and a necessary factor in reducing the cost of the public sector. The pay increases built into the MTFP since that time have therefore been limited to 1.5%. The Government have recently agreed to lift the 1% cap and have started to approve pay awards at higher levels. Recent negotiations have resulted in a proposal of a 2% increase for firefighters for the July 2018 increase, but this is yet to be voted on and therefore remains uncertain. Unions are suggesting that this should be accepted, but that future years' increases should be higher. The pay inflation built into the MTFP has therefore been increased to 2.5% for 2019/20 onwards. This will need to be reviewed as the negotiations develop.
32. The Station Investment Programme (SIP) is at a very early stage and has been presented to the HFRA in principle. The financial details are currently very uncertain, however for the purposes of the MTFP it has been assumed that repayment of borrowing will initially be required from 2021/22, based on around £15m of capital spend to that point. This would require £1.035m of revenue funding, which has been built into the MTFP. Total potential spend of over £50m could be required from the SIP and the revenue costs of borrowing for this will need to be factored into the MTFP as more detail of the programme becomes available and is signed off through the Authority on a case by case.

### Balancing the Budget

33. Appendix A shows a funding gap of £3.97m by 2021/22. This includes all currently planned savings being implemented within the Service and assumes that growth bids are approved.
34. The Integrated Risk Management Plan (IRMP) for the Service will be updated during 2019/20, so future plans will need to be developed in line with this. It is therefore suggested that a target of £4m of further savings be set for the Service to develop during the year financial 2019/20, for implementation from 2020/21 onwards, with the full value being required by 2021/22.
35. Although the savings will technically be required at that point, the timescales can be more flexible, as the RCCO and contributions to reserves could be delayed to ensure a balanced budget for the years until the savings are achieved. This strategy has served the Authority well and has meant that implementation of the SDR savings in particular have been developed in an appropriate and planned way rather than being driven from a purely financial imperative.
36. During the detailed budget setting process for 2019/20, all budgets will be reviewed to ensure that they are still required and need to be maintained at that level. If not, reductions will be made wherever this can be done without impact on service levels.

### CAPITAL

37. The Capital Programme is currently fully funded through to 2020/21, although in later years the programme makes general assumptions around the level of spend required for vehicle replacement, in line with previous years' requirements.
38. As capital grant is no longer received from government, all funding for capital expenditure must come from capital receipts, borrowing, reserves or directly from revenue (known as Revenue Contributions to Capital Outlay or RCCOs).
39. RCCOs have been increased over recent years in order to bring them to £3.905m, which is 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). This figure has therefore now been built into the base budget as RCCO and will become a regular contribution, which will be reviewed in line with future vehicle and property strategies.
40. The table at Appendix B shows the expected capital spend and Appendix C provides the funding plan over the coming years.

## RESERVES

41. HFRA has followed a clear strategy on the use of reserves since the period of austerity began. This has involved:
- Planning well ahead of time to ensure that savings programmes are delivered to agreed timescales.
  - Delivering savings in advance of need, which in turn provides spare resources in the form of reserves.
  - Using those reserves to fund capital investment and transformation activity in order to fund the cost of changes associated with delivering the next phase of savings.
42. An updated Reserves Strategy was approved by the Authority at the July 2018 meeting.
43. The general reserve is currently held at £2.5m, and based on the latest review, it is considered that there is no requirement to alter that level.
44. The current position, as set out on the table below, shows a current balance of £30.332m in reserves, the majority of which are already earmarked for specific purposes as part of our transformation and vehicle replacement programmes.

	<b>2017/18 Closing balance</b>	<b>2018/19 Closing balance</b>	<b>2019/20 Closing balance</b>	<b>2020/21 Closing balance</b>	<b>2021/22 Closing balance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Transformation reserve	-3,754	-563	-202	-202	-202
Capital Payments reserve	-23,266	-15,160	-12,205	-9,163	-8,568
Capital Receipts unapplied reserve	0	0	0	0	0
Capital Grants unapplied reserve	0	0	0	0	0
Earmarked under spends reserve	-196	-129	-129	-129	-129
Revenue Grants unapplied reserve	-616	-616	-616	-616	-616
General fund balance	-2,500	-2,500	-2,500	-2,500	-2,500
<b>Total</b>	<b>-30,332</b>	<b>-18,968</b>	<b>-15,652</b>	<b>-12,610</b>	<b>-12,015</b>

45. Whilst the capital programme shows a healthy balance there are potential commitments that will use up the majority of the funding subject to approval by the Authority.

## 2018/19 REVISED BUDGET AND MONITORING

46. The 2018/19 revised budget can be seen at Appendix A. Movements within the budget have been made during the year in line with the Financial Regulations.

47. Some of the changes reflected in the revised budget relate to spend agreed from the Transformation Reserve, which are one-off and have been removed for the 2019/20 forecast budget. Where the changes are permanent, they will be retained be included in the base for the 2019/20 budget.
48. The table below shows the budget monitoring for 2018/19 as at 31<sup>st</sup> July 2018.

	Annual Budget	Actuals YTD	Outturn Forecast	Outturn Forecast Variance
	£'000s	£'000s	£'000s	£'000s
- Staff	10,101	3,264	9,878	-223
- Agency Staff	7	30	60	53
- Retained Fire Fighters	6,360	2,187	6,461	101
- W/T Fire Fighter	32,230	10,021	30,563	-1,667
<b>Total Pay costs</b>	<b>48,698</b>	<b>15,502</b>	<b>46,962</b>	<b>-1,736</b>
Indirect Employee Expenses	1,899	343	1,867	-32
Premises Related Expenditure	5,606	1,381	5,751	145
Transport Related Expenditure	1,788	753	1,933	145
Supplies and Services	7,529	2,241	7,639	110
Third Party Payments	2,132	-41	2,152	20
<b>Expenditure</b>	<b>67,652</b>	<b>20,179</b>	<b>66,304</b>	<b>-1,348</b>
Fees and Charges	-237	-119	-255	-18
Interest	0	0	0	0
Grants and Contributions	-1,349	-110	-1,264	85
Rental Income	-703	-184	-703	0
Sales Income	-109	-32	-104	5
Other Miscellaneous Income	-208	3	-208	0
Income Recharges (above the line)	-80	0	0	80
<b>Income</b>	<b>-2,686</b>	<b>-442</b>	<b>-2,534</b>	<b>152</b>
<b>Net Current Expenditure</b>	<b>64,966</b>	<b>19,737</b>	<b>63,770</b>	<b>-1,196</b>

49. The main points to note are:



- (a) Staff – there are currently a number of vacant posts, but this is partially offset by some being filled by agency staff.
- (b) Wholetime Firefighters – the SDR crewing trials are generating an early achievement of savings, some of which may be utilised for the programme team spend.
- (c) Retained Firefighters – the current position is a forecast of £101k over budget caused by high demand for retained services in the recent months. This may reduce over coming months when demand is expected to reduce.
- (d) Transport - the majority of this is for firefighter mileage claims caused by the reimbursement of those on temporary postings. This is based on current trend and does not account for any future planned reductions in temporary postings.
- (e) Premises - some revenue costs for the Station Improvement Programme have been included, however these will be offset if use of the Reserve is agreed.

### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

- 50. The MTFP allows financial decisions and resource allocation to be made on the basis of Service priorities, with additional budget being allocated to high priority areas.
- 51. The longer term timescales of the plan allow for efficiency plans to be made in advance of being required, which enables time to work through operational implications without needing to make snap decisions to reduce costs.

### CONSULTATION

- 52. The Authority undertook a major consultation process during 2015 that sought residents and stakeholders' views about the proposed changes arising from the Risk Review as well as other issues around budgets and council tax levels. The most relevant point to note for this report is that the majority of respondents were happy to see a rise in council tax in order to protect services provided by the Authority.
- 53. Further consultation is expected to take place with business and Unions as part of the budget setting process for 2019/20.

### RESOURCE IMPLICATIONS

- 54. 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 Authority.

### LEGAL IMPLICATIONS

55. The proposals within this report are not considered to have any legal implications.

### PEOPLE IMPACT ASSESSMENT

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

### OPTIONS

57. 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

58. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant as set out in this report.
59. The current savings programme has progressed according to plan but development and implementation of a new savings programme will need to be kept under review over the coming years.
60. There continues to be a real risk of a budget deficit in future years which will require reductions across the Service and increases in council tax. The Service has begun early planning to identify how a shortfall could be overcome, including examining other potential income sources. However, as a backstop position, the Authority has sufficient reserves 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 to medium term.

### CONCLUSION

61. It is recommended that the Authority approve the assumptions made within this report, which will be used as the basis for 2019/20 Budget setting.

## RECOMMENDATIONS

62. That the update to the Medium Term Financial Plan and changes to the financial forecast to 2021/22 be noted by Hampshire Fire and Rescue Authority.
63. That the assumption that for financial planning purposes council tax be increased by 2.99% for the 2019/20 budget be endorsed by Hampshire Fire and Rescue Authority. Final decision on this will be made by the Authority at the February meeting.
64. That savings targets of £211,000 from Training and £16,000 from Property Services be removed from the current savings plans and the shortfall be incorporated into this updated MTFP and included within future savings plans.
65. That the growth proposals listed in Appendix B of this report be approved for inclusion in the based budget from 2019/20.
66. That a new savings target of a further £4.0m by 31<sup>st</sup> March 2021 be adopted by the Authority as a planning assumption.

## APPENDICES ATTACHED

67. Appendix A – Revised Budget and MTFP
68. Appendix B – Growth Proposals
69. Appendix C – Capital Programme
70. Appendix D – Capital Funding Plan

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