

Purpose: Decision

Date **5th DECEMBER 2017**

Title **2018/19 BUDGET UPDATE**

Report of Chief Financial Officer



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

## EXECUTIVE SUMMARY

1. This report is to provide an update to members of the current financial position for the 2017/18 Revenue Budget and an update on the 2018/19 budget setting process.
2. A net under spend of £116,000 is currently forecast for 2017/18 as detailed in section 9 below, but this includes an over spend on the ICT Transformation project of £1.008m, £210,000 of which has already been reported to the Authority.
3. The balance of the over spend of £798,000 is currently subject to a review by Internal Audit, the outcome of which will be reported to a special Standards and Governance Committee in January 2018.
4. A 1.99% increase in precept for 2018/19 would leave a shortfall of £2.5m based on the MTFP presented to the Authority in October, this report discusses proposal to meet that gap in the short term, including reducing the RCCO for one year.

## BACKGROUND

5. The Medium Term Financial Plan was updated and reported to the Authority in October this year. The plan showed a £2.5m funding shortfall for 2018/19, which had been partially expected due to the agreed timing of the savings plan, but has increased due to the additional funding included within the base budget for contributions to capital and for replacement of equipment.
6. The budget setting process is currently underway, which will review all budget lines with the aim of ensuring that they are valid and accurate, and will remove any excess funding that is held within departments. This process will help to reduce the budget requirement, but will not be sufficient to cover the full amount to balance the budget.
7. One change that was made to the MTFP presented in October was to include an annual percentage increase for the council tax base. This figure was set at a prudent level, however, the initial estimates have now been received from the precepting authorities and the increase is £282,000 higher than anticipated, which would help to offset the shortfall.

8. Included in the MTFP was an on-going increase of £350,000 per year for maintenance and improvements to the Fire Authorities estate. This has been reviewed and has now been amended to better reflect the requirements of the services and available funding. The annual contribution has therefore been reduced by £150,000 per year and removed completely for 2018/19, and £1.2m is requested to be approved from the Capital Payments Reserve to allow the high priority works to be completed within a shorter timescale.
9. A further change in the October MTFP was to increase the level of RCCO to that which has been calculated as the requirement for the service, rather than including ad hoc and one-off savings. The MTFP assumed a contribution in 2018/19 of £3.9m, which could be reduced as the final option to balance the budget.

## 2017/18 QUARTER 2 BUDGET MONITORING

10. The table below shows the budget monitoring for 2017/18 as at 30<sup>th</sup> September 2017.

	2017/18 Current Budget	2017/18 Forecast as at end Quarter 2	Variance Underspend / (Overspend)
Employee Costs	50,547	49,435	1,112
Premises	4,327	4,356	(29)
Transport	1,742	1,775	(33)
Supplies & Services	9,728	10,666	(938)
Support Services	12	12	0
	<b>66,356</b>	<b>66,404</b>	<b>112</b>
Income	-2,384	-2,388	4
Specific Grant	-1,292	-1,292	0
Contribution from Transformation Reserve	-4,742	-4,742	0
	<b>57,938</b>	<b>57,982</b>	<b>116</b>
Revenue contributions to capital	2,547	2,547	0
Contingency	824	824	0
Net Cost of Service	<b>61,309</b>	<b>61,353</b>	<b>116</b>

11. The main points to note are:

- (a) Employee costs are forecast to be under budget by £1,112,000 at the end of the financial year. A large part of the under spend is due to the number of vacancies of retained firefighters and a lower than anticipated uptake in the pension scheme for both professional services colleagues and firefighters.
- (b) Supplies & Services are forecast to be overspent by £938,000. This is due to problems within the ICT transformation project and is explained in further detail below. This has been partially offset by the deletion of a £160,000 provision held within the budget for outstanding payments

in respect of Firelink, which have now been confirmed by the Home Office as no longer payable.

12. The current overall forecast is for a small underspend, which will be transferred to the Transformation Reserve at the end of the year.

### **ICT Transformation Project**

13. As part of quarter two monitoring, it has come to light that there is a significant over spend on the ICT Transformation project. The total overspend is now predicted to be £1.008m, against a project budget of £1.805m. Of the total over spend £210,000 relates to the two extra months of payments that were made to HCC for the extension of ICT services, following a delay in implementation, which has already been reported to the Authority.
14. The forecast net overspend is therefore £798,000 but this position is predicated on a number of commitments and assumptions, which will continue to be reviewed as costs for the project are finalised. In general terms the main reason for the over spend is higher costs resulting to project and consultancy staff employed on the implementation programme.
15. Clearly an overspend of this level is a serious issue and a formal review of project governance and control has been commissioned from Internal Audit and is expected to be completed before the date of this meeting. A further review examining the budgetary and financial control framework across the Service has also been commissioned over a longer time frame.
16. The intention is to formally report the outcome of both of these reviews to a special Standards and Governance Committee that will be arranged for some time in January.
17. It is fortunate that the Authority has been able to contain the over spend within the overall bottom line budget for 2017/18, but this does however mean that resources of nearly £800,000 are now not available for other projects and programmes.

### **ESTATE MAINTENANCE AND IMPROVEMENT PROGRAMME**

18. The property revenue maintenance budget has been stretched for a number of years due to the budget continually failing to cover the required remedial works which would put right a number of statutory compliance elements. The budget is currently prioritised in terms of risk to the organisation, however this is becoming increasingly difficult as a number of properties require considerable adjustment to meet modern day standards.
19. Coupling this with the fact that the building industry continues to face above average inflationary pressures has meant we can do less with the same money year on year. This is particularly true since the vote to leave the EU, where tenders are consistently being returned for work up to 25% higher than would otherwise have been anticipated. As a consequence we have considerably less budget remaining each year to deal with the on-going property issues associated with an estate where the average age of a building is 52 years.

20. To bring the performance level up to acceptable standards, additional funding is required. This would enable more priority works to be undertaken, helping to reduce the £1.62m backlog of maintenance alongside ensuring that the most high risk remedial works are instigated and there are enough funds to successfully deliver improvements to the buildings to ensure sites remain fit for purpose. By way of an example, a number of sites have poor kitchens and shower facilities but we only have funding to address one of these each year across the 52 sites. This results in considerable pressure on poor standard facilities which not only impact morale but bring a corporate risk in terms of health and safety.
21. Funding had been built into the base budget to cover this, but at a relatively slow rate. Due to the increasing costs and the economies of scale that could be achieved by consolidating much of this work into single contracts, it is now requested that the revenue budget element is reduced by £350,000 in 2018/19 and £150,000 thereafter and funding of £1.2m from the Capital Payments Reserve is approved to provide up front funding for planned repairs and maintenance.

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

22. An updated Medium Term Financial Plan (MTFP) was presented to this Authority in October 2017. This showed the Authority being in a good financial position, but with some challenges still ahead.
23. Appendix A sets out the forecast for the years to 2021/22, in both subjective and functional format.

#### Precept

24. In the MTFP, it was agreed that a precept increase of 1.99%, the maximum allowed under the current referendum limit, would be approved. This would need to be reconsidered should the referendum limit be changed, however that is not expected at this stage.
25. The total precept received is also affected by the council tax base, which is the total number of dwellings paying the precept within Hampshire. Due to on-going demands for more housing, this figure has increased year on year for many years, but the increase has varied significantly. An increase of 0.5% had been built into the MTFP, but estimates have now been received from the precepting authorities which indicate a higher increase at around 1.2%. This increase will therefore contribute around £282,000, reducing the shortfall to £2.2m, which is reflected in Appendix A.
26. If approved today, the change in approach to repairs and maintenance will reduce the gap in 2018/19 by a further £350,000 and it is expected that one off surpluses on the collection fund still to be reported by billing authorities will also improve the position for next year, reducing the need to reduce RCCO to balance the budget.

### Service Delivery Redesign (SDR)

27. The SDR programme is currently underway to re-structure the Service in order to improve both efficiency and effectiveness. This programme will deliver £4.1m of savings over 4 years, with £1m having been made for 2017/18. A further £2.4m is on track to be removed from the budget in 2019/20, however due to the timescales for implementation, it will not be possible for any savings to be included in the 2018/19 budget.

### Zero Based Budget

28. As part of the budget setting process, a version of zero based budgeting is being carried out across the organisation. This is a detailed analysis and therefore will not be fully complete for the 2018/19, but will continue during the year and further changes will be reflected in the revised budget in the autumn of 2018 and in the 2019/20 budget.
29. This process involves all budget lines being reviewed to ensure that they are valid and of an appropriate amount. This will result in individual budget lines being increase, reduced or moved, but it is expected that the final result will be an overall reduction.

### Pay Inflation

30. An inflation rate of 2.5% has been used for both professional services colleagues and firefighters for 2018/19. A 2% increase has been proposed by the employers for firefighters, however that was initially rejected and therefore no confirmed pay inflation for 2017 or 2018 are currently available.
31. If agreement is reached prior to the budget report being presented to the Authority, the agreed increase will be reflected in the budget and if lower than 2.5% will help to reduce the current shortfall.

### Contributions to Capital

32. As HFRA no longer receive an annual capital grant, all capital expenditure has to be funding from revenue contributions, known as RCCOs. In the October MTFP it was agreed that these contributions should be based on the calculated requirement, rather than being ad hoc savings and underspends.
33. The amount included in the 2018/19 budget for RCCO was therefore increased to £3.9m, which would help to build up a good capital reserve, but could be used for other purposes in the short term.
34. It is therefore proposed that the RCCO be reduced ensure a balanced budget for 2018/19, before further savings from SDR and other areas can be implemented in future years, at which point the RCCO would be increased.

### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

35. Ensuring that funding is appropriately accounted for it 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.

36. Following the over spend highlighted above more effort is clearly required in this area to ensure that the Service maintains good financial management across all of its areas.

### CONSULTATION

37. 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.
38. Further consultation is expected to take place with business and Unions as part of the budget setting process for 2018/19.

### RESOURCE IMPLICATIONS

39. There are no direct resourcing implications resulting from this report.

### LEGAL IMPLICATIONS

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

### PEOPLE IMPACT ASSESSMENT

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

### OPTIONS

42. 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

43. 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.
44. 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.

45. 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 to meet the gap thereby mitigating this risk.
46. The over spend in the ICT Transformation Programme highlights a potential risk that financial control within project based spend may need strengthening but we will await the outcome of the review to inform any future action in this area.

### RECOMMENDATIONS

47. That the Authority approve the assumptions made within this report, which will be used as the basis for 2018/19 Budget setting
48. That the RCCO be reduced in order to balance the budget, after all other savings and adjustments have been taken into account.
49. That £1.2m funding from the Capital Payments Reserve for estate maintenance is approved and the provision of £350,000 included in the 2018/19 budget be removed completely.
50. That the Authority notes the over spend on the ICT Transformation Programme and agrees that this can be met from the under spend in other service areas during the year.
51. That the Authority endorses the two reviews that have been commissioned in respect of the ICT over spend and agrees that these should be reported to a special Standards and Governance Committee in January 2018.

### APPENDICES ATTACHED

52. Appendix A – Revised Budget and MTFP

Contact:

Rob Carr  
Chief Finance Officer  
[rob.carr@hants.gov.uk](mailto:rob.carr@hants.gov.uk)  
01962 847508