CHESHIRE FIRE AUTHORITY

MEETING OF: **CHESHIRE FIRE AUTHORITY**
DATE: **14 FEBRUARY 2017**
REPORT OF: **CHIEF FIRE OFFICER AND CHIEF EXECUTIVE**
AUTHOR: **PAUL VAUGHAN**

SUBJECT: DRAFT BUDGET, COUNCIL TAX PRECEPT AND MEDIUM TERM FINANCIAL PLAN 2017-18

Purpose of Report

1. This report seeks Member approval for Cheshire Fire Authority's (the Authority) budget for 2017-18, Council Tax precept level for 2017-18 and its Medium Term Financial Plan (MTFP) for 2017-18 to 2020-21.

Recommended: That

[1] Members consider the two 2017-18 budget proposals shown in Table 4 of the report (paragraph 78) and:

a) approve one of the proposals;
b) having approved one of the proposals, confirm that the precept on the collection funds for 2017-18 be set by reference to the amount corresponding to the chosen proposal in Table 5 (which immediately follows Table 4); and
c) having approved one of the proposals, confirm the appropriate MTFP which corresponds to that proposal shown in either Appendix 1 or 2.

[2] the revenue growth proposals for 2017-18 as set out in Appendix 3 be approved;

[3] the savings proposals for 2017-18 as set out in Appendix 4 be approved;

[4] the 2017-18 Capital Programme as set out in Appendix 5 be approved, and the items shown as part of the Capital Programme for 2018-19 (also set out in Appendix 5) also be approved;

[5] the Reserves Strategy as set out in paragraphs 28 - 50 be approved (NB this includes a payment of £574k to LGPS as detailed in paragraph 48);

[6] the statement on robustness of estimates and adequacy of reserves (paragraphs 76-77) be noted; and

[7] the Financial Health Targets (paragraph 75) be adopted for 2017-18.

Background

2. The Authority is required to approve its budget and set a Council Tax precept for the financial year commencing 1st April 2017. In determining a budget which it considers reasonable, the Authority must have regard to all the relevant factors, including the likely impact of policy options on the achievement of the Authority's objectives and the uncertainty associated with the economic scenario.

3. This is the second budget report. The first was considered by the Fire Authority on 7th December 2016. Members also considered the Authority's financial plans at Planning Days, most recently in January this year. Officers have challenged the assumptions and proposals underlying the Medium Term Financial Plan (MTFP) and budget.

4. The report asks Members to consider two budget options, based on:-

   a) Increasing the Council Tax precept by 1.99% to £73.29; or
   b) Maintaining the Council Tax precept at its 2016-17 level at £71.86.

   The two budget proposals are shown in Tables 4 and 5 of the report (paragraph 78).

5. The report is structured as follows, leading to the summary budget proposals:

   - Cheshire Fire Authority Budget for 2016-17;
   - Medium Term Financial Plan – (covering the period up to and including 2020-21):
     - The national context;
     - Key assumptions;
     - Savings in the MTFP;
     - Estimated Capital Programme 2017-18 to 2020-21;
   - Reserves Strategy;
   - Budget 2017-18:
     - Funding available to the Authority,
     - Revenue Expenditure,
     - Capital Programme 2017-18,
     - Budget Consultation;
   - Robustness of Estimates;
   - Financial Health Targets;
   - Statement on robustness of estimates and adequacy of reserves;
   - Summary Budget Proposals 2017-18 (and precepts on Collection Funds);

   The following appendices are attached:

   Appendix 1 MTFP with an increase in precept of 1.99%
   Appendix 2 MTFP with no increase in precept
   Appendix 3 Revenue Growth Items 2017-18

Appendix 4 Savings 2017-18
Appendix 5 Capital Programme 2017-18
Appendix 6 Estimated position on reserves 2016-17 to 2020-21

6. At the time of writing the settlement has not had final parliamentary approval. Whilst it is not anticipated that the settlement will change it is important that Members understand how any changes might be accommodated. It is essential that the precept is approved on 14th February so that the necessary notifications can be provided to the collection authorities. This will not alter as a result of any change in the settlement. However, it would lead to a change in the budget and knock on effect on the MTFP. This would be accommodated by:

- a reduction or increase in Settlement Funding Assessment (SFA, see details below) or Section 31 Grant in 2017-18
- an equal and opposite change in the movement on IRMP/Capital reserve in 2017-18

This would be reported to Members as appropriate.

CHESHIRE FIRE AUTHORITY BUDGET FOR 2016-17

7. The Authority's budget for 2016-17 is £42.1m, financed by a combination of Council Tax and SFA (a combination of Revenue Support Grant (RSG) and Business Rates). The Band D Council Tax is set at £71.86 which generates a total of £25.5m (61% of total funding), with an additional £0.5m (1%) coming from the 2015-16 surplus on the Council Tax element of the Collection Fund. The balance of £16m (38%) is met by SFA.

8. In addition, the Authority approved a capital programme of £2.6m funded from capital receipts, reserves and grants.

MEDIUM TERM FINANCIAL PLAN 2016-17 TO 2020-21

The National context

9. The announcement of the detailed draft Authority settlement was made on 15th December 2016. This essentially confirmed the four year settlement figures which the Government had presented the previous year, which run from 2016-17 to 2019-20. There were some slight changes reflecting a difference in the business rates assumptions, and for the Authority this meant an increase on the original figures over the four years of around £100k in total. However over the three year period from 2017-18 and 2020-21, the total SFA is still projected to fall by 17%, or £2.7m.

10. It is the Government's intention to remove RSG. This would in effect be replaced over time by growth in Business Rates and Council Tax, but Top Up Grant will remain. The government has indicated that it will

consult on reforming the funding of local authorities during the lifetime of the Comprehensive Spending Review (i.e. before 2019-20).

11. As part of the reform of funding, the Government is considering allowing local authorities to retain 100% of their business rates, and is running a pilot scheme to test this in 2017-18. Halton are participating in the scheme. Officers at Halton have indicated that the Government has given assurances that the Fire Authority will not be disadvantaged as a result of this.

12. The Government now focuses on the term "spending power" when it discusses the funding of fire authorities. The spending power of a fire authority is Council Tax and SFA added together. The estimates of what authorities' spending power will be in future years includes assumptions of 2% annual increases in Council Tax, increases in council tax bases, and increases in Business Rates. Table 1 shows the Authority's spending power according to the figures in the settlement i.e. the Government's own estimates.

13. As can be seen in Table 1, the Government believes that this leads to the Authority's spending power staying broadly constant over the period 2016-17 to 2019-20. The numbers shown in SFA include the transition grant awarded to the Authority in 2016-17 for two years.

Table 1 – Spending power using Government estimates

	2016-17	2017-18	2018-19	2019-20	%ge change from 2016-17 to 2019-20
	£m	£m	£m	£m	%
Council Tax	25.5	26.4	27.4	28.4	11%
Settlement Funding Assessment	16.1	14.4	13.6	13.4	-17%
Spending Power	**41.6**	**40.8**	**41.0**	**41.8**	**1%**

14. The Authority's own estimates in spending power over the same period also shows a broadly neutral position.

Key assumptions

15. Appendix 1 shows the Authority's MTFP assuming that the Authority decides to increase its precept by 1.99% in 2017-18. Appendix 2 shows the Authority's MTFP assuming that the Authority decides not to increase its precept in 2017-18. The following assumptions have been used in both, except where indicated.

Council Tax

16. There is an increase of 1.99% in Council Tax precept in every year in the MTFP in Appendix 1, and every year except 2017-18 in Appendix 2. Council Tax base grows in 2017-18 to 2020-21 by 1% per annum.

Settlement Funding Assessment

17. SFA is included in accordance with the government estimates in the 2017-18 settlement. The assumption for 2020-21, which falls outside the current CSR period is that there will be an overall reduction in government support of 5%, including the loss of the Section 31 Grant supporting Business Rates (see paragraph 21).

Inflation

18. The Government has indicated that it expects public sector pay to increase by 1% per annum over the life of the CSR. In 2017-18 pay inflation is set at 1.5% to cover the 0.5% levy which the government is proposing to introduce to help to fund apprenticeships from April 2017. From 2018-19 it is 1% per annum. Non pay inflation is 2% per annum throughout the plan.

Growth

19. The MTFPs include an allowance for unavoidable growth. The amount of growth in 2017-18 is discussed in paragraphs 57-60. Any revenue growth assumed in the MTFP that proves not to be required will contribute to reducing the need for savings. Any additional growth will increase the need for savings.

Contributions to IRMP / Capital reserves.

20. There is a contribution to capital reserves to help fund the future capital programme. This is necessary due to the lack of capital grant for fire authorities, and because the capital funding strategy seeks to minimise borrowing. This will be regularly reviewed as the MTFP and Treasury Management Strategy are updated and monitored.

Section 31 grants for Business Rates.

21. The Government pays local authorities Section 31 grants to counteract the impact on local authorities of the government's own policy of reducing Business Rates on new and small businesses. The Government has indicated that this grant is likely to remain until the Business Rates retention scheme comes into force, so it is included in the MTFP. Any reduction in this grant would in any case, in theory, be offset by an increase in the amount of business rates receivable from local authorities. It is therefore now included until 2020-21 when its removal from the plan forms part of the overall estimated reduction in government support.

Surpluses/deficits on collection funds.

22. No assumptions are made about future surpluses or deficits on collection funds. The Authority has a provision against which shortfalls on Council Tax and Business Rates may be charged if necessary, or where in-year adjustments would be accommodated.

Savings in the MTFP

23. The MTFPs in Appendices 1 and 2 show the need for savings in the four year period from 2017-18 to 2020-21 of between £3.9m and £4.5m. This represents a significant challenge and its potential impact should not be underestimated. The Authority has already delivered almost £9m of savings in the previous CSR period from 2011-12 to 2015-16, and an additional £900k in the current year.

24. Members will recall that an Efficiency Plan was approved by the Authority in September 2016, as part of the request to the Home Office to allow the Authority to have a fixed four year settlement. At that time savings were identified in the plan totalling £4.06m for the period 2016-17 to 2019-20 (the plan is not aligned with the MTFP).

25. For the same period in the MTFPs shown in Appendices 1 and 2, the savings requirement now ranges from £4.05m to £4.60m so the Authority remains broadly in line with the plan.

26. Savings proposed for 2017-18 are detailed in paragraphs 61-63.

Estimated Capital Programme 2017-18 to 2020-21

27. The estimated capital programme for 2017-18 to 2020-21 is shown in Table 2 below. Core capital spend of around £1m per annum is expected to be spent on appliances, with a further £1m per annum to cover other activities, mainly property related/purchase of equipment. In addition the estimates in Table 2 include £7m for the Training Centre, although further work has yet to be done to fully develop the specification and then cost it accurately. Members have already approved £500k at the Fire Authority meeting in September to facilitate this work. It is anticipated that the core capital spend of £1m per annum will be wholly funded from reserves, capital receipts and revenue, although this will remain under review.

Table 2 Estimated capital programme to 2020-21

2017-18	2018-19	2019-20	2020-21
£1.765m	£6.108m	£4.176m	£2.071m

RESERVES STRATEGY

Purpose of holding reserves

28. The Authority has two types of useable reserves. It maintains a General Reserve which currently stands at £6.47m, and which has been at a similar level for a number of years. Amongst the risks it mitigates against is the risk that austerity measures will be significantly worse than anticipated. The level of the General Reserve will be kept under review in the light of falling budgets and reduced levels of activity.

29. The Authority also holds a number of earmarked reserves. These are intended to:

- meet particular needs which the Authority has identified e.g. management of retirement profile to avoid the compulsory redundancies of firefighters,
- help smooth out the impact of the Authority's activities on its revenue budget,
- smooth out peaks and troughs in expenditure,
- support the funding of the capital programme.

30. The earmarked reserves which the Authority holds are described below. Appendix 6 shows the anticipated position on the reserves over the current and next four financial years.

IRMP Reserve

31. The purpose of this reserve is to meet the needs placed upon the Authority in meeting delivery programmes falling out of each IRMP, and the reserve has been built up by contributions from the revenue budget and by earmarking budget underspends. One key IRMP activity, falling out of IRMP 9 but impacting on all IRMPs since then, is the Emergency Response Review. A programme to deliver this, the Emergency Response Programme (ERP), is in progress. The main element of this is the building of four new fire stations and a safety centre. Government grant has been secured to part-fund this and existing reserves set aside for capital are also being utilised. The balance is being funded from the IRMP reserve.

32. In addition, there are revenue implications from delivering the ERP. Examples are the training and upskilling of firefighters, pay protection for firefighters moving from one shift system to another, relocation expenses, training new on-call cohorts and running over-establishment. More firefighters than expected have opted to retire or leave the Service over the last four years, and other revenue impacts have not been as significant as expected. This means funding for the revenue impact of the ERP from the IRMP reserve has been lower than anticipated.

33. It is likely that the second phase Emergency Response Review (ERP2) (which will help to meet the savings challenge identified in the current MTFP) will also generate the need for capital or one-off revenue

investment. There may also be other IRMP-related activity which will require funding. The level of IRMP reserve is therefore necessary to ensure that the Authority is able to flexibly deliver the changes which will be needed in the future. It is also used to supplement the capital programme where necessary.

Capital

34. It seems likely that if any capital grants are made available to the Authority in future they will be the subject of a bid process, with little opportunity to access capital grants for core need such as appliance replacement. The present strategy for funding capital is that the Authority will fund capital from existing reserves or from the revenue budget. As the Authority reviews its MTFP and Treasury Management Strategy, this funding strategy will also be reviewed. The MTFPs as presented in Appendix 1 and Appendix 2 continue to have a budgeted contribution to the capital reserve but this does diminish over the life of the plan. This reserve will be kept under review and it is likely that any year end underspends will be used to ensure that it is kept at a reasonable level compared to the level of the Authority's capital expenditure.

Staff related

35. The Authority has a number of staff-related issues to deal with, mostly relating to current and legacy pension, future recruitment costs, and some smoothing of costs like ill health pension payments (some of which bear directly on the Authority). It is felt necessary to maintain a reserve to meet any future costs as these issues can have a considerable financial impact in any single year.

Legal and insurance

36. A large part of this reserve is designed to meet any future prosecution and enforcement costs associated with the work of the Protection Team. The other key risk covered by this reserve relates to the new insurance arrangements (which the Authority entered into in November 2015), and, more broadly, other insurance-related issues such as litigation claims.

ICT and Systems Development

37. The Authority undertook a Programme of Change to upgrade its ICT infrastructure during 2012 and 2013. However the nature of ICT is that developments are constant, and the Authority holds ICT reserves which are designed to fund ICT developments.

Training and Development

38. The Authority is committed to maintaining its current high standard in training its workforce. In particular part of the training reserve will be

used to help fund the development of the future managers of the Service in accordance with the Talent Management Strategy.

Equipment and uniforms

39. The Authority has some substantial costs which fluctuate between years, and this reserve provides a mechanism to smooth out the expenditure. Examples are the purchase of new and improved protective personal equipment, the purchase of high cost equipment (such as cutting equipment) and the development of the Incident Command Training Suite.

Collaborations and partnerships/Blue Light Collaboration

40. Fire authorities are being actively encouraged to enter into collaborative arrangements. Two such arrangements that the Authority has entered into which are covered by this reserve are North West Fire Control and a training partnership at Manchester Airport. Members will note that there is now also a specific reserve to help fund and smooth the implementation costs of Blue Light Collaboration.

Property-Related

41. The Authority is considering schemes which might reshape its property portfolio, and for refreshing its existing property portfolio. Should these come to fruition, consideration would be given to using the IRMP reserve to support delivery. The reserves shown in the property-related section in Appendix 6 are mainly in relation to existing schemes or invest to save projects.

New Dimensions

42. This is Government funding designed to supplement the cost of ensuring that firefighters are suitably trained and equipped to meet the needs of serious incidents in the modern day.

Specific projects

43. These are small projects like the firefighter fitness initiative or developments relating to the Authority's website.

Prevention

44. The main activities covered by these reserves are the sprinkler initiative and home safety assessments. It may also be used to cover cost volatility in the Prince's Trust teams and in Road Safety activity. In future marketing costs of Safety Central may also be funded from this reserve.

Unitary Performance Groups

45. Within each of the Authority's Unitary Performance Groups (UPG), a budget is available for the funding of local prevention activity. This has not always been spent in-year and this reserve has been created out of underspends to allow further initiatives to be undertaken.

General Reserve

46. The Authority has around £6.47m in General Reserve which is intended to offset the potential impact of corporate risk. This would cover any major incident risk such as that which may occur at a COMAH site, as well as risks relating to other Authority activity. Table 3 below shows some of the Authority's key risks and shows a range of potential costs should they come to fruition. Whilst the amounts shown are estimates, they are not considered to be unrealistic.

Table 3 – Estimated range of costs associated to risk.

TITLE	RISK	Worst case £000	Medium case £000	Best case £000
Failure of a counter party	Inability to recover invested funds from a counter party	10,000	5,000	1,000
Impact of Government austerity measures.	Reductions in grants necessitating cost reductions that impact on service delivery.	3,000	2,000	1,000
Claims from historic insurable events.	The historic insurers of the Authority having insufficient funds to meet the cost of claims.	3,000	2,000	250
Cost of major incident.	Impact of providing additional resources to deal with major incident.	1,500	500	250
Competing demands on the Authority's resources due to changing external environment.	Inadequate capacity to deliver strategic objectives and programmes due to increase in numbers and complexities of programmes.	750	500	250

Given the range of potential costs above, the level of the Authority's General Reserve is considered reasonable.

Other issues

47. The Authority's Green Book employees may join the Local Government Pension Scheme (LGPS). The Authority pays employer contributions into the LGPS. The rate of the contribution payable depends on the triennial valuation of the LGPS. A triennial valuation was carried out as at 31st March 2016. The rate payable for 2017-18 requires a small increase of £30k which is included as a growth item in Appendix 3.

48. The Authority has two options to pay its employer pension contribution over the next three years (2017-18 to 2019-20). One option is to set a rate which increases by a half of one percent over each of the next three years, from 21.3% to 22.3%. The second is to set a core rate of 18.3% and pay the LGPS a lump sum of £574k in April 2017. The second option will save the Authority £36k over the three year period and the budget and reserve movements assume this option is followed.

Costs and Benefits of Holding Reserves

49. By creating reserves, the Authority has built up cash balances which it invests in accordance with its Treasury Management Strategy. As the ability to generate income from investments diminishes, the Authority has reviewed its policy on the repayment of its debt portfolio, to ensure that it receives maximum benefit from the use of cash balances. At present it is not considered financially advantageous to repay debt early due to the high level of premium payable on early redemption. The Authority will continue to review this position. In addition, the continuing use of cash balances to fund the Authority's capital programme has reduced the need to borrow in recent years.

50. The Authority does need to hold a level of reserves commensurate with managing its risk profile, and as can be seen from Table 3, the Authority believes that the level of reserves it holds is adequate to manage its exposure to risk.

BUDGET 2017-18

51. The proposed alternative budgets for 2017-18 are shown in the columns headed "2017-18" in the MTFPs in Appendices 1 and 2. The paragraphs below explain some of the details included within the budget. Summaries of the proposed budgets are included in paragraph 78.

Funding available to the Authority

Council Tax

52. The Authority precepts on the taxbases of its constituent local authorities. For 2017-18 those taxbases have increased in total by around 1.54%. This means that the Authority can expect to receive an additional £400k in Council Tax in 2017-18 (or £392k should Members choose not to increase the Authority's precept).

53. The Authority has in recent years increased its Council Tax precept by 1.99%. An increase of 1.99% in 2017-18 means that the Authority would receive about an additional £507k. Should the Authority choose to increase its precept by 1.99%, the precept for a Band D property would increase from its current rate of £71.86 per annum to £73.29, an increase of £1.43 per annum.

54. At the end of each year billing authorities consider the balances on their collection funds and decide whether they are in a position to declare a surplus or deficit, of which the Authority receives a share. Notification of this arrives towards the end of January. This year all the Cheshire authorities have declared surpluses on their Council Tax collection funds, and in total the Authority will receive £360k extra one off funding.

Settlement Funding Assessment

55. The Authority's settlement shows the SFA for 2017-18 as £14.34m, split £4.02m Business Rates baseline, £4.82m Top Up Grant and £5.50m RSG. This represents a reduction of around 11% compared to 2016-17.

56. The latest estimated level of Business Rates baseline shown on the constituent authorities' returns to Government mean that the amount of Business Rates baseline the Authority will actually receive in 2017-18 from those Authorities is £4.21m. This means that the Authority will receive £196k more in 2017-18 than had been anticipated in previous reports. However, three of the authorities have declared deficits on their Business Rates collection funds, of which impacts on the Authority adversely by £123k.

Revenue expenditure

Revenue growth

57. Appendix 3 shows revenue growth items for 2017-18. These items are split into those which need to go into base budget, and those one off items which are to be funded from reserves. Many of these items were the subject of business cases shared with Members at the Planning Day on 13th January, whilst others are revenue implications from IRMP projects and other Authority decisions.

58. Much of the expenditure which is to go into base relates to the revenue implications of the Emergency Response Programme e.g. to cover the running costs of the new stations and Safety Central. The ongoing cost of the new cardiac initiative is also included, as are costs related to running the apprenticeship scheme and the leadership programme, and additional costs relating to the purchase of smoke alarms.

59. Members are also asked to approve the inclusion of £2.28m specific expenditure from reserves. This represents a significant investment with the majority relating to the purchase of firefighter kit and equipment. Much of this spend was covered by business cases which were discussed at the Members Planning Day on 13th January. Included in this is £280k for technical rescue jackets, £131k for helmets, £30k for cutting equipment and £30k for a drone.

60. Other items whose costs are intended to be met from reserves include the installation of sprinklers in Day Crewed houses, the costs of the Apprentice scheme and a potential contribution to the development of

the proposal for an Ellesmere Port hub (although the latter remains subject to further exploratory work with Chester West and Chester Council and the other partners). Including it here means that if necessary officers would have the resources to participate in further evaluation work, but any commitment beyond that would be brought back to Members for further approval. Additional spend from reserves (particularly from the IRMP reserve if necessary and on small items which require some support from reserves in year) may be necessary and is reflected in the detail of Appendix 6. Any significant items would be brought to Members for approval and/or reported to Performance and Overview Committee.

Savings

61. Appendix 4 contains a list of savings included in the budget for 2017-18, totalling £2.28m.

62. The main source of savings are changes to the Authority's service delivery models, as a result of Emergency Response Programme and Emergency Response Programme 2.

63. Other savings come from small value for money and organisational reviews, as well as some technical changes reflecting the Authority's capital funding strategy. No savings from Blue Light Collaboration have been included at this stage. The programme shows some integration of support services during 2017-18, but not until towards the end of the financial year, and given the complexity of the integration of staff and systems, it is considered prudent to delay the formal recognition of savings until the financial year 2018-19. The latest estimate of revenue savings accruing to the Authority as a result of BLC is £165k.

Capital Programme 2017-18

64. Appendix 5 shows the Capital Programme for 2017-18, which totals almost £1.8m. Members considered business cases for some of the items at the Members' Planning Day on 13th January. Members will note that the programme mainly consists of the purchase of appliances and vehicles. Members should note that in February 2016 they approved £50k for a technical rescue vehicle, which was based on the best information at the time. The Fleet Services Manager has undertaken further research into specifying this vehicle and now feels that a suitable vehicle would cost £80k, so an additional £30k is included in the programme.

65. The sum of £560k is included for the redevelopment of Chester Fire Station. This is only an estimate at this stage based on the latest information available from the Authority's discussions with a potential partner developer. As soon as a more certain figure is known a revised approval will be brought for Member consideration.

66. At the Authority meeting in February 2016 which approved the 2016-17 budget, Members agreed in principle some items for inclusion in the

2017-18 capital programme (shown in green in Appendix 5). These items are now included in the programme but some items have changed slightly, as indicated at the bottom of the table.

67. This forward approval improves the Authority's procurement position, and enables the Authority to agree build slots with the appliance manufacturers. Members are therefore asked to consider the vehicles shown in the second table (marked 2018-19) in Appendix 5, totalling just over £1m, and approve those items for inclusion in the capital programme.

68. Members should be aware that officers are undertaking a significant review of the Authority's property portfolio with a view to bringing the Authority's asset management plans up to date and improving the condition of its buildings. This will potentially lead to a significant investment of funds, either revenue or capital or both, but at present it is impossible to estimate the likely financial impact. Members will be kept apprised of the progress on the review and the potential need for funds.

Budget Consultation

69. This is dealt with within the IRMP report included on the agenda at item 4.

ROBUSTNESS OF ESTIMATES

70. The Authority has a policy and expenditure planning process, which takes account of the IRMP and MTFP. Alongside this, a four year indicative value for the capital programme has been produced taking into account forecasted Government funding, borrowing limits and Council Tax.

71. For 2017-18, full consideration of these issues has led to:

   i. Revenue proposals to reflect changes in demand for services with growth pressures offset wherever possible by savings, increased income and other budget reductions. The on-going revenue impact of new capital projects has also been considered.

   ii. A proposed capital financing requirement based on prior years and the 2017-18 capital programme.

72. When using estimates in preparing the budget, every effort is made to ensure that the estimates take into account the most up-to date data. However, it should be noted that there are some areas where the actual impact could vary from the estimates used in setting the budget. The main areas are:

   a. Pay awards,
   b. Inflation,
   c. Fluctuation in interest rates,

d. Service financial performance (i.e. under or overspending),
e. Collection of Council Tax and Business Rates,
f. Actual grant funding.

73. There are many factors that can affect financial performance in-year including under or over-achievement of savings plans, income and other financial targets. The Authority takes a number of steps to minimise the impact including:

- Seeking wherever possible to explore in full the implications and achievability of revenue and capital proposals before the budget is set.
- Promoting a robust approach to financial management requiring budget holders to monitor expenditure against budget and to take early action in reporting and responding to forecast variances.
- Regular reporting to Members of the projected outturn and any necessary remedial action.

74. Members should be aware that whilst every effort is taken to ensure that the budget is balanced, there is always the possibility of over or underspends occurring. This is one of the reasons why the Authority holds reserves which are available to offset unanticipated cost pressures.

FINANCIAL HEALTH TARGETS

75. It is considered best practice to maintain a set of Financial Health Targets. The Financial Health Targets below are those adopted by the Authority.

- That the Authority reviews and approves its reserves strategy on an annual basis. This should be supplemented by consideration of the level of reserves at mid-year review.
- That the Authority maintains its revenue spending within 1% of budget following the mid-year and three quarter review.
- That the Authority reduces slippage to 25% of the total capital programme (the total capital programme includes the existing capital programme and slippage brought forward from previous years).
- That the Authority continues to monitor Prudential Indicators on an annual basis against the indicators set out in the report on the Treasury Management Strategy at item 3 on the agenda.
- The Authority raises 95% of invoices within one month of the debt falling due and collects 95% of income within 90 days.

STATEMENT ON ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

76. Section 25 of the Local Government Act 2003 places a requirement on the Chief Financial Officer (in this case the Head of Finance) to provide to the Authority, when it is making statutory calculations required to determine Council Tax levels, a report assessing the adequacy of unallocated reserves in the context of corporate risks facing the Authority and to report on the robustness of estimates used in preparing the budget. The Authority must balance the necessity for reserves against the immediate impact on Council Tax payers and arrive at a level it considers adequate and prudent, but not excessive.

77. The adequacy of reserves is discussed in the Reserves Strategy section (paragraphs 28-50) and the robustness of estimates is covered in paragraphs 70-74 above. It is the Head of Finance and Treasurer's view that the level of reserves is adequate and that the estimates are robust.

SUMMARY BUDGET PROPOSALS 2017-18 (AND PRECEPTS ON COLLECTION FUNDS).

78. Table 4 below summarises the two budget proposals contained in Appendices 1 and 2 to assist Members:

Table 4: Cheshire Fire Authority 2017-18 Budget Proposals		
	Proposal 1: Increase in precept 1.99%	**Proposal 2:** Increase in precept 0%
Item	**£000**	**£000**
Expenditure		
2016-17 Budget	**42,093**	**42,093**
Revenue growth	1,190	1,190
Inflation	661	661
Savings	(2,282)	(2,282)
Change in transfer to IRMP/capital reserve	(315)	(830)
Section 31 Grants	(48)	(48)
Provision for non collection	0	0
Total budget 2017-18	**41,299**	**40,783**
Funding		
Council Tax	26,449	25,933
Surplus on Council Tax Collection Fund	360	360
Deficit on Business Rates Collection Fund	(123)	(123)
Settlement Funding Assessment (including additional Business Rates)	14,613	14,613
Total Funding	**41,299**	**40,783**
Precept per Band D property	**£73.29**	**£71.86**

Table 5 below shows the Council Tax precepts based on the above alternative proposals for each billing Authority:

Table 5:2017-18 Precept on Billing Authorities' Collection Funds			
Constituent local authority (billing authority)	**Council Tax base**	**Proposal 1: Increase in precept 1.99% £**	**Proposal 2: Increase in precept 0% £**
Cheshire East	144,201.51	10,568,528.67	10,362,320.51
Cheshire West and Chester	116,329.00	8,525,752.41	8,359,401.94
Halton	33,818.00	2,478,521.22	2,430,161.48
Warrington	66,527.00	4,875,763.83	4,780,630.22
Total	**360,875.51**	**26,448,566.13**	**25,932,514.15**
Precept per Band D property		**73.29**	**71.86**

Conclusion

79. The budget for 2017-18 is set in the context of continuing financial austerity with sufficient savings identified to balance the budget. Going forward there is still the need to make significant further savings to ensure that the Authority's future budgets are balanced. In addition the Government's intention to review the funding regime for local authorities means that considerable uncertainty remains which increases risks in the financial planning process.

Financial Implications

80. This report is financial in nature.

Legal Implications

81. The Authority is required to set a budget by 14th February each year, and to issue a precept to the billing authorities before 1st March each year.

Equality and Diversity and Environmental Implications

82. This is a strategic report is which does not deal with the detailed proposals. Individual policy options and savings will have equality and diversity and environmental implications which will be individually identified and assessed

BACKGROUND PAPERS: NONE