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Wednesday, 10 February 2021 10.00 am

Meeting of Cheshire Fire Authority Supplemental Agenda

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Cheshire Fire Authority
Notes for Members of the Public

Attendance at Meetings
The Cheshire Fire Authority welcomes and encourages members of the public to be at its meetings and Committees.

This meeting of the Fire Authority will be held by remote means, i.e. the meeting will not be taking place in person at Sadler Road, but will be hosted over the Internet, using Skype for Business, with participants located in a variety of places.

The Government introduced legislation, due to the Coronavirus pandemic, that enables remote meetings to take place and the Fire Authority has adopted rules that allow and govern the way that remote meetings will work. The rules can be accessed here.

The meeting must be open to the public and press. However, as the public and press cannot attend in person the Fire Authority is arranging for the meeting to be broadcast. Final details about how to access the broadcast will be published on the Cheshire Fire and Rescue Service website prior to the meeting.

Questions by Electors
Given the current situation, questions for the Chair of the Fire Authority can be submitted by email to DemocraticServices@Cheshirefire.gov.uk. Questions must be received at least five clear working days before the meeting takes place.

Access to Information
Copies of the Agenda are available on the Service's website (www.cheshirefire.gov.uk). A copy can also be obtained from Democratic Services via DemocraticServices@cheshirefire.gov.uk.

The Agenda may be divided into two parts. Most business is dealt with in the first part which is open to the public. On some occasions business is dealt with in private in the second part of the meeting. There are a number of reasons for this, e.g. confidential information about individual people, or contracts are being considered.

This agenda is available in large print, Braille, audio CD or in community languages upon request by contacting; Telephone: 01606868414 or email: equalities@cheshirefire.gov.uk

Recording of Meetings
The Authority audio records its meetings. Please contact Democratic Services for a copy of the recording via DemocraticServices@cheshirefire.gov.uk.

MEETING OF THE CHESHIRE FIRE AUTHORITY
WEDNESDAY, 10 FEBRUARY 2021
Time : 10.00 am
Remote Meeting - Via Skype

Please find enclosed the following report that was marked to follow on the agenda:-

6	**Draft Budget 2021-22, Council tax Precept and Medium Term Financial Plan**	(Pages 1 - 42)

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CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 10TH FEBRUARY 2021
REPORT OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: **DRAFT 2021-22 BUDGET, COUNCIL TAX PRECEPT AND MEDIUM TERM FINANCIAL PLAN 2021-26**

Purpose of Report

1. The purpose of this report is to allow Members to:

- Approve the Authority's Medium Term Financial Plan 2021-26;
- Agree the Authority's 2021-22 budget;
- Agree the Authority's 2021-22 precept as required by law;
- Approve the Authority's Capital Programme and funding;
- Approve the Authority's Capital Strategy; and
- Approve the Authority's Reserves Strategy.

Recommended that Members:

1) Approve the Medium Term Financial Plan as set out in Appendix 1;

2) Agree the Budget Requirement of £46.203m (as set out in Table 1 paragraph 24) which takes account of adjustments for inflation, growth, one off items and savings (as set out in Table 2 paragraph 27 and detailed in Appendix 2);

3) Agree the proposed council tax increase of 1.99% and set a Band D council tax precept of £80.87 for 2021-22;

4) Agree the levels of council tax precept set out in Table 4 paragraph 48;

5) Approve the proposed capital programme for 2021-22 set out in Table 3 paragraph 42 together with its associated financing;

6) Approve the Capital Strategy set out in Appendix 3;

7) Approve the Reserves Strategy set out in Appendix 4;

8) Note the Statement of Robustness of Estimates set out in Appendix 5; and

9) Adopt the Financial Health Targets in paragraph 44.

Medium Term Financial Plan and Funding Position

2. The Authority is required to approve a budget and set a precept (the Authority's share of the council tax bill) for the financial year commencing 1st April 2021. The Authority is required to take into account Government funding, precept regulations and organisational demands. This requirement is supported by the production of a Medium Term Financial Plan (MTFP) with the annual budget forming the first year of the MTFP. The creation and maintenance of the MTFP is fundamental in promoting good financial planning and delivery of value for money. The MTFP is attached as Appendix 1 to this report.

3. Government funding is provided through a Settlement Funding Assessment (SFA) which includes Revenue Support Grant (RSG) and Baseline Funding (i.e. Business Rates paid over to the Authority by the four local authorities), together with a Top Up grant from Government to provide a minimum agreed funding level. A three-year spending review had been expected in 2020 which would have provided some certainty over future funding but in the Chancellor's Statement only a one-year settlement was provided with the full spending review postponed until 2021 due to the impact of Covid-19.

4. The Government pays local authorities (including fire and rescue authorities) Section 31 Grants to counteract the impact of the Government's policy of reducing business rates on new and small businesses. The Government has indicated that this grant is likely to remain in place until revisions to the Business Rates Retention Scheme come into force. Therefore, it has been included in the MTFP. When the grant is withdrawn, the loss of funding should, in theory, be replaced by an increase in business rates receivable from the local authorities.

5. In recent years, the Government has set a limit on the amount by which a local authority can increase its council tax each year, unless it carries out a referendum and gains approval. In the Provisional Local Government Finance Settlement, published in December 2020, the limit for 2021-22 is 2%. The Authority may increase its council tax above this level, but can only do so after approval by the local electorate through a referendum.

6. In addition to the precept, there is the financial impact of both the council tax and business rates collection funds. Each year council tax and business rates income is calculated based on assumed levels of collection rates by the local authorities. This means that, at the end of each year, an adjustment has to be made to reflect the actual collection rates. This can lead to a one-off surplus or deficit on the fund which must be accounted for within the calculation of the following year's net budget requirement, but the actual amounts are not declared until mid-January each year. The Authority will either receive or pay its share of any surplus or deficit.

7. Included within the MTFP and the 2021-22 budget proposals are a number of financial assumptions. The level of expenditure incurred increases each year based on a number of factors such as pay awards, inflation and additional demands or burdens. The following lists the financial assumptions included within the MTFP:

- Pay inflation – 0% for 2021-22 in line with the Government's Spending Review and 1% per annum thereafter
- Price inflation – in line with the Office of National Statistics and known specific increases
- Borrowing – additional borrowing is required to meet the planned capital programme, although the exact timing will depend on the spend profile and interest rate movement. Interest payable is based on forecast interest rates per the Treasury Management Advisors
- Impact of Covid-19 – years 2 and 3 of the collection funds deficits will be included within the MTFP in line with local authorities' forecasts and Government regulations – please see later.

Covid-19 Impact

8. Whilst the report follows a similar format to those that have been presented in previous years, the current and ongoing impact of Covid-19 makes it much more difficult to forward plan with the usual level of relative confidence.

9. The following paragraphs attempt to summarise current understanding of the impact of Covid-19. However, a range of factors could alter the situation and it will be important to regularly return to check assumptions and financial performance to enable financial plans to be reviewed and updated as the impact of Covid-19 becomes clear.

<u>Council Tax base</u>

10. A key source of funding is the Authority's share of council tax. This is calculated based on each local authorities' tax base. A tax base is the number of 'Band D equivalent' domestic properties in a local authority area. To calculate the tax base for an area, the number of properties in each council tax band is adjusted to take account of any discounts, premiums or exemptions and collection rates. It also takes account of the number of households in receipt of council tax support: the higher the number of households receiving council tax support, the lower the council tax base, all other things being equal.

11. In previous years, the tax bases in Cheshire have grown providing additional funding. Due to the pandemic, the previously anticipated growth has not materialised, which reduces the overall level of funding from council tax from the level previously forecast. The tax base for 2021-22 is 380701.40 Band D equivalent properties, an increase of just 567.26 (or 0.15%) compared to the

tax base for 2020-21. The Government have recognised the impact of additional pressures on council tax support schemes on the council tax base and is providing a one-off grant in 2021-22: this is referred to later in the report. It is not clear if and when the previously experienced levels of growth in the tax base will return in future years.

Business Rates Grants (Section 31 Grants)

12. The Authority receives specific grants (referred to as S31 grants) from the Government as compensation for loss of income as a result of policy decisions taken by Government. This usually relates to extensions of small business rates reliefs and other measures to support local businesses. For 2021-22 the Government has frozen the inflation uplift in business rates to support businesses during the pandemic and therefore the level of S31 grants received by the Authority will increase compared to previous years. The amount included in the budget is as follows:

Business Rates S31 Grant	£1.341m

Collection Fund Deficits

13. In accordance with legislation, each of the four Cheshire local authorities is required to account for income and expenditure relating to Council Tax and Business Rates separately from other revenue expenditure. These details are held in a Council Tax Collection Fund and a Business Rates Collection Fund. In January of each year the position on the Collection Funds is reassessed on the basis of collection performance in the year to date and if performance has been better than expected, it can result in an estimated surplus which is shared amongst the local authorities including Cheshire Fire Authority. Conversely if the collection performance has been worse than had been expected, that can result in an estimated deficit, which local authorities including Cheshire Fire Authority, would need to contribute to.

14. The coronavirus pandemic has had a significant impact on the collection performance of the Cheshire authorities in terms of both council tax and business rates in 2020-21. Whereas in previous years there has often been a relatively healthy overall surplus, the estimated position is now predicting significant deficits.

15. The Fire Authority's share of the estimated deficits must be included in the revenue budget for 2021-22. The Government anticipated that local authorities would be in this position and amended secondary legislation to allow authorities to spread the estimated deficits on the 2020-21 Collection Funds over three financial years, from 2021-22 to 2023-24. The provisions do not allow deficits in subsequent financial years to be phased in this way, although it is possible that this situation could change.

16. The forecast deficit on the Business Rates Collection Funds is much greater than had been included in the Fire Authority's Medium Term Financial Plan. Much of the increase is attributable to further support being given to sectors of

the economy considered by the Government to be particularly impacted by the pandemic, including retail, nursery and local newspaper sectors. Although local authorities had initially received compensation for the loss of business rates, this appears to be mainly for cash flow purposes and there is an expectation that it will be repaid.

17. The Regulations relating to the apportionment of the deficit over 3 years, only relate to that part of the deficit that is specific to pandemic events in 2020-21. This results in a charge for each of the next three financial years of £0.104m. The remaining elements of the estimated deficits will need to be included in the 2021-22 budget only. The overall levels to be included in the budget for 2021-22 are as follows:

Deficits on Business Rates Collection Funds	£2.031m
Deficits on Council Tax Collection Funds	£0.084m

Collection Fund Deficit (Coronavirus) S31 Grant

18. The Government are providing support to compensate for loss of business rate income referred to in paragraph 16 above and the impact this loss has had on Collection Funds. At the present time, the indications are that this could amount to £1.974m for the Fire Authority. However the calculation of the Grant will depend on returns submitted by the local authorities with some of those returns not due until March 2021. As a result, the Government is unable to provide indicative allocations and the eventual amount may not be finalised and confirmed until much later in the 2021-22 financial year.

19. The budget for 2021-22 will need to include this grant although there is considerable uncertainty about the level that the Authority will receive. An estimate has been made as to the potential level of grant although this could prove to be inaccurate and may significantly change. Given the uncertainty, it is proposed that a proportion of this grant be set aside in a reserve until the position becomes clearer. The proposed budget includes the following amounts:

Collection Fund Deficit S31 Grant	£1.974m
Contribution to Reserve	(£1.151m)

Local Council Tax Support Grant

20. The autumn 2020 Spending Review contained proposals to provide support to local authorities in recognition of the increased costs of providing local council tax support and other help to economically vulnerable households during the pandemic. The increased level of council tax support has impacted on the council tax base calculations and therefore led to a reduction in council tax income in 2021-22 compared to our planning assumptions. Indicative allocations released in January 2021 suggest that the Authority will receive the following one-off grant in 2021-22

Local Council Tax Support Grant	£0.505m

Local Tax Income Guarantee

21. The Spending Review also contained proposals to compensate local authorities for 75% of their council tax and business rate losses in 2020-21. In December 2020 the Government provided details of these arrangements which it called the Local Tax Income Guarantee.

22. The arrangements for calculating those council tax losses and business rate losses that are within the scope of the guarantee are complex and rely on data from local authorities, some of which will only be available at the end of the financial year. As a result, the Government is unable to provide indicative allocations of the proposed grant which is likely to be distributed by January 2022. In essence, the losses that are within scope are those that have arisen directly as a result of the pandemic rather than losses which may have been expected to occur in a "normal" year.

23. It is not known if the Authority will receive this further support in 2021-22 and if so how much this would amount to. Given the uncertainties at this time, the budget proposals do not include any such amounts. This will be reviewed during the course of the financial year

Proposed Revenue Budget 2021-22

24. 2021-22 budget proposals are based on the Local Government Finance Settlement for 2021-22 which is a one-year settlement. The Settlement includes Council Tax Referendum Principles that allow for an increase in council tax of up to 2%, without triggering a local referendum. If Members were to agree an increase of 1.99% in the council tax, this would generate an additional £646k council tax income compared to 2020-21, based on the tax bases of band D equivalent properties. When other elements of funding are included – such as revenue support grant and business rate income - the overall net revenue budget would increase by £1.37m compared to the previous year, including two one-off grants totalling £2.48m. This is shown in Table 1 below.

Table 1: Financing of the Budget Requirement	2020-21 £000	2021-22 £000	Change £000
Revenue Support Grant	3,991	4,013	22
Business Rate Income	4,462	4,508	46
Business Rates Top Up Grant	5,190	5,190	0
Council Tax Precept (1.99% increase)	30,141	30,787	646
Business Rates S.31 Grant	780	1,341	561
Collection Funds surplus/(deficit)			
Business Rates	7	-2,031	-2,038
Council Tax	260	-84	-344
Collection Fund Deficit S.31 Grant	0	1,974	1,974
Local Council Tax Support Grant	0	505	505
Budget Requirement	**44,831**	**46,203**	**1,372**

25. A separate report on the Agenda deals with the consultation that was undertaken in relation to the proposed Council Tax increase of 1.99%.

26. The proposed revenue budget will need to include suitable provisions for the impact of inflation, as well as proposed additions for unavoidable costs, service developments and increased demands. Permanent growth will form part of the base budget going forward and one-off items for 2021-22 only. A full list is shown in Appendices 2a and 2b with some key items described later in this report.

27. Table 2 below shows the proposed adjustments to the revenue budget. The increase in funding of £1.372m will not be sufficient to balance the budget and therefore savings proposals of £0.499m have been identified to ensure that planned spending matches the level of proposed resources. These proposed savings are shown in Appendix 2c and the total is shown in the table below. The proposals represent a balanced budget of £46.203m for 2021-22.

Table 2: Construction of proposed 2021-22 Revenue Budget	2020-21 £000
Base Budget	43,793
Inflation	321
Commitments (Appendix 2a)	-410
Contribution to Reserves (Appendix 2a)	2,695
Growth – Permanent (Appendix 2a)	279
Growth – One Off (Appendix 2b)	24
Savings (Appendix 2c)	-499
Total Net Revenue Budget	**46,203**

28. The proposed increase in council tax of 1.99% would result in a Band D precept of £80.87p: an increase of £1.58p (or 3p per week) for a Band D property. Should Members wish to propose a council tax precept increase of less than the 1.99%, further savings would be required in order to balance the budget. For example, if Members were to propose a 1% increase or a freeze in the council tax, additional savings of £301k and £602k respectively, would need to be identified.

Commitments

29. Commitments reflect the impact of previous decisions that have a financial consequence in 2021-22 or are due to legal or regulation changes and are shown in Appendix 2a. For example, one-off funding items included in the 2020-21 budget end on 31 March 2021 (shown as Reversal, £474k).

30. Also included is the commitment to provide some funding for the capital programme bearing in mind that the Authority no longer receives any direct Government funding towards such investments.

31. Due to the uncertainty surrounding business rates income, the impact of Covid-19 support on collection funds and the grants that will be received, there is a high risk that the estimated amounts included in this budget will significantly change as stated earlier. A transfer to reserves has been included within the commitments.

Growth proposals

32. In line with the approved Integrated Risk Management Plan (IRMP) and in recognition of the impact of Covid-19 on the service, a number of growth proposals have been made and are set out in Appendix 2a

33. In response to the Covid-19 pandemic, the service has been following national guidance with regards to the provision of Personal Protective Equipment (PPE) and cleaning products to ensure the safety of its personnel. Government funding was initially available to support the purchasing of these essential items, however there is no guarantee that further funding will be forthcoming. This budget includes growth to cover all of the items that are being used to specifically mitigate the risk of the spread of Covid-19.

34. Funding was previously provided for the increase in the Firefighter's Pension Scheme employers' contributions. While Government grant was anticipated towards this, the amount is slightly higher and therefore previous growth can be reduced accordingly.

35. The workforce planning report submitted to the Staffing Committee in October 2019 addressed the need to ensure the Authority has a competent and inclusive workforce and to address any skills shortages. The report looked at the need to recruit and maintain adequate crewing and skill levels in response to leavers and retirements. In the short-term this meant Service Delivery running over establishment requiring additional funding while staff go through training and become competent in their roles. Additional funding was provided in 2020-21 to cover this temporary increase based on workforce plans that showed a need to be 30 posts above establishment. Based on the current workforce plan as reported to Staffing Committee in November 2020, this is expected to reduce to 15 posts above establishment during 2021-22.

One-off growth items

36. As part of the IRMP, Rapid Response Rescue Units (RRRUs) will be deployed over the next year. These will require radios and a one-off growth has been included to fund this vital equipment.

37. The Service currently has a supply of portable Carbon Monoxide detectors (CO) which are used by officers in Service Delivery and Prevention as well as by Flexi-Duty Officers carrying out Fire Investigation (FI) roles. The detectors allow quick identification of CO which is the most abundant flammable and toxic gas produced in fire. The current units were purchased in 2011 with a 10-year lifespan. As such the proposal is to buy 68 units to ensure that this

vital resource continues to be available. It will be funded from the appropriate earmarked reserve.

38. Fleet has retained an apprentice as a full time mechanic within the workshop to support the increased activity as the IRMP investment in vehicles is rolled out.

39. Finally, when Safety Central was opened, its budget included funding for building maintenance etc. As it is still a relatively new building, this funding has not been required to-date. As such it is proposed to release this again for 2021-22 to support other one-off investments.

Savings proposals

40. As shown earlier in the report, assuming the proposed increases in expenditure are approved, savings will be required as the level of funding from the Government, local business rates and council tax precept, is not sufficient to meet expenditure demands. Proposals for savings totalling £499k have been identified which provide a balanced budget position. A full list of the proposed savings is included in Appendix 2c.

41. As part of the overall budget setting process, each department's non-pay budget has been scrutinised to ensure that it remains relevant, fit for purpose and in line with current commitments and expenditure plans.

Capital Strategy

42. In addition to the revenue budgets, a programme of capital investment is proposed for 2021-22. Wherever there is discretion about elements of the programme Members have previously been supplied with business cases at their Planning Days to gauge their support. Funding for these comes from reserves held by the Authority and borrowing, when necessary. Details of the proposed capital programme is shown in the following table together with the proposed funding. Further details are included in the Capital Strategy which is attached to this report as Appendix 3.

Table 3 Capital Programme 2021-22	**2021-22 £000**
Expenditure:	
Annual Replacement Schemes:	
Fleet Vehicles	1,150
Operational Equipment	28
New Schemes:	
Estates – Crewe FS	900
Estates – FS Modernisation	5,800
Estates – Houses Modernisation	350
Capital Expenditure	**8,228**
Financed by:	
General capital grants	0
Capital Receipts	450
Capital Reserves & Revenue Contributions	3,778
Borrowing	4,000
Total Funding	**8,228**

Reserves Strategy

43. Section 25 of the Local Government Act 2003 places a requirement on Chief Finance Officers to formally report on the adequacy of the reserves. They assess this in the context of the strategic, operational and financial risks and opportunities facing an authority. A Reserves Strategy is attached to this report as Appendix 4. While holding reserves is a recognised and recommended financial management tool, the levels of such reserves must remain prudent, appropriate to the level of risk and opportunity and not excessive.

Financial Health Targets

44. It is considered best practice to maintain a set of Financial Health Targets. The Financial Health Targets below are those previously 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).

45. Performance against these targets will be reported to Members as part of the quarterly financial reviews.

Robustness of Estimates

46. Section 25 of the Local Government Act 2003 places a requirement on Chief Finance Officers to report on the robustness of estimates used in preparation of the budget proposals. Details of how this requirement has been met are set out in Appendix 5.

Council Tax Precept

47. The Authority levies a precept upon the council tax in Cheshire, which is collected on its behalf by the four unitary authorities. To calculate the level of funding, each local authority calculates the tax base (the assimilated number of council tax bills issued which takes into account changes in the number of houses, housing benefits etc.). Compared to 2020-21 the overall tax base for 2021-22 has increased by 567. This is a significantly lower increase than in previous years due to the impact of Covid-19.

48. The following tables show the proposed level of precepts for each local authority and the individual amount per each council tax band based on the proposed increase of 1.99%.

Table 4 – Council Tax Precepts

Unitary Council	Tax base	1.99% Increase
Cheshire East	153,796.10	12,437,491
Cheshire West & Chester	122,724.30	9,924,714
Halton	35,154.00	2,842,904
Warrington	69,027.00	5,582,213
	380,701.40	**30,787,322**

Table 5 – Council Tax for each band

Bands	2021-22 1.99% £	2020-21 Actual £	Yearly Increase £	Weekly Increase pence
A	53.91	52.86	1.05	2p
B	62.90	61.67	1.23	2p
C	71.88	70.48	1.40	3p
D	80.87	79.29	1.58	3p
E	98.84	96.91	1.93	4p
F	116.81	114.53	2.28	4p
G	134.78	132.15	2.63	5p
H	161.74	158.57	3.17	6p

Conclusion

50. The 2020-21 budget proposals are based on the Local Government Finance Settlement was again a one-year settlement. Going forward funding remains uncertain and subject to the proposed spending review in 2021 as well as the on-going financial impact of the pandemic. Savings have been identified as a result of thorough reviews of budgets with the intention to protect front-line services and ensure continuity of service delivery.

51. The Local Government Finance Settlement for 2021-22 includes Council Tax Referendum Principles that allow for an increase in council tax of up to 2%. If Members were to agree an increase of 1.99% in the council tax, this would generate an additional £646k council tax income compared to 2020-21 taking into account the much lower increase in the taxbase as a consequence of the pandemic.

52. Section 43 of the Local Government Finance Act 1992 requires an authority to set its budget requirement. Based on the proposed council tax increase of 1.99%, the budget requirement (the amount financed by council tax, government grant and business rate income) will amount to £46.203m.

Financial Implications

53. This report is financial in nature.

Legal Implications

54. 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, Diversity and Environmental Implications

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

BACKGROUND PAPERS: NONE

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Appendix 1

CHESHIRE FIRE AUTHORITY
MEDIUM TERM FINANCIAL PLAN - 2021 TO 2026

1. INTRODUCTION

1.1. The purpose of the Medium Term Financial Plan (MTFP) is to provide the Authority, staff, the public and other stakeholders' information on the financial outlook and the estimated available financing over the next five years. The MTFP takes into account future high level potential revenue and capital expenditure over the period based upon current information.

1.2. The Authority has set out its vision for a Cheshire where there are no deaths, injuries or damage from fires and other emergencies, with a mission to help create safer communities, to rescue people and protect economic, environmental and community interests.

1.3. From this the following aims and objectives have been developed:

To protect our communities and reduce local risks we will:

- Maintain a detailed understanding of our communities and carry out risk analysis and assessment to identify the people and property most at risk
- Deliver campaigns and projects to reduce antisocial behaviour and increase awareness of fire and road safety
- Ensure fire safety legislation is implemented effectively.

In responding to emergencies we will:

- Ensure plans and resources are in place to provide a flexible, efficient and resilient response to emergency incidents
- Use intelligence and data to match resources to risk and demand
- Ensure the safety of our people by providing them with the right equipment, training and skills.

In developing an excellent organisation, we will:

- Ensure our workforce is competent and able to deliver our vision
- Inform and involve our communities and our staff in developing services and policies which are open, transparent and accountable
- Deliver value for money services which maximise community safety and minimise our impact on the environment.

1.4. Linked to the above are the core values of Cheshire Fire and Rescue Service.

- **Be Inclusive** - by acting fairly, with integrity, respect and without prejudice

- **Do the Right Thing** - by holding each other to account for ensuring high standards of professionalism in everything we do

- **Act with Compassion** - by being understanding and offering help to each other and to our communities with warmth, patience and kindness

- **Make a Difference** - by making an impact in our organisation and in our communities in whatever ways we can, for as many people as we can

2. THE BUDGET STRATEGY 2021-22

2.1. With the above vision, statements and objectives in mind, the purpose of this strategy is to provide a basis for determining:

- The level of funding available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of collaborations, partnerships etc.;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels;
- The impact of additional demands on the level of council tax; and
- The main financial risks facing the organisation.

2.2. The above determines the level of funding and demands on finances over the MTFP period enabling strategic financial planning processes to address the challenges and outcomes. The following set out the key principles for that planning process:

- Ensure that plans contribute to improved outcomes in support of set priorities within the Integrated Risk Management Plan (IRMP);
- Set a comprehensive, timely, balanced and realistic budget;
- Take into account pay and price inflation and achievability of savings;
- Complies with the approved treasury management strategy;
- Complies with the approved reserves strategy;
- Raise awareness of and communicate key financial messages both internally and externally;
- Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term;
- All spending plans will need to demonstrate that they can achieve value for money;
- Spending will be agreed only when the necessary funding is identified and approved;
- External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs; and
- Budget proposals will be publicised and consulted upon with stakeholders in an open and transparent manner.

3. FINANCIAL SCENARIO

3.1. It is imperative that the MTFP takes account of the regional, national and global economic climates, particularly in light of uncertainty over medium to long-term funding and the impact of the Covid-19 pandemic.

3.2. The Authority receives its main funding from three sources – Government funding, a share of local business rates and local council tax (known as a precept).

3.3. Government funding is provided through a Settlement Funding Assessment (SFA) which includes Revenue Support Grant (RSG) and Baseline Funding (i.e. Business Rates paid over to the Authority by the four local authorities), together with a Top Up grant from Government to provide a minimum agreed funding level. A three year spending review had been expected in 2019 and again in 2020, which would have provided some certainty over funding in the medium term but in the Chancellor's statement only a one-year settlement was provided with the full spending review postponed until 2021, due to the impact of Covid-19.

3.4. A precept is levied on the council tax to partly fund the fire and rescue services in Cheshire and it is the responsibility of the Authority to set the level of precept as part of the annual budget setting process. To calculate the level of funding available, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, council tax benefits, discounts etc. These vary each year and the MTFP includes assumptions for these changes based on discussions and forecasts supplied by the local authorities.

3.5. As a result of the Covid-19 pandemic, the taxbases have, for the first time, fallen in some cases due to increases in benefits claimed, anticipated collection rate and bad debt provisions, all of which impact on the taxbase calculation. As a result, the amount of funding from the council tax precept will be less than previously forecast – whether the amount charged is increased or not. This is being carefully monitored with the four local authorities, and future year's assumptions updated as further data becomes available.

3.6. In recent years the Government has set a limit on the amount by which a local authority can increase its Council Tax each year, without being required to carry out a local referendum. As part of the Local Government Finance Settlement announced in December 2020, the limit is set at 2% for 2021/22. The Authority may increase its Council Tax above this level, but can only do so after approval by the local electorate through a referendum.

3.7. Each year Council Tax income is calculated based on assumed levels of collection rates by the local authorities. This means that, at the end of each year, an adjustment has to be made to reflect the actual collection rates. This can lead to a one-off surplus or deficit on the fund which is accounted for within the calculation of the following year's net budget requirement, but the actual amounts are not declared until mid-January each year. Given the impact of the Covid-19 pandemic on the economy and therefore, on the ability of local authorities to recover council tax, there is a clear risk to the collection funds achieving their forecast income levels.

3.8. In past MTFPs there has been an assumption included that each of the four local authorities would declare surpluses for which the Authority would receive its share - which has always been over achieved. However, this is no longer appropriate under the current pandemic and as such, the MTFP has been updated to reflect the forecast deficits, spread over three years in line with the Government's regulations.

3.9. Based on the above, the following table sets out the forecast funding available over the period of the MTFP. Although there are proposed increases in council tax included within this table, the actual decision to increase or not remains with the Authority each year as part of its budget setting process.

Table 1 - Funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Government - Settlement Funding Assessment	-13,710	-13,710	-13,710	-13,710	-13,710
Section 31 Business Rates Grant	-1,341	-780	-780	-780	-780
Section 31 Collection Fund Deficit (Coronavirus) Grant	-1,974	0	0	0	0
Section 31 LCTS Grant	-505	0	0	0	0
Collection Fund - business rates	2,031	104	104	100	100
Precept (Council Tax)	-30,787	-31,506	-32,341	-33,230	-34,231
Collection Fund - council tax	84	124	124	0	0
Total Funding	**-46,202**	**-45,768**	**-46,603**	**-47,620**	**-48,621**
Council taxbase	380,701	381,988	384,458	387,342	391,215
Precept (Council Tax - Band D)	£80.87	£82.48	£84.12	£85.79	£87.50
Forecast % increase	1.99%	1.99%	1.99%	1.99%	1.99%

4. FINANCIAL ASSUMPTIONS

4.1. The level of expenditure incurred increases each year based on a number of factors such as pay awards, inflation and additional demands or burdens. The following lists the financial assumptions included within the MTFP:

- Pay inflation – 0% in 2021/22 in line with Government's announcement and 1% for the following two years, rising to 1.5% and finally 2.5% per annum

- Price inflation – in line with the Office of National Statistics and known specific increases

- Borrowing – additional borrowing is required to meet the planned capital programme, although the exact timing will depend on spend and interest rate movement. Interest payable is based on forecast interest rates set by the Treasury Management Advisors

- Funding – in terms of Government funding post 2021/22, there is no certainty. A spending review is forecast for 2021 but with the impact of Covid-19 on the economy and the national debt level, the actual economic outlook remains challenging. As such the MTFP currently shows no increase to funding outside of precept options.

5. FINANCIAL FORECASTS 2021-26

5.1. It is important to note that the MTFP is a high level strategy document which summarises plans over the medium term based upon current projections and assumptions. As additional updated information becomes available it will be subject to change. A certain amount of detailed budget information is presented, such as the table below. However, this should be regarded as indicative and illustrative. The MTFP will inform the Authority's budget setting process, as will other tools such as consultation with residents. The figures quoted here will be amended and refined as additional information comes to light and the detailed annual budgets are developed.

5.2. Based on current information, priorities and assumptions, the table below sets out an indicative budget for 2020/21 to 2025/26. The figures show the budget gap assuming a 1.99% increase in the Fire element of council tax for all years, should the Authority approve this level of increase. Savings will need to be identified to meet these predicted shortfalls.

Table 2 – Financial forecasts	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Base Budget	43,792	43,442	44,205	45,039	46,056
Inflation	321	634	645	813	1,146
Estimated Growth - permanent	279	500	500	500	500
Net impact of 2020/21 one-off items	-474	0	0	0	0
Net impact of 2021/22 one-off items	24	-24	0	0	0
Transfer to revenue reserves - base budget	1,215	64	64	64	64
Transfer to capital reserves - base budget	1,544	1,500	1,500	1,500	1,500
Net Budget	**46,701**	**46,116**	**46,914**	**47,916**	**49,266**
Funding:					
Government - Settlement Funding Assessment	-13,710	-13,710	-13,710	-13,710	-13,710
Section 31 Business Rates Grant	-1,341	-780	-780	-780	-780
Section 31 Collection Fund Deficit (Coronavirus) Grant	-1,974	0	0	0	0
Section 31 LCTS Grant	-505	0	0	0	0
Collection Fund - business rates	2,031	104	104	100	100
Precept (Council Tax)	-30,787	-31,506	-32,341	-33,230	-34,231
Collection Fund - council tax	84	124	124	0	0
Total Funding	**-46,202**	**-45,768**	**-46,603**	**-47,620**	**-48,621**
Budget Shortfall	**499**	**348**	**311**	**296**	**645**

6. GROWTH

6.1. Growth can arise from a number of areas such as increased service demands, new burdens or temporary investment to support change etc. All growth is scrutinised through the Service Management Team to ensure they reflect genuine unavoidable growth and are in line with the vision, objectives and plans of the Fire Authority. Business cases are produced and shared with Members as part of the budget setting process.

6.2. Where growth is temporary and there are specific earmarked reserves set aside to support the associated spend, these reserves will be used to fund the growth. This growth is subject to the same scrutiny as permanent growth.

7. PROPOSED SAVINGS

7.1. As part of the review of expenditure and the potential for further efficiencies and savings, it is important to understand how the Authority currently spends its funding. The following table shows that 64% is spent on employees pay with the remaining funding spent on non-pay items.

Table 3: Type of Expenditure	% Split
Employees Pay	64
Pensions & Other Employee Costs	3
Premises	6
Transport	3
Supplies and Services	9
Agency and Contracted Services	11
Finance Resources	2
Contribution to capital reserves	2
Total	**100**

7.2. A full and in-depth review has been undertaken of all non-pay budgets, challenging what is held and how it is spent. This has provided savings for 2021/22 whilst ensuring these budgets are at a sustainable level for the future.

7.3. The outcome of the Whole Service Review informed the current approved Integrated Risk Management Plan (IRMP) covering the period from 2020 to 2024. The plan provides information on the risks facing Cheshire Fire and Rescue Service and details how the organisation is structured and operates to mitigate these risks. It also details how Cheshire Fire Authority is funded and outlines plans over the next four years.

7.4. With the forecasts showing that further year on year savings may be required and to ensure that the limited resources are directed to support the Authority's priorities, the Service introduced Priority Based Budgeting (PBB). PBB provides a comprehensive review of the entire Authority's budget, identifying and ranking the services provided on the basis of the Authority's priorities. The diagnostic process enables officers to advise the Authority about linking funding decisions to priorities in the strategic plan.

8. RISKS & SENSITIVITY ANALYSIS

8.1. As with any assumptions there are risks that the actual outcome will be different. There are three key assumptions included within this MTFP that could impact significantly upon the figures presented in this MTFP. These are the level of government funding, the amount of council tax received and the level of pay awards agreed nationally. As such the following details the financial impact of changes to the levels assumed in Financial Forecasts table. It is also important to note that these changes would be cumulative as they represent a change to base level funding.

- For each change of 0.5% in the level of government funding, the impact would be either a reduction or increase in the budget gap of £68k.
- For every 0.5% above or below the proposed 1.99% Band D council tax increase post 2021, the impact would be a change in funding levels by approximately £150k per annum.
- Likewise a 0.5% movement in the firefighter pay award would have a potential £250k impact on the budget gap.

8.2. In December 2018, the Court of Appeal has ruled that the Government's changes to firefighters pensions were discriminatory on the grounds of age. This has been accepted by the Government and the remedy is currently being calculated and agreed. However, the final costs and source of funding remain uncertain.

9. INDICATIVE CAPITAL PROGRAMME

9.1. In addition to the revenue budgets, a programme of capital investment is proposed within the MTFP. Funding for these comes from reserves held by the Authority and borrowing. Spending profiles are indicative based on current knowledge and actual spend is monitored in year and reported to Members in the quarterly reviews.

9.2. The following table shows the indicative capital programme and proposed funding.

Table 4 – Indicative Capital Programme	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Annual Replacement Schemes:					
Fleet Vehicles	1,150	954	978	960	960
Operational Equipment	28	350	350	350	350
ICT & Communications	0	50	50	50	50
New Schemes:					
Estates – ERP Station Builds	0	0	0	0	0
Estates – Training Centre	0	0	0	0	0
Estates – Chester FS	0	0	0	0	0
Estates – Crewe FS	900	6,000	0	0	0
Estates – FS Modernisation	5,800	3,000	3,000	0	0
Estates – Houses Modernisation	350	0	0	0	0
Estates – Wilmslow Facility	0	3,000	0	0	0
Provision for New Projects	0	0	0	250	250
Capital Expenditure	**8,228**	**13,354**	**4,378**	**1,610**	**1,610**
Financed by:					
General capital grants	0	0	0	0	0
Capital Receipts	450	0	0	0	0
Capital Reserves & Revenue Contributions	3,778	5,354	2,378	1,610	1,610
Borrowing	4,000	8,000	2,000	0	0
Total Funding	**8,228**	**13,354**	**4,378**	**1,610**	**1,610**

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APPENDIX 2A

Commitments:	£000
Reversal of 2020-21 one-off items	-474
Annual contribution of RHI Income to Environment Reserve	25
Poynton Joint (Police & Fire) Maintenance Reserve	5
Contributions to reserve - MDTs replacement	34
Business Rates Collection Fund Deficits - transfer to revenue reserve	1,151
Revenue contribution to capital reserves	1,544
	2,285

Growth:	£000
Additional radios - on call appliances & RRRUs	59
Sadler Road site training facility - Fireground Technician - part year	20
Estates Project Manager - Station Refurbishment	57
Project Business Manager - Systems & Business Improvement	28
2021-22 Operational Uniform - additional thermal fleece with crest	4
2021-22 Operational Equipment - COVID19 requirements	120
Agile working – equipment etc.	41
Hydrants - installations & repairs (part reversal of £50k 2020-21 budget bid)	-20
Service Delivery - realignment of budget to match Establishment (part reversal)	-510
Capital financing interest and loan repayment - Training Centre	502
Capital financing interest and loan repayment - Workforce Modernisation	180
Fire Service Accreditation BS EN ISO/IEC 17020:2012	-3
Mental Health & Wellbeing - World Mental Health Day (expansion of activity)	6
Mental Health & Wellbeing - TRiM Practitioner Training (additional cohort)	7
Mental Health & Wellbeing - Mental Health First Aid Training	1
External Audit costs - Redmond Review	8
IT Health Check	11
Firefighters pension scheme - increase in employers rate (additional grant funding)	-348
North West Fire Control – Uplift	41
BLC Support Services – Uplift	24
Reduction in investment interest	50
	279

APPENDIX 2B

One-off Items:	£000
2021-22 Operational Equipment - Purchase of Radios for RRRUs	7
2021-22 Operational Equipment - Carbon Monoxide alarms (replacements)	7
Temporary Workshop Mechanic	37
Safety Central 2021-22 (one off saving) - early building life	-20
	31
Less: funded by reserves	-7
	24

APPENDIX 2C

Savings:	£000
Business Rates - fire station valuation scheme for rating	-90
Pension gratuities	-1
HR system following purchase of perpetual licence re access	-11
High Potential Development/Leadership Programme – budget review	-32
Customer Services supplies & services budgets	-3
Customer Services photocopier budget	-36
Customer Services postage/printing budget	-9
Corporate Uniforms – BLC savings	-11
Corporate Communications – further use of on-line communications	-45
Smoke Alarms – reduction	-71
Prevention - budget review	-1
Safety Central - budget review	-17
Volunteers - budget review	-2
Cadets - budget review	-2
TYST - budget review	-5
Transformation - budget review	-3
Executive Management - budget review	-15
Central contingencies – budget review	-80
Invest to Save - Photovoltaic Panels	-3
S13/S16 cross border charges	-16
SMT restructure	-46
	-499

Appendix 3

CAPITAL STRATEGY
2021 TO 2026

1. INTRODUCTION

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities ("the Code") was updated in December 2017 establishing a framework that supports local strategic planning, asset management and appropriate options appraisal. The creation and approval of a Capital Strategy is a requirement of the Code.

1.2. The objectives of the Code are to ensure that the capital plans of an organisation are affordable, prudent and sustainable and the treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.3. This document updates the Capital Strategy approved by the Fire Authority in February 2020.

2. DEFINITION

2.1. To utilise the full extent of the Code and its framework, it is essential that there is a clear understanding of what is capital expenditure. Unless expenditure qualifies as capital it will normally fall outside the scope of the Code and its framework and be charged to revenue in the period in which its goods or services were received. If expenditure does qualify as capital, there are opportunities to finance such spend from any capital receipts held or to spread the cost over future years in line with the life of the asset(s) purchased.

2.2. In the main, expenditure must meet one or more of the following conditions for it to be classified as capital:

- Spend results in the acquisition, construction or enhancement of an asset (tangible or intangible) in accordance with 'proper practices';
- Spend meets one of the definitions specified in regulations made under the 2003 Local Government Act; or
- The Secretary of State makes a direction that the expenditure can be treated as capital.

3. CONTEXT

3.1. The capital programme requirements of the fire sector nationally are by nature limited in comparison to other public sector organisations such as local authorities who have diverse responsibilities to prioritise including Schools, Housing, Highways and Economic Development. Certainly this is true of Cheshire Fire Authority with its capital expenditure plans largely limited to replacing essential operational assets (e.g. Vehicles, Equipment, Communications Infrastructure) together with individual ad-hoc capital investment schemes aimed at improving efficiency and operational performance/priorities which tend to be largely estate based. Examples include the completed programme to build 4 new fire stations and Safety Central, along with currently in progress and approved schemes to build a new Operational Training Facility, modernise a number of existing fire stations and build replacement fire stations in Chester, Crewe and Wilmslow.

3.2. In its *'Integrated Risk Management Plan 2020-24'*, the Authority sets out its vision for fire and rescue services in Cheshire. The plan sets out a vision in which Cheshire Fire and Rescue Service focus on improving the safety of local communities and in developing its services and its people.

Our vision:

"A Cheshire where there are no deaths, injuries or damage from fires or other emergencies."

To help translate that plan into action the Authority continues to review and develop three key priorities, Saving Lives, Changing Lives and Protecting Lives, with each supported by specific objectives as follows:

Prevention

- Expanding our Safe and Well programme
- Focusing on road safety

Protection

- Reviewing Our Risk Based Inspection Programme
- Safety in Houses of Multiple Occupation

Emergency Response

- Replacing the Authority's third aerial appliance
- Relocating Ellesmere Port's second fire engine
- Changing the crewing arrangements at Wilmslow Fire Station from Nucleus Duty System to a Day Crewing Duty System
- Expand our response to road traffic collisions

3.3. The Fire Authority is committed to having rolling medium term revenue and capital plans (summarised in a Medium Term Financial Plan – MTFP) that usually extend for up to 5 years. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable the Authority to achieve the aims and objectives established in the current strategic plan.

3.4. Prior to the start of austerity, general capital grant funding of over £1m was received each year. This helped fund annual replacement of vehicles, IT and operational equipment and capital maintenance of fire buildings. Since austerity measures this general grant funding has ended with none received after 2014/15. As a result all capital investment since 2015 has been funded from the Authority's own reserves unless specific funding was available. The Authority was very successful in bidding for and achieving specific grant funding towards both the safety centre and community fire station builds. However no further government capital grant funding is anticipated going forward. The level of reserves currently held will not be sufficient to fund the current and proposed capital programmes over the medium term and borrowing will therefore be required going forward to meet the annual replacement programmes let alone investment in new technology and estate. Borrowing incurs on-going costs of interest payments and the funding set aside to repay the loan in due course.

3.5. Key focuses of the Capital Programme plans, all aligned to achieving the Fire Authority's priorities above are:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and improving core training facilities.
- The replacement of other core assets where necessary, e.g. vehicles, operational equipment and communication infrastructure.
- Development of improved capability.
- To ensure provision is made for Digital Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative and efficient digital services.
- Invest to Save Schemes.

3.6. The plans acknowledge the constrained financial position of the Authority and maximise both the available financial resources and the capacity that the Service has to manage change projects.

4. GOVERNANCE

4.1. The annual budget setting process is an ongoing process with the Joint Strategic Change team and other key stakeholder groups assisting departmental managers to identify change proposals and develop business cases for future capital investment requirements with ideas aligned to strategic plan priorities.

4.2. Business cases must explicitly identify the organisational requirement, rationale, deliverables, benefits, links to Fire Authority priorities, and costs in terms of both capital investment and ongoing revenue consequences.

4.3. Based on an agreed budget setting timetable, business cases are submitted for presentation to and scrutiny review by the Service Management Team (SMT) along with an initial view of potential affordability. Prioritisation is then made, taking into account the following in order of priority:

- Unavoidable (statutory, contractual, or tortuous liability);
- Operational Need (Enables continuity of agreed service delivery levels and priorities);
- Strategic Plan Improvement Priority;
- Other (efficiency, invest to save, leverage of external funding, etc).

4.4. An updated Draft Medium Term Financial Plan (MTFP), including a recommended Capital Programme, is then presented to the Fire Authority, providing views on affordability, potential funding issues and options.

4.5. A final version of the MTFP is then presented to the Fire Authority for approval in February preceding the years in question. The MTFP reflects the known funding position and any further updates to the plan. At this stage, the Fire Authority is recommended to agree the capital budget for the following year and acknowledges the intention for planning purposes of the remaining years of the MTFP.

4.6. Where in year additions to the approved Capital Programme are identified, a business case will be prepared and reviewed by the appropriate board/group (e.g. Performance and Programme Board or Land and Stations Working Group) before being submitted to the SMT. The SMT will then submit to the Fire Authority for consideration and approval, including details of how the new scheme is to be funded, delivered and benefits realised, noting any ongoing MTFP implications.

4.7. Currently approved Financial Regulations (Section 10 of the Fire Authority Constitution) specify individual officer roles and responsibilities relating to the capital programme along with a number of key controls as follows:

- Where a capital scheme is estimated to be overspent, if the overspend is estimated to be 10% or more than £100k, whichever is the lower (with a de-minimus of £10k), then approval to fund the overspend must be sought from the Authority.

- Where the overspend is estimated to be less than 10% and less than £100k, SMT will consider the overspend in the context of the overall programme, and if the overspend is unavoidable will either utilise the capital contingency, vire budget from an existing scheme or fund the overspend by contribution from the revenue budget or from reserves.

- Income which is the result of disposing of an asset and which is greater than £10k will be considered as a capital receipt. All other income will be treated as revenue.

- The Chief Fire Officer and Chief Executive and the Treasurer or the Head of Finance may jointly increase the amount of the Capital Programme by a maximum of £100k per annum, providing that any increase is for a new scheme(s), and the Head of Finance is satisfied with the funding arrangements.

- An increase approved by the Chief Fire Officer and Chief Executive and the Treasurer or the Head of Finance will be reported to Performance and Overview Committee at the earliest opportunity.

4.8. Following approval of the capital programme, a programme manager or project manager and a user representative is identified for each capital project. That individual is responsible for managing the project implementation and delivering its objectives. For all projects within the capital programme a Senior Officer is identified as project sponsor.

4.9. Monitoring progress against capital schemes is reported on at least a quarterly basis to the Performance and Programme Board, Land and Stations Working Group (where appropriate), SMT and to Performance and Overview Committee.

4.10. Once projects have been completed the programme or project manager completes a post implementation review for the major capital projects. This includes identifying at what stage the post project review will be carried out. The post project report is reviewed by the Performance and Programme Board and escalated to the SMT if required.

4.11. To evaluate the success and outcomes of capital projects a post project review is carried out. The depth of this review is proportionate to the scale of the project and the benefits set out in the initial Project Initiation Documentation. This review focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital, and the impact of other funding and partnership working. This information can then be used to learn lessons and make any improvements during subsequent projects.

5. FUNDING STREAMS

5.1. Capital expenditure can be funded from a number of sources as set out below:

- **Government Grants** – these are either general grants which can be used to fund any capital spend approved by the Authority or specific grants which can only be used to fund specific projects in line with any conditions placed with the grant. Cheshire Fire Authority has not received an annual government capital grant allocation since 2014/15;

- **Capital Receipts** – when an asset held by the Authority is sold, the proceeds are held in reserve to be used either to fund future capital expenditure or to repay debt. They cannot be used to fund revenue expenditure;

- **Reserves** – funds can be set aside and held in earmarked reserves if known expenditure is to be incurred at a future date. These reserves can then be used to fund such expenditure be it capital or revenue. In terms of capital expenditure, it may be known that a specific asset may need replacing in 10 years and therefore funds are set-aside each year to build up the reserve to fund the replacement. Details of the reserves held are found within the Authority's Reserves Strategy;

- **External Contributions** – these are funds or grants provided by external organisations such as collaboration partners or local authorities for specifically agreed capital expenditure; and

- **Borrowing** – the Authority is permitted in law to take out loans or financing to fund capital expenditure. The Prudential Code sets out the requirements under which such borrowing must be undertaken including affordability, prudence and cost effectiveness. Any borrowing will incur costs for interest payable and the need to set-aside sufficient funds to repay the loan. These costs impact on the revenue budget.

6. CAPITAL PROGRAMME

6.1. The following table shows the Authority's overall Capital Programme and how it is to be funded from 2020/21 to 2025/26, figures quoted include both in-year approvals and schemes rolled forward from previous years. They therefore represent estimates of total capital expenditure in each year:

2020/21 Estimate £000		2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
	Expenditure:					
	Annual Replacement Schemes:					
1,679	Fleet Vehicles	1,150	954	978	960	960
98	Operational Equipment	28	350	350	350	350
520	ICT & Communications	0	50	50	50	50
	New Schemes:					
3	Estates – ERP Station Builds	0	0	0	0	0
4,339	Estates – Training Centre	0	0	0	0	0
4,000	Estates – Chester FS	0	0	0	0	0
80	Estates – Crewe FS	900	6,000	0	0	0
3,757	Estates – FS Modernisation	5,800	3,000	3,000	0	0
321	Estates – Houses Modernisation	350	0	0	0	0
0	Estates – Wilmslow Facility	0	3,000	0	0	0
0	Provision for New Projects	0	0	0	250	250
14,797	**Capital Expenditure**	**8,228**	**13,354**	**4,378**	**1,610**	**1,610**
	Financed by:					
0	General capital grants	0	0	0	0	0
430	Capital Receipts	450	0	0	0	0
7,964	Capital Reserves & Revenue Contributions	3,778	5,354	2,378	1,610	1,610
6,403	Borrowing	4,000	8,000	2,000	0	0
14,797	**Total Funding**	**8,228**	**13,354**	**4,378**	**1,610**	**1,610**

7. AFFORDABILITY

7.1. Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impact on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, the Fire Authority sets and reviews a number of prudential indicators showing the proposed capital expenditure plans, how they are to be funded, the impact on the organisation's finances and their affordability in terms of the impact on revenue budgets.

7.2. Full details and commentary on the prudential indicators are found within the Authority's Treasury Management Strategy 2021/22. Along with controls and limits relating to levels of capital expenditure and resulting borrowing requirements, these prudential indicators also include a specific affordability indicator, shown below, which provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax):

Treasury management Strategy 2021/22 - Table 5: Ratio of financing costs to net revenue funding

2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
0.66%	0.91%	1.97%	2.79%	3.45%	3.44%	3.28%

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals included in the budget/MTFP.

7.3. The above ratio is increasing due largely to the removal of available capital grant funding from 2015 and the requirement to increase borrowing in order to finance the approved major build projects. The affordability of this will therefore continue to be reviewed alongside the MTFP.

8. RISK MANAGEMENT

8.1. Risk is the threat that an event or action will adversely affect the Authority's ability to achieve its desired outcomes and ability to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

8.2. The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

8.3. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk for each scheme and for the capital programme as a whole, especially when investing in complex business change programmes. Where greater risks are identified as necessary to achieve desired outcomes, the organisation will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

8.4. The Treasurer and Joint Head of Finance will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

8.5. Credit Risk - The risk that an organisation with which we have contracted to deliver capital projects becomes insolvent and cannot complete the agreed contract. We will ensure that robust due diligence procedures cover the appointment of partners and contractors relating to capital programme delivery. Where possible contingency plans will be identified at the outset.

8.6. Liquidity Risk - This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. There is also a risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes and mitigating actions taken promptly where appropriate.

8.7. Interest and Exchange Rate Risk - This is the risk that interest rates or exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

8.8. Inflation Risk - This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

8.9. Legal and Regulatory Risk - This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Authority will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

8.10. Fraud, Error and Corruption - This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Cheshire Fire Authority has a strong ethical culture which is evidenced through its values, principles and appropriate behaviour. This is supported by a Code of Ethics and detailed policies such as Anti-Fraud and Corruption and processes such as that in relation to Declaration of Interests.

9. FUTURE ACTIONS

9.1. This Capital Strategy currently looks ahead over the next 5 years to 2026. It will be reviewed to consider whether it would be appropriate and of value to extend this period to cover a longer term period of for example 10 or 20 years.

9.2. In view of the removal of ongoing government funding for capital programme expenditure since the commencement of austerity measures, alternative potential funding arrangements will need to be considered which will include the extension of partnerships and collaborations.

9.3. It will be continually reviewed in light of emerging and changing local issues, circumstances and priorities.

APPENDIX 4

RESERVES STRATEGY 2021 TO 2026

Background

1. The requirement for a local authority to maintain financial reserves is acknowledged in legislation: the Local Government Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

2. In addition to holding financial reserves, there are a number of safeguards in place that mitigate against the risk of local authorities over committing themselves financially:

   - There is a legal requirement to set a balanced budget;

   - In accordance with the 1988 Local Government Finance Act the Chief Finance Officer (Section 151 Officer) must report if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that expenditure will exceed resources;

   - The external auditor's responsibility to review and report on financial standing.

3. While it is primarily the responsibility of Members and the Section 151 Officer to maintain a sound financial position, external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. The work undertaken by external auditors will include a review of the level of reserves and the advice given to Members by the Chief Finance Officer.

4. The Fire and Rescue National Framework (May 2018) includes the requirement that fire authorities "should establish a policy on reserves and provisions in consultation with their Chief Finance Officer". It also requires that "fire authorities should publish their reserves strategy, including details of the current and future planned levels, the purpose for which each reserve is held and how each reserve supports the medium term financial plan".

Determining the level of reserves

5. In accordance with Financial Regulations, the Authority holds reserves which fall into two distinct categories:

   - General Reserves: these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies, and

- Earmarked Reserves: these have been created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. Such reserves are intended to smooth the expenditure profile and avoid liabilities being met from Council Tax or the need to make offsetting savings in the year that expenditure is incurred.

6. There is no statutory guidance on the "right" level of reserves. Guidance from CIPFA confirms that each authority should, on the advice of the S151 Officer, make their own judgement based on relevant local circumstances and the potential issues/risks that may occur across the medium term. In determining an appropriate level of reserves for Cheshire Fire Authority the range of risks and issues that should be taken into account will include the following:

- The possibility of additional savings being required in the future and the potential difficulty in delivering such savings. Future funding levels are unclear with only the 2021/22 funding known with any degree of certainty. If annual spending reductions were to continue or increase this may lead to the identification of savings proposals that may not prove to be deliverable;

- To provide cover for extraordinary or unforeseen events occurring: given that the purpose of the fire and rescue service is to respond to emergency situations, there is always the potential for additional, unexpected and unbudgeted expenditure to occur;

- The level of self insurance that we provide to minimise our insurance premiums: potential insurance liabilities can vary significantly across financial years. The levels of liabilities are difficult to accurately forecast and it would not be appropriate to budget for peak levels of expenditure.

- The commitments falling on future years as a result of capital plans and proposals to improve/develop the assets held by the Authority. Having reserves would mitigate the impact on the revenue budget of borrowing and/or making further revenue contributions to capital and would support projects/programmes that will improve the capital stock of the Authority.

- Following the McCloud pension case, there is the potential for significant additional costs in the future. The actual funding of the remedy and compensation remains unknown but it could result in a significant impact on the Authority.

- The Coronavirus pandemic is likely to require further additional expenditure in 2021/22. Provision for additional expenditure has been included in the draft budget and should even greater expenditure be incurred, requests will be made to Government for Special Grant funding. Having reserves will help to cushion the impact on the revenue budget should additional Grant not be forthcoming.

General Reserve

7. In recent years there has been considerable debate about the level of general reserves that are being held by local authorities. There is not a statutory figure that defines the minimum general reserve level. Guidance from CIPFA suggests that this should be for each authority to decide, based on the advice of the S151 Officer, taking into account relevant local circumstances and an assessment of risk.

8. In practice it has become a broad rule of thumb that an appropriate and prudent level of general reserve is one that is equivalent to 5% of the net revenue budget. This has been recommended in the past in Audit reports and has been included in past comments by Government Ministers as being an accepted "reasonable level" of general reserve.

9. The Fire and Rescue National Framework requires that a Reserves Strategy should explain how the "level of general reserve has been set" and should include "justification for holding a general reserve larger than 5% of budget". This therefore adds weight to the adoption of 5% of budget as an appropriate calculation of the required level of general reserve.

10. For Cheshire Fire Authority, the level of General Reserve at 31 March 2020 stood at £2.2m, which is approximately 5% of the budget. The strategy adopted by the Authority has been to maintain the General Reserve at this level. As part of this, the approach has been that should further unutilised resources become available these be taken to Earmarked Capital Reserves to support the capital programme rather than be added to the General Reserve. This Strategy assumes a continuation of this approach.

11. The table set out in Annex A summarises the position to 2026. This Strategy will be kept under review as capital spending is incurred and the level of reserves is adjusted to reflect the actual position at the end of each financial year.

Earmarked Reserves

12. The Fire Authority has a number of earmarked reserves. These have been set aside to support capital and revenue expenditure in future years. An annual review led by the Chief Fire Officer and Chief Executive and Service Management Team is undertaken to ensure all earmarked reserves carried forward into the following financial year are still justified with clear plans for their usage. Details of the forecast levels of earmarked reserves are set out in Annex A. The forecast levels reflect the planned usage of reserves to meet anticipated expenditure. The main earmarked reserves are explained below.

IRMP Reserve

13. The purpose of this reserve is to meet the needs placed upon the Authority in meeting delivery programmes arising from each IRMP. The reserve is being used to support the capital programme and to supplement the Capital Reserve. The present Capital Strategy suggests that this reserve will be virtually exhausted by March 2024.

Capital Reserve

14. The Government stopped providing capital grants to local authorities in 2014, although occasionally there are national initiatives announced that involve authorities bidding for grants in support of specific projects. The capital programme, including new fire stations and the refurbishment of existing premises, is sizeable.

15. To keep borrowing to a minimum and avoid incurring the associated revenue expenditure, the strategy is to use contributions from reserves to fund the capital programme where possible.

16. As part of this strategy other earmarked reserves have been reviewed and where appropriate, taken to the capital reserve to support capital expenditure and to ensure that the capital reserve is not depleted entirely. However, it is recognised that the capital programme will cost more than the current reserves and it has already been agreed that borrowing will be required. The Capital Reserve will be fully utilised by March 2022 and will be supplemented by the IRMP Reserve. In addition, the Medium Term Financial Plan includes an annual contribution to the Capital Reserve to maintain funding for the capital programme.

Resource Centre Reserve

17. This represents an earmarked reserve that has funds set aside to meet future identified commitments and potential liabilities within the respective Resource Managers' areas. Holding resources in a reserve avoids one off increases in budgets that may otherwise be required. The amounts are attributable to the following issues/risks:

Employee related: there are a number of potential staff related issues that could result in additional costs. A significant cost is likely to arise as a result of the triennial review of the local government pension scheme: a sum has been set aside to meet potential costs of £0.312m in 2023/24. There are also funds to meet potential future costs associated with recruitment and medical appeals. The balance on the reserve is expected to be around £0.3m by 2026;

Legal and insurance: a balance of £0.7m is being maintained to meet any future prosecution and enforcement costs associated with the work of the protection team and to fund any successful claims against the Authority which are self-insured;

ICT and systems development: approximately £0.5m is set aside to support ICT development work including any major system upgrades/replacements that may be required;

Training: approximately £0.3m is earmarked for talent management and corporate training expenditure;

Equipment and uniforms: the balance on this reserve is reducing each year as it is used to meet the costs of new uniforms and new equipment, particularly protective equipment. By 2026 the balance on this reserve is forecast to be £0.5m;

Collaborations and partnerships: approximately £0.13m has been set aside to support the statutory duty to collaborate. The Authority has a number of collaboration initiatives including the North West Fire Control and Blue Light Collaboration with Cheshire Police;

Property related: a balance of £0.7m is being maintained to support property maintenance expenditure and to meet the costs of property related projects including environmental projects;

Prevention: there is a balance of £0.2m to support any future safety central marketing costs and a further £0.4m to incentivise the installation of sprinklers by social landlords.

Community Risk Reduction

18. Amounts have been set aside to support the cost of the Authority's Safe and Well Programme and other community safety activities. There is approximately £0.3m in this reserve and until further commitments are identified, this will be the balance to March 2026.

Unitary Performance Group (UPG)

19. Amounts have been set aside for facilitating partner engagement in community safety activities. This includes funding for the sprinkler campaign. It is forecast that by the end of 2020/21 there will be approximately £0.1m in this reserve and, until further commitments are identified, this will be the balance to March 2026.

Business Rates

20. The business rate income and associated collection funds are calculated by the four local authorities' based on data to the end of December 2020 and as such, are estimates and subject to change. Due to the on-going impact of the pandemic and associated lockdowns, there is a high risk that the estimated amounts included in this budget will significantly change. To mitigate this risk, it is proposed to set aside funding in a reserve to be used as and when the position become clearer

Overall Position

21. One of the key elements of the Reserves Strategy will be to use the earmarked Capital and IRMP Reserves to support capital expenditure. The Capital Strategy for 2021 to 2026 indicates that expenditure of over £29m is planned to take place between 2021 and 2026 with approximately £14m of this being financed from reserves. The resulting balances on reserves are set out in Annex A below.

ANNEX A

FORECAST LEVEL OF RESERVES TO MARCH 2026

	Actual 31 Mar 20 £000	Forecast 31 Mar 21 £000	Forecast 31 March 22 £000	Forecast 31 March 23 £000	Forecast 31 March 24 £000	Forecast 31 March 25 £000	Forecast 31 March 26 £000
General Reserve	2,210	2,210	2,210	2,210	2,210	2,210	2,210
Earmarked Reserves							
IRMP	8,296	6,169	4,039	535	7	7	0
Capital	4,266	1,522	0	0	0	90	0
Resource Centre	6,227	4,761	5,035	4,971	4,314	4,120	3,926
Community Risk	344	344	344	344	344	344	344
UPG	120	120	120	120	120	120	120
Business Rates	1,151	228	0	0	0	0	0
Total Reserves	**22,614**	**15,354**	**11,748**	**8,180**	**6,995**	**6,891**	**6,600**

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APPENDIX 5

ROBUSTNESS OF ESTIMATES

Section 25 of the Local Government Act 2003 places a requirement on the "Chief Finance Officer" of an Authority to report on the robustness of the estimates used in preparing the budget. There is then a requirement for the Authority to have regard to the report of the Chief Finance Officer when making decisions on its budget. At Cheshire Fire Authority, the Chief Finance Officer is the Treasurer.

The statutory requirement is reinforced by the Prudential Code, which requires authorities to have regard to affordability when considering recommendations about future capital programmes.

The Authority has a medium term planning process that takes account of service demands and the financial scenario covering a 5 year period to 2026. The aim of the Medium Term Financial Plan is to provide a realistic and sustainable plan that reflects the Authority's priorities and anticipates the future impact of current decisions. Alongside this, future capital programmes are planned taking into account forecast Government funding, borrowing limits and council tax.

For 2021/22, full consideration of these issues had led to:

- Policy and expenditure proposals that reflect the Local Government Finance Settlement together with the on-going revenue impact of new capital projects, whilst recognising the outstanding issues and uncertainties.
- A proposed capital financing budget based on the 2021/22 capital programme.

In assessing the robustness of the proposals for 2021/22 and the estimates on which they are based, the Treasurer has been assured that:

- the budget proposals are based on the advice of service managers (supported by finance staff) or are based upon or supported by information that the Treasurer considers reasonable to accept
- the budget proposals have been fully reviewed and endorsed by Service Management Team members and the implications on performance, if any, have been identified and assessed
- the proposed budget provides for all known future developments either within the revenue budget itself or as part of the Reserves Strategy

When using estimates in preparing the budget every effort is taken to ensure that they take into account the most up to date data. There is however always the potential for the actual impact to vary from the estimates used in setting the budget, particularly as a result of:

- Variations in the rate of price inflation, pay awards and pension increases
- Service financial performance (i.e. variances on budgets)
- Ability to deliver policy proposals and/or achieve projected savings
- Unforeseen additional operational demands and activities

There are two specific assumptions that relate to 2021/22:

- The Government Spending Review 2020 included the intention to “pause headline pay awards” in the public sector (other than NHS staff) in 2021/22, as a response to spending pressures from Coronavirus. The Authority’s budget for 2021/22 assumes that this will apply to all staff and therefore there is no budget provision for a pay award.
- The continuing Coronavirus pandemic could have a significant impact on the financial position of the Authority. As well as closely monitoring the level of any additional expenditure, the Authority will continue to seek Special Grant funding from the Home Office to meet any additional expenditure. The 2021/22 Budget includes provisions relating to expenditure incurred as a result of the pandemic and it is assumed that any unbudgeted expenditure will be offset by Special Grant and/or will be met from reserves.

The potential for unanticipated events to occur that may impact on the budget, reinforce the importance of prudent financial management including:

- 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 projected variances;
- Quarterly reporting of the projected budgetary outturn supplemented by monthly exception reports to prompt remedial action if necessary; and
- Maintaining an appropriate and proportionate contingency, as part of the General Reserve, to cushion the impact of unexpected events and emergencies.

Based on the advice and assurance set out above and the process by which the budget has been constructed, the Treasurer is satisfied that the estimates are robust and can be relied upon for approval as part of the proposed budget.