

## **CHESHIRE FIRE AUTHORITY**

**MEETING OF** : CHESHIRE FIRE AUTHORITY  
**DATE** : 7th DECEMBER 2016  
**REPORT OF** : HEAD OF FINANCE  
**AUTHOR** : PAUL VAUGHAN

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

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### **Purpose of Report**

- 1 To present the Authority's draft budget for 2017–18 (IRMP 14) and the Medium Term Financial Plan (MTFP).

### **Recommended**

[1] that the report and information relevant to the setting of the 2017-18 budget and MTFP be noted.

### **Background**

- 2 The Authority is required to approve a budget and set the Council Tax precept for the year commencing 1<sup>st</sup> April 2017. In reaching the decision to approve the budget the Authority must consider all relevant factors, including the likely impact of policy options on the Authority, the prevailing economic climate and the impact of anticipated future grant reductions.
- 3 This is the first of two budget reports; the final report will be considered by the Authority in February 2017. In addition, Members will be asked to consider a range of options to be built into the 2017-18 budget at their planning day on 13<sup>th</sup> January 2017.
- 4 This report provides background to the financial position of the Authority and refers to the national context. In addition it identifies some risks that the Authority should take into consideration. The report also refers to the Authority's funding position, the MTFP, the capital programme, and the Authority's reserves.

### **Cheshire Fire Authority Budget for 2016-17**

- 5 The Authority's budget for 2016-17 is £42m, financed by Council Tax and Settlement Funding Assessment (a combination of Revenue Support Grant and Business Rates). The Band D Council Tax is set at £71.86 which generates a total of £26m (62% of total funding). The balance of £16m (38%) is met by Settlement Funding Assessment.

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

## **The National Context**

- 7 There have been significant changes since the approval of the budget for 2016-17. There is now a new Chancellor in place, Britain is leaving the European Union and there has been a change of presidency in the United States. In addition, responsibility for fire and rescue matters at a national level has passed from the Department for Communities and Local Government to the Home Office. This all acts to make the financial outlook more uncertain.
- 8 In the settlement for 2016-17 the Government included a provisional four year settlement (from 2016-17 to 2019-20) and invited authorities to apply for this to be fixed. Authorities wishing to take up the offer had to produce a four-year Efficiency Plan. The Authority approved Cheshire's Efficiency Plan at its meeting on 21<sup>st</sup> September. At the time of writing it is awaiting the outcome.
- 9 The Chancellor presented his Autumn Statement on 23<sup>rd</sup> November 2016. The Statement confirmed that the plan to eliminate the budget deficit by 2019-20 has now been deferred, and indicated that growth level projections during the period of the MTFP have reduced. However the Statement made little reference to the detail of the public finances. It is assumed that the four year settlement will form the basis of the detailed settlement in December.

## **Funding of Cheshire Fire Authority**

### **Council Tax**

- 10 The Authority is a precepting authority which means that it generates part of its funding by setting a precept on its four constituent authorities. That precept is included within the Council Tax bills issued to each household within the boroughs of Cheshire East, Cheshire West and Chester, Halton and Warrington. The Authority has in previous years produced a Council Tax Leaflet providing an explanation of the Authority precept for Council Tax payers.
- 11 For the budget for 2016-17, the Authority chose to increase its precept by 1.99%. In previous years, the Government has indicated that if Authorities wish to increase their precept by 2% or more, then they will be required to carry out a referendum. The Government's technical consultation on the 2017-18 settlement indicates that this is likely to continue. For Members' information, a 1.99% increase in precept yields about £0.5m for the Authority and increases the precept on a Band D property by about £1.43p per annum.

- 12 The settlement for 2016-17 included estimates of what the Government saw as future spending power of local authorities, and these estimates were predicated on a 1.75% per annum increase in precept.

## **Settlement Funding Assessment**

- 13 The Settlement Funding Assessment is made up of two elements, Revenue Support Grant and Baseline Funding Level. Baseline Funding Level is itself split into two parts, Business Rates Baseline and Top Up Grant.
- 14 The Government calculates the overall total Settlement Funding Assessment for each authority, and then calculates how much of that should be met by the Baseline Funding Level. Business Rates Baseline is paid to the Authority directly by each of its four constituent authorities. The difference between Baseline Funding Level and Business Rates Baseline is Top Up Grant, paid directly to the Authority by Government. Then the difference between total Baseline Funding Level and the Settlement Funding Assessment is Revenue Support Grant, also paid directly by Government. For ease of analysis, only the total Settlement Funding Assessment is shown in the MTFP. It is this element of funding which is subject to Government cuts. Increases in the Business Rates Baseline are offset by a reduction in Revenue Support Grant, so that these two elements of funding together equal the Settlement Funding Assessment.
- 15 Halton Borough Council is involved as a member of a pilot scheme on the 100% retention of business rates. At the time of writing this report the Authority has not had its meeting with Halton finance colleagues to discuss the budget for 2017-18. At present the understanding is that authorities involved in the pilots will not be financially disadvantaged and this assumption is used in the MTFP.
- 16 In 2016-17, the Authority will also receive a share of Section 31 Grant in respect of business rate reliefs for small businesses, projected to be £235k. It is not known for certain whether this grant will be available in 2017-18, so it is not included in the current versions of the MTFPs.
- 17 The Authority relies on receiving business rates information from its constituent authorities by the end of January each year to enable the budget to be finalised and the Council Tax precept set by 14<sup>th</sup> February 2017. Members will be aware that there is a business rates revaluation which will take effect from April 2017. There is some concern that this might delay the provision of information to the Authority and that this might make it difficult to meet the tight timetables. Members will be kept informed of progress on this issue, and any impact it may have on the budget setting process.

## Medium Term Financial Plan (MTFP)

- 18 Attached at Appendix 1 is the MTFP agreed by Members in September as part of the draft IRMP 14. As the budget process develops, changes will be made to this MTFP and it will be brought to Members for formal approval with the budget in February 2017.
- 19 Members will note that the savings requirement to balance the MTFP is around £3.8m. Members should be aware that the final year of the MTFP, 2020-21, sits outside the current Comprehensive Spending Review period, and also beyond the four year settlement which the Authority has applied for. An assumption of a 5% cut in Settlement Funding Assessment has been made. Given that the Government has announced that it is not now targeting a balanced budget until the next parliament, it does not seem unreasonable to flag the need for potential future savings during that period.
- 20 The Authority meets with its constituent authorities on a regular basis and discussion includes Council Tax and Business Rates matters. The Authority has included an assumption of growth in its MTFP that Council Tax Base will increase by 1% per annum, including 2017-18. Early indications suggest that Tax Base increases in 2017-18 will be greater than this, and the 1% going beyond 2017-18 does not look unreasonable. Final increases for 2017-18 will be confirmed by the four authorities in the next few weeks. A 1% increase in tax base represents an increase of around £260k, at 2016-17 precept levels.
- 21 The following assumptions have been made within the plans:-
- Settlement Funding Assessment as per the four year settlement, and then a 5% reduction in 2020-21;
  - Pay inflation of 1.5% in 2017-18 (to allow for the apprentice levy) and 1% per annum thereafter over the lifetime of the plan;
  - Non-pay inflation 2% per annum over the lifetime of the plan;
  - Savings of around £3.8m over the next four years of the plan, after unavoidable growth and inflation;
  - Precept increase of 1.99% per annum (and a cap on precept increases of above 1.99% by means of a referendum requirement);
  - Contribution to capital reserves to help to fund the capital programme included in the MTFP.
- 22 Members should note that officers have already developed a list of proposals for growth items and savings for 2017-18 and these are currently being scrutinised by the Service Management Team. Early indications are that unavoidable growth will exceed the estimate of £900k shown in the plan, but that additional savings will compensate for that. Detailed proposals will be placed before Members for scrutiny at their Planning Day on 13<sup>th</sup> January 2017.

- 23 At the Authority meeting in September, Members approved the Authority's four-year Efficiency Plan. This identified the source of savings in 2017-18 as being primarily from the final stages of the Emergency Response Programme (ERP), the early stages of Emergency Response Programme (ERP2) and some savings from corporate budgets. This remains broadly the case in the plans for the budget for 2017-18 and in the MTFP up to 2019-20, which was the final year taken into account in the Efficiency Plan.
- 24 Whilst the MTFP shows balanced budgets, this assumes the Authority meets the significant financial challenges in the coming four years in relation to savings, which will not be an easy task. This means that the Authority must be robust in its approach to cost saving, minimising risk and revenue growth.

### **Capital Programme**

- 25 The Authority currently funds its capital programme via capital grant, capital receipts, loans taken out with the Public Works Loans Board under the auspices of the Prudential Code for Capital Financing in Local Authorities, and contributions from reserves and revenue.
- 26 All capital proposals are challenged with the same rigour as that applied to revenue proposals as part of the budget building process. Business cases and budget bids for capital spend proposals will be brought for scrutiny to the Member Planning Day on 13<sup>th</sup> January 2017, before the draft capital programme is presented to Members at the Fire Authority meeting in February 2017.

### **Reserves**

- 27 Reserves enable the Authority to budget with greater confidence and provide greater scope for managing strategic change. In addition they provide resilience against unforeseen operational requirements, earn interest which increases flexibility and offer the opportunity to smooth some of the financial challenges facing the Authority.
- 28 At present the Authority has a General Reserve of £6.5m. It also has substantial earmarked reserves, but this needs to be considered in the light of the demand on reserves from the delivery of the ERP, as described below.
- 29 The Authority has around £2.5m in unspent capital grants. This is included in the Authority's reserves. The capital grant is to fund the ERP, including Safety Central. It is estimated that in the current financial year capital spend will be around £12.5m, and the element of that not funded by grant will be funded from capital and IRMP reserves, which means that reserves will fall by the end of 2016-17. In following years the capital programme will probably be around £2m per annum, primarily comprising the purchase of vehicles and equipment. In addition, the

development of the Training Centre and potential refurbishment of the Fire stations are intended to be funded from reserves.

- 30 Other significant earmarked reserves are required to fund the purchase of personal protective equipment, prevention activity and training.
- 31 The budget report to Members in February 2017 will include more details of the position on reserves, and a risk assessment relating to the general reserve.

### **Risks to the Financial Scenario**

- 32 There is a risk that the Government settlement will differ from the current estimated level, although assuming the Government agrees a four year settlement with the Authority, this risk will diminish. This will become clear only when the detailed settlement details are released by the Government in December 2016, and certain in February 2017 when the settlement is laid before Parliament.
- 33 There is an assumption within the MTFP that the planned savings are delivered in line with original estimates. The Authority has sufficient reserves to smooth savings over different financial years if necessary, but savings must be ultimately achieved. The Authority has rigorous approvals and monitoring processes for managing savings.
- 34 There are risks in relation to the collection of Council Tax, and, particularly, Business Rates, given the volatility of issues such as appeals. The Authority meets regularly with its constituent authorities to ensure it has as much information as possible.
- 35 The MTFP also contains other assumptions, e.g. about inflation, which are based on best intelligence, but which may be subject to future change.
- 36 The Authority currently has a significant capital programme which carries risk of unforeseen events leading to overspends. The Authority has monitoring processes in place to ensure early warning of problems, and professional support where it feels it is needed.

### **Consultation**

- 37 Members will be familiar with the IRMP 14 consultation process which is currently being undertaken. Reports relating to the consultation are presented to Members regularly.

### **Impact Assessment**

- 38 Financial – the body of the report covers the financial implications.
- 39 Legal – the Authority is required to approve a balanced budget and issue its precept notice by mid-February 2017.

- 40 Equality and Diversity - this is a strategic report that does not deal with detailed proposals. Individual policy options and savings will have equality and diversity dimensions and environmental impacts which will be individually identified and assessed.

## **Conclusion**

- 41 This budget report reflects the continuing climate of austerity in which all public sector bodies operate. It also reflects on the difficulty of planning for the future given the level of uncertainty about future finances.
- 42 Members will see from the attached Appendices how the Authority estimates it is impacted by cuts to funding over the life of the MTFP. Of the savings required over the life of the latest plan, ERP and ERP2 will contribute the bulk. Officers are considering further savings proposals, but these are likely to lead to demanding and challenging decisions in future years.

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**BACKGROUND PAPERS: NONE**