

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 6TH DECEMBER 2017
REPORT OF: HEAD OF FINANCE
AUTHOR: WENDY BEBBINGTON

SUBJECT: 2018-19 DRAFT BUDGET, COUNCIL TAX AND
MEDIUM TERM FINANCIAL PLAN

Purpose of Report

1. To present the Authority's draft 2018-19 budget and the current approved Medium Term Financial Plan (MTFP).

Recommended: That

- [1] the information relating to the 2018-19 budget setting together with the MTFP be noted.

Background

2. The Authority is required to approve an annual budget and set a council tax precept by mid-February. As part of the budget setting process, the Authority must consider all relevant factors including the likely impact of policy options, the economic climate, funding and the demands on the service.
3. This is the first of two budget reports with the final report being considered by the Authority in February 2018. It sets the context by reviewing: the 2017-18 budget set last February; the changes since then and the impact on the MTFP; the risks to the assumptions used; and finally the impact on the reserves.

Cheshire Fire Authority 2017-18 Budget

4. On 14 February 2017, the Authority approved the 2017-18 net budget requirement of £41.3m funded by council tax precept of £26.8m and Government grants through the Settlement Funding Assessment (a combination of Revenue Support Grant and Business Rates) of £14.5m.
5. At the same meeting the Authority also approved a capital investment programme of £1.8m funded from capital receipts and reserves.

Changes Since Budget Setting

6. Within the 2017-18 approved budget, anticipated savings from the proposed changes at Crewe and Ellesmere Port were included. The Authority approved a delay in implementing changes pending a review with the shortfall in savings

being funded from reserves. The outcome of the review will be presented to the Authority at the February meeting.

7. At the 20 September 2017 Authority meeting, approval was given to the training centre programme and Sadler Road requirements subject to successful procurement being undertaken at an estimated cost of £9m.
8. The 2017-18 budget and MTFP were approved based on the 1% public sector pay cap in place at that time. Since then for firefighters, negotiations have taken place with a 2% pay award from July 2017 and a further 3% from April 2018 offered but not yet been agreed with the trade union. The pay award for all other staff is still unknown.
9. The Chancellor will present his Autumn budget on 22 November and a verbal update will be presented at the meeting.

Funding of Cheshire Fire Authority

Government Funding

10. In the 2016-17 Local Government Finance Settlement, the Government included a provisional four year funding allocation from 2016 to 2020. Authorities were required to submit a four year Efficiency Plan in order to secure this fixed allocation. The Authority approved its Efficiency Plan at its meeting on 21 September 2016 which successfully secured the fixed funding allocation.
11. In the recent Department of Local Government and Communities (DCLG) consultation on this year's Settlement, the Government stated:

'Government will need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government intends to present these figures to parliament as part of the 2018-19 provisional local government finance settlement in due course.'
12. This indicates that unless there are exceptional circumstances, the allocation should remain in line with the current assumptions built into the MTFP. This will be confirmed when the provisional settlement is published towards the end of December.
13. The MTFP period extends beyond the period of the four-year settlement and while the Government has spoken about extending the timescale for balancing the budget until the next parliament, there remains a significant savings target that has yet to be allocated across the Government Departments. The MTFP currently includes a forecast reduction to follow the four year settlement period of a further 5%.

Council Tax

14. The Authority is a precepting authority which means that part of the council tax bill for each of the four local authorities within Cheshire provides funding to the Authority. It is the responsibility of the Authority to set the level of precept as part of the budget setting process. While the decision is for the Authority, the Government has placed a capping limit of 2% for a number of years on the level of year on year increase that can be applied. For 2017-18 the Authority set its precept on a Band D property at £73.29, an increase of 1.99% from the previous year. The MTFP assumes the same percentage increase each year.
15. In the same consultation mentioned in paragraph 11, DCLG asked:

“Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?”
16. There is not indication whether any flexibility will be available at this point. However, if it were possible to increase Council Tax beyond 2% each extra 1% would provide around £277k additional funding.
17. In addition to the precept rate, funding from council tax can also change due to the taxbase. The taxbase is the number of council tax bills issued by the local authorities, adjusted for benefits, discounts and debt etc. As new houses are built or the adjustments made, the taxbase can increase, providing further funding to the Authority whether the actual precept level increases or not. The MTFP includes an assumed increase in taxbase in line with those estimated by the local authorities who compile the data.

Medium Term Financial Plan (MTFP)

18. Appendix 1 shows the current MTFP approved at the Authority meeting in February 2017 based on the following assumptions:
 - Settlement Funding Assessment as per the four year settlement
 - 5% reduction in Government funding thereafter
 - Precept increase of 1.99% year on year
 - Taxbase increases in line with local authorities forecasts
 - Pay inflation of 1%
 - Non-pay inflation of 2%
19. The MTFP has been compiled based on the assumption that the savings required in each year are agreed and delivered in full. Any savings not achieved will add to the following year's savings.
20. Over the past few weeks officers have developed a list of growth proposals and savings for the 2018-19 budget. These are currently being scrutinised by Service Management Team. Early indications show that there is £1.4m in

growth demands with some of this call on reserves offset by savings proposals of approximately £1m. Full details of these proposals will be presented to Members for consideration at their planning day in January.

Capital Programme

21. Up to 2014, the Authority received capital grants from the Government in support of its capital programme. Since then all capital investment has been funded from the Authority's own reserves unless specific funding was available. The Authority has been very successful in bidding for and achieving specific grant funding towards both the safety centre and fire station builds.
22. The level of reserves currently held will not be sufficient to fund the current and proposed capital programmes and borrowing will be required going forward. A report discussing the borrowing options is included elsewhere on the agenda.

Reserves

23. Section 25 of the Local Government Act 2003 requires the Treasurer to present a report assessing the adequacy of the unallocated reserves in the context of operations demands together with corporate and financial risks facing the Authority. This will be presented as part of the budget report in February.
24. 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 neither too excessive nor too modest. Members need to balance the necessity for reserves against the cost to council taxpayers and arrive at a level that is both prudent and adequate given the current funding arrangements and proposed spend.
25. As part of the MTFP and Budget Report, a Reserves Strategy was approved by the Authority in February 2017. This set out the reserves held and their intended usage.
26. The approved Training Centre project will cost £9m which, alongside the annual replacement and maintenance capital schemes, will utilise all reserves earmarked for capital purposes within the next few years. Those remaining earmarked reserves in support of revenue projects such as sprinklers are currently being reviewed and the updated Reserves Strategy will be presented to the Authority at its February 2018 meeting.

Risks

27. While there are always risks associated with financial assumptions, these assumptions are reviewed and benchmarked against other Fire and Rescue

Services within the region. When any material change takes place the MTFP is updated and reported to the Authority.

28. As previously mentioned, there are a number of savings assumptions already included in the MTFP. These are ambitious savings and need to be monitored closely to ensure delivery. The risk of non-delivery places increasing burden on future years.
29. Although there are indications that the Government funding will be in line with the four-year agreed allocation, until the actual financial settlement is published each December, there remains a risk that the amount may change.
30. Finally, while close consultation with the four local authorities is on-going, the risk that the forecast for the taxbase used for council tax and the business rates allocated to the Authority may be materially different. This could, of course be favourable as well as adverse.

Financial Implications

31. The financial implications are covered in the report.

Legal Implications

32. The Authority is required to approve a balance budget and set its precept charge on the council tax by mid-February 2018.

Equality and Diversity Implications

33. This is a strategic report that does not contain detailed proposals that have any equality and diversity implications. The detailed proposal may have such implications but will be identified as each is assessed.

Environmental Implications

34. This is a strategic report that does not contain detailed proposals that have any environmental implications. The detailed proposal may have such implications but will be identified as each is assessed.

Conclusion

35. This report reflects the current information and data that has an impact on both the MTFP and forthcoming 2018-19 budget. It also reflects the risks to the assumptions used and the potential impact this may have on the Authority's funding.

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BACKGROUND PAPERS: NONE