

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 14th FEBRUARY 2018
REPORT OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

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

Purpose of Report

1. The purpose of this report is to allow Members to set the Authority's budget for 2018/19; set the Authority's precept as required by law for 2018/19; and approve the Authority's Medium Term Financial Plan (MTFP) for 2018-21.

Recommended: that

- [1] Members consider the three budget proposals for the 2018/19 as shown in table 1, contained in paragraph 15 and:
 - a) Approve one of the proposals together with its associated precept on the collection fund for 2018/19 as set out in table 3, contained in paragraph 28;
 - b) Approve the appropriate MTFP in line with the selected budget and precept proposal contained in Appendix 1.
- [2] the revenue growth proposals for 2018/19 set out in Appendix 2a are approved;
- [3] the revenue one-off proposals for 2018/19 set out in Appendix 2b, including the funding from reserves, are approved;
- [4] the revenue savings proposals for 2018/19 set out in appendix 2c are approved;
- [5] the proposed capital programme for 2018/19 set out in table 2 contained in paragraph 22 is approved together with its associated financing;
- [6] the Reserves Strategy set out in Appendix 4 is approved;
- [7] the Statement of Robustness of Estimates set out in Appendix 3 be noted; and
- [8] the Financial Health Targets contained in paragraph 25 be adopted for 2018/19.

Information

2. The Authority is required to approve a budget and set a precept (the Authority's share of council tax) for the financial year commencing 1st April 2018. In determining a budget which it considers reasonable, the Authority must have regard to all relevant factors, including the likely impact of policy options on the achievement of the Authority's obligations and the uncertainty associated with the economic scenario.
3. This is the second budget report, with the first being presented at the Authority's meeting on 6th December 2017. Members also considered the Authority's financial information at their Planning Days, most recently in January where Members has an opportunity to challenge the assumptions and proposals being put forward by officers as part of the draft budget and MTFP.
4. The draft budget presented in this report has three options:
 - a. Increasing the Council Tax Precept by 2.99% to £75.48; or
 - b. Increasing the Council Tax Precept by 1.99% to £74.75; or
 - c. Maintaining the Council Tax Precept at the 2017/18 level of £73.29
5. In support of the above, a number of appendices are also attached providing additional information as follows:
 - MTFP (based on no increase in precept for 2018/19)
 - MTFP (based on a precept increase of 1.99%)
 - MTFP (based on a precept increase of 2.99%)
 - Reserves Strategy
 - Robustness of Estimates
 - Revenue Growth items 2018/19
 - Revenue Savings 2018/19
 - Capital Programme 2018/19
6. At the point of compiling the report, the final Local Government Finance Settlement had not received parliamentary approval. Notification received on 24th January 2018 from Ministry of Housing, Communities & Local Government, stated that the Valuation Office Agency has revised the data on the change in rateable value between rating lists. The previous data, published on 5th October 2017, was used in the provisional settlement to calculate the revisions to tariffs and top-ups for 2017/18 which impacts on the 2018/19 calculations.
7. The revised data has been used to update the forecasts for the Settlement Funding Assessment and the MTFP and budget proposal updated accordingly. If the final Local Government Finance Settlement is different to that shown within this budget report, any shortfall will be met from general reserves.

Cheshire Fire Authority Budget 2017/18

8. On 14th February 2017, the Authority approved the 2017/18 net budget requirement of £41.3m funded by council tax precept of £26.4m and Government grants through the Settlement Funding Assessment (a combination of Revenue Support Grant and Business Rates) of £14.9m.
9. At the same meeting the Authority also approved a capital investment programme of £1.8m funded from capital receipts and reserves.

Medium Term Financial Plan 2018-22 (MTFP)

Financial Scenario

10. The provisional Local Government Finance Settlement was announced by the Secretary of State for Communities and Local Government, on Tuesday 19th December 2017. This is subject to consultation with the final Local Government Finance Settlement due in February 2018.
11. The applicable headlines from the Settlement are:
 - a. Increased council tax referendum limit from 2% to 3% for 2018/19 and 2019/20.
 - b. An announcement that the Government's aim is to localise 75% of business rates from 2020/21 and implement a new needs assessment – the way in which the Government determine how much funding an authority requires.
 - c. There will be no transition grant in 2018/19.
 - d. Increased the overall Core Spending Power by 1.5% - this reflects both the Government funding and the ability of the individual authorities to raise council tax - for Cheshire this equated to 1.2%.
12. A four year settlement was offered in December 2015 for 2016-20 based on an agreed efficiency plan, which was accepted by 97% of local authorities including Cheshire Fire Authority. The provisional settlement detailed above forms year three of the four year agreement.

Key Assumptions

13. Within the MTFP, a number of key assumptions have been made as follows:

- a. Funding

Government funding is included in line with the 2018/19 Settlement published on 19th December 2017. The final year of the MTFP falls outside of the current Spending Review period and four year settlement agreement. As such, the assumptions are speculative, but estimated at a 5% overall reduction in Government funding including the loss of the remaining Section 31 Grant supporting Business Rates.

Council Tax Precept increase has previously been restricted to a maximum of 2% before a referendum is required. Under the new principles set out in the Provisional Settlement, the maximum increase has been uplifted to 3%. Therefore, within the MTFP and budget proposals, there are three options included, nil increase; 1.99% increase and 2.99% increase.

In addition to the precept, the Authority has a share of both the council tax and business rates collection funds held by the four local authorities in Cheshire. No assumptions have been included in the MTFP for any future surpluses or deficits within these funds. Any funds due to or payable by the Authority will be dealt with in the relevant year's budget or through reserves.

The Government pays local authorities (including Fire) 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 the Business Rates Retention Schemes comes into force. Therefore, it has been included in the MTFP on that basis. 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.

b. Pay and Non-pay Inflation

With the implied removal of the public sector pay cap of 1% and the offer of a 2% pay award from July 2017 with a further 3% from April 2018; the MTFP now includes a standard 2% pay award for all officers and staff from July 2018.

General inflation is currently running at around 3% which is above the Bank of England's target rate of 2%. Many of the items driving this increase are not applicable to the Authority in any material sense (e.g. air travel) or are deemed temporary. As such the non-pay inflation is set at 2% throughout the MTFP unless there are specific contractual requirements that refer to inflation factors such as RPI or CPI. In these cases, the forecast for such inflation factors is based on the data provided by the Office of National Statistics.

c. Growth

It is recognised that there will be unavoidable growth and increases in demands throughout the MTFP period. Details of the 2018/19 growth is explained further in the report and an allowance made for future years. Should the allowance not be required it will contribute towards the savings for that year, with any additional growth above the allowance adding to the savings required.

d. Contribution to Reserves

Since 2014, the Authority has not received any Government funding towards capital investments. To reduce the call on borrowing to fund items such as IT or vehicles, a contribution to capital reserve is included in the revenue budget. The level of this contribution has reduced but will remain under annual review to ensure it is still appropriate and affordable.

MTFP Summary

14. Based on the financial scenario and above assumptions, the MTFP forecasts a need for the Authority to save between £2.4m and £6.5m between 2018 and

2022, dependent on precept increases. Details of the MTFP are included in Appendix 1 based on the three precept options.

15. The MTFP shows that to balance the 2018/19 revenue budget savings of between £0.95m and £1.75m will be needed, depending on the level of council tax increase. This report includes savings proposals of £0.95m which, if approved, would represent a balanced position for 2018/19. Further savings will be required in subsequent financial years: for 2019/20 these will amount to £0.7m, or up to £1.7m if the Authority does not increase the council tax by 2.99%.
16. If Members were to increase the council tax by 2.99% - in accordance with the draft Council Tax Referendum Principles for 2018/19 - this additional income would become part of the base funding position and would enable the Authority to build upon this in future years. This “additional flexibility” that has been made available, would also strengthen the case for increased funding that would be at the heart of any future representations to Government.

Budget 2018/19

17. Based upon all of the above information, assumptions and plans, three budget proposals for 2018/19 are presented to the Authority for consideration as per the table below:

Table 1: 2018/19 Budget Proposals	Nil Increase £000	1.99% Increase £000	2.99% Increase £000
Base Budget	39,346	39,346	39,346
Inflation	839	839	839
Commitments and Growth	578	578	578
Savings approved	0	0	0
	40,763	40,763	40,763
Contribution to capital / IRMP reserves	935	935	935
Temporary one year items	2,221	2,221	2,221
Transfers to / (from) reserves	(1,395)	(1,395)	(1,395)
	42,524	42,524	42,524
Funding:			
Government Funding & NNDR	(13,838)	(13,838)	(13,838)
Council Tax Precept	(26,930)	(27,466)	(27,734)
Collection Funds C.Tax & Business Rates	0	0	0
Budget Shortfall	1,756	1,220	952
Band D Council Tax	£73.29	£74.75	£75.48

18. Commitments and proposed revenue growth reflects the unavoidable costs and demands that need to be funded in 2018/19. There are two types of growth, permanent - those which will form part of the base budget going forward; and one-off – which are temporary and funded from reserves.
19. A full list of all the £0.6m proposed growth items is included in Appendix 2a with the main items described in detail below.

- a. Within the 2017/18 budget and approved MTFP funding was included for a 1% pay award in July 2017. The current proposed pay award is 2% from July 2017 which impacts on in-year expenditure and the 2018/19 budget. The additional cost of the extra 1% in 2018/19 is £0.2m.
 - b. Cheshire's four local authorities collect council tax and business rates and pay the Authority its share as agreed at budget setting. Should the actual amount paid be less or more than forecast, the Authority will either receive or pay back any surplus or deficit. A £0.2m provision was set aside in 2017/18 to cover any deficit until the impact of business rates was clear. This has not been required and therefore has been removed for 2018/19 onwards.
 - c. As agreed at the Authority's December meeting the Training Centre will be financed through borrowing. There is a cost to borrowing and an additional £0.25m is included to cover the interest payments.
20. In addition to the permanent growth items there are a number of proposed one-off items totalling £2.2m, to be funded from either reserves or base budget as set out in Appendix 2b. The key items are:
 - a. The proposed pay award also includes an additional 3% from April 2018, the cost of which is £0.6m.
 - b. As part of the 2017/18 budget, savings for the change to an on-call duty system at Crewe and Ellesmere Port were included. A review of the proposal was commissioned with the shortfall in savings in 2017/18 being funded from reserves. The current budget proposal and MTFP still include the full savings and should one or both not be implemented, the shortfall will need to be funded again in 2018/19 from reserves with permanent alternative savings going forward of up to £0.9m being identified in time for the 2019/20 budget setting process.
 - c. While the training centre is being constructed there is a need for temporary training facilities and £0.1m is being set aside within reserves to fund the transitional arrangements.
 - d. Members have agreed to an expansion of the sprinkler campaign at a cost of £0.25m together with the continuance of the Apprentice Scheme for 2018/19 (£0.18m) both funded from reserves.
21. In order to produce a balanced budget as required under statute, assuming the proposed increases in expenditure are approved, savings will be required as the level of funding from Central Government and Council Tax precept, is not sufficient to meet expenditure. Dependent on which precept increase is approved, the level of savings for 2018/19 would be:
 - a. £0.952m with a 2.99% increase;
 - b. £1.220m with a 1.99% increase; or
 - c. £1.756m without any increase.
22. A full list of the proposed savings for 2018/19 is included in Appendix 2c with any additional savings required being met from reserves in 2018/19 with long-

term permanent savings presented as part of the 2019/20 budget setting process. The main savings are described in detail as follows:

- a. A value for money review has been undertaken to look at all non-pay and income budgets together with corporate departments to provide savings while protecting front-line services, including a reduction in contingency of £0.13m.
- b. All pay budgets have been reviewed to ensure that the budget matches actual forecast spend. Savings from vacancy management has provided savings of £0.37m.
- c. Service Delivery have savings of £0.24m from the Emergency Response Programme and changes to the Nucleus Duty System.

Capital Programme

23. In addition to the revenue budgets, a programme of capital investment is proposed for 2018/19. Members were supplied with business cases for some of these proposals at their Planning Day in January.
24. Funding for these comes from reserves held by the Authority, contributions and borrowing. Details of the proposed capital programme is included in Appendix 5 and summarised below together with the proposed funding.

Table 2: Proposed Capital Programme		£000
Fleet	Two cadets vehicles	20
	Three new appliances	810
	One four-wheel drive vehicle	55
	Support vehicles replacement programme	60
	Hazardous materials units / containers	75
	Capital contingency on vehicle purchases	51
ICT	Server replacement programme	50
	ICT - storage space	50
OPA	Thermal image cameras (phased replacement)	28
Property	New Operational Training Facility	7,000
	Security at Sadler Road Site	250
	Incident Command Training Suite (ICTS)	1,000
	Vehicle Workshop Renovations / Upgrades	300
Contingency	Contingency on non-vehicle purchases	56
Total Proposed Capital Programme		9,805

Table 2a: Capital Financing	£000
Use of Capital Receipts	55
Use of Capital Reserve	632
Use of Earmarked Reserves	78
Revenue Contribution to Capital	40
Borrowing	9,000
Total Capital Financing	9,805

25. As shown in Table 2a, the proposed capital programme of £9.8m assumes that the financing of this expenditure will be mostly met from borrowing. The precise timing will depend on when actual spend is anticipated and with consideration of prevailing interest rates in line with the Treasury Management Strategy.
26. Proposed capital schemes need to be considered in the medium term context as the actual timing of spend usually spans more than one financial year. In addition, new proposals are expected to be presented to Members during 2018/19 relating to modernisation of premises; the construction of new fire stations; and additional operational equipment. At present these new proposals have not been fully developed and only indicative costs are available but there is a potential for additional costs of £37m between 2018 and 2022. The forecast levels of capital expenditure, together with financing assumptions are set out in Appendix 5 and considered within the Reserves Strategy.

Financial Health Targets

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

Robustness of Estimates

28. 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 3.

Reserves

29. In addition to the above, Section 25 of the Local Government Act 2003 also 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 the Authority. A Reserves Strategy is attached at 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.

Council Tax Precept

30. 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 number of council tax bills issued) which takes into account changes in the number of houses, housing benefits etc. Compared to 2017/18 the overall tax base increased by 5547.58. The following table shows the proposed level of precepts for each local authority and the individual amount levied per each council tax band based on the three proposed budget options.

Table 3: Precept		Tax Base	No increase £000	1.99% increase £000	2.99% increase £000
Cheshire East		147,003.80	10,773,909	10,988,534	11,095,847
Cheshire West & Chester		118,511.50	8,685,708	8,858,735	8,945,248
Halton		34,435.00	2,523,741	2,574,016	2,599,154
Warrington		67,492.00	4,946,489	5,045,027	5,094,296
TOTAL		367,442.30	26,929,847	27,466,312	27,734,545
Band	Proposal 1 No Increase £	Proposal 2 1.99% Increase £	Proposal 2 2.99% Increase £		
A	48.86	49.83	50.32		
B	57.00	58.14	58.71		
C	65.15	66.44	67.09		
D	73.29	74.75	75.48		
E	89.58	91.36	92.25		
F	105.86	107.97	109.03		
G	122.15	124.58	125.80		
H	146.58	149.50	150.96		

Conclusion

31. The 2018/19 proposed budgets are set in the context of continuing austerity with insufficient funding available to meet budgetary demand and inflation. Savings are required to balance the budget which can be mitigated to a point by increases to the council tax precept. Funding going forward shows that further year on year savings are required with a risk of further savings being required as the current 4 year funding settlement comes to an end.
32. If the proposals set out in this report are approved, the Authority will have a net revenue budget as set out in Section 32 of the Local Government Act 1992, as follows:

Precept Increase	Net Revenue Budget £000
nil%	40,768
1.99%	41,304
2.99%	41,572

Financial Implications

33. This report is financial in nature.

Legal Implications

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

Equality and Diversity and Environmental Implications

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

BACKGROUND PAPERS: NONE