

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 12TH DECEMBER 2018
REPORT OF: TREASURER
AUTHOR: ALLAN RAINFORD

SUBJECT: 2019/20 DRAFT BUDGET AND MEDIUM TERM
FINANCIAL PLAN

Purpose of Report

1. To inform Members of the progress made in preparing a draft revenue budget for 2019/20.

Recommended: That

- [1] the information relating to the 2019/20 revenue budget process be noted.

Background

2. The Authority is required to approve an annual budget and set a council tax precept at its meeting on 13th February 2019. In order to make those decisions the Authority will consider a report that contains all relevant factors including the likely impact of policy options, the level of resources available, the financial pressures and the demands on the service.
3. At the present time there are still a number of uncertainties particularly in respect of funding. The Local Government Finance Settlement was expected to be announced on 6th December but is now expected w/c 10th December. In the period to February 2019 the funding position will be finalised upon the receipt of:
 - Confirmation of the Local Government Finance Settlement, including the Council Tax Increase Referendum Principles;
 - Determination of council tax base by District/Unitary Councils;
 - Determination of business rates income position and the share attributable to the Authority, by District/Unitary Councils;
 - Notification of Collection Fund surplus/deficit position and the share attributable to The Authority.

Cheshire Fire Authority 2018/19 Budget

4. The starting point for the preparation of the budget for 2019/20, is the current year (2018/19) budget approved by the Authority on 14th February 2018. The

net revenue budget requirement for 2018/19 is £42m funded by council tax precept of £27.7m, Revenue Support Grant of £4.5m, Business Rate income of £9.3m and a net share of Collection Fund surplus of £0.4m. At the same meeting the Authority also approved a capital investment programme of £9.8m.

5. At the meeting in February, the Authority amended the budget in approving the retention of a wholetime second fire appliance at Crewe Fire Station and to fund the costs of £0.45m from reserves in 2018/19 only. In terms of the preparation of the 2019/20 budget, this approved amendment of £0.45m has been added to the base budget. The meeting also approved a delay in implementing changes at Ellesmere Port Fire Station pending the outcome of a review. The cost of £0.45m was also to be funded from reserves and it is assumed that this will be the case in 2019/20 also.
6. One of the key assumptions in a budget is the expected level of pay awards. In past years there has been a 1% public sector pay cap in place. For 2018/19 it was assumed that there would be pay awards of 2% (from July 2017) with the potential for a further 3% from April 2018. The recent Finance Report - Quarter 2 2018/19, which was considered by Performance and Overview Committee, indicates that the unused funding for pay awards has contributed to the forecast year end position.

Funding of Cheshire Fire Authority

Government Funding

7. As part of the 2016/17 Local Government Finance Settlement, the Government offered the Authority a four year funding settlement. The 2019/20 financial year is the final year of that settlement. The Settlement Funding Assessment (SFA) is the combined total of Revenue Support Grant and Baseline Funding (forecast retained business rate income uplifted for inflation). The actual level of business rate income that the Authority receives is dependant on the position calculated by the Cheshire billing authorities.
8. The SFA for 2018/19 was broadly in accordance with the four year settlement, as adjusted for inflation. The reduction in the SFA for 2019/20 is expected to be approximately £0.4m which, when adjusted for top up grants, will increase to £0.6m. Revenue Support Grant (RSG) will still form part of SFA and is expected to amount to approximately £3.9m. The Government has announced its intention to phase out RSG but how this will happen and the timing of this is uncertain at the present time.
9. Although the Local Government Finance Settlement for 2019/20 will provide details of the funding position for the next financial year, the position for periods beyond March 2020 will not be known until the outcome of the Government Spending Review is published in the autumn of 2019.

Council Tax

10. 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. The Government has, each year, issued Council Tax Referendum Principles which effectively cap the increase in council tax. The Referendum Principles for 2018/19 determined that a council tax increase of 3% or more would be considered as excessive and would require a local referendum. Having considered the Referendum Principles, the Authority set a council tax increase of 2.99% resulting in a band D council tax of £75.48.
11. The Referendum Principles for 2019/20 will be announced as part of the Finance Settlement although they may not formally be confirmed until late in the process: for 2018/19 the Referendum Principles were released in February 2018. The draft budget for 2019/20 has been prepared on the assumption that the Authority will be permitted to increase the council tax by 2.99% and will choose to do so: i.e. the same increase as in 2018/19. Each 1% increase in council tax will generate approximately £280k in additional income.
12. The total level of council tax income will also be determined by the council taxbase which is determined by the Cheshire billing authorities. The taxbase is the number of council tax bills issued by the local authorities, adjusted for local council support scheme adjustments, other discounts and voids/losses. 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.
13. The billing authorities will also notify the Authority of the position on the collection funds which they manage on behalf of precepting authorities. There are separate collection funds for council tax and business rates. If the collection performance has improved, or if the assumed tax base has increased beyond that initially expected, then there will be a surplus which is shared between the local council, the Police & Crime Commissioner and the Fire Authority. If the opposite is true, then there will be a deficit which we will be required to contribute to in order to rectify the position.

Expenditure projections for 2019/20

14. The revenue budget will need to include sufficient amounts to meet the costs of pay awards and price inflation. As part of the formulation of the draft Revenue Budget for 2019/20 the following assumptions have been made about the levels of pay awards and non pay inflation:
 - Provision for pay awards of 2%
 - General price inflation of 2%
 - Specific increases, where known (e.g. Business Rates 5%)

15. In 2016 the Government announced a reduction in the discount rate to be used in valuations of unfunded public service pension schemes with effect from April 2019. A reduction in the discount rate has the effect of increasing the cost of future benefits and therefore increasing the contribution required from employers. The Government Actuary Department has estimated that the additional cost to the fire service nationally will be around £107m per annum. HM Treasury has indicated that additional funding will be made available to meet these costs in 2019/20 and has consulted on potential distribution methodologies. For Cheshire Fire it is estimated that the increased cost will amount to £2.1m in 2019/20 and that there is the potential for additional funding of circa £1.7m: a net cost to the Fire Authority of approximately £0.4m. However, the position is uncertain until the Government finalises the funding allocations.
16. The Authority will face some unavoidable cost increases in 2019/20 including contractual increases and the full year effect of prior year growth. As part of the budget process, the Chief Fire Officer and Chief Executive has led discussions with Senior Management Team colleagues to review the current base budget, consider the level of unavoidable cost increases and to identify revenue savings. This process has meant that the potential additional expenditure is broadly offset by the savings that have been identified, although there is some further review work needed before the position can be finalised. The following table summarises the overall position:

				£000
Funding variations				
	Reductions in Government funding			625
	Increase in Council Tax income (2.99% increase)			-1,189
				-564
Approved amendment to 2018/19 budget				450
Provision for Pay Awards & Inflation				877
Potential additional expenditure				1,140
Savings in 2019/20 (to balance)				1,903

17. Based on the work to-date, there are savings proposals of £1.9m which would achieve a balanced budget. However, there is still work to be completed in firming up some of the proposals, providing clarity as to their deliverability and understanding the impact, if any, on service delivery. Members will be aware that the Treasurer (as Section 151 Officer) has to provide a view as to the “robustness of estimates” in recommending a revenue budget for approval. Once this work has been completed, a full schedule of the proposed additional expenditure and savings will be included in the report to the Authority in February 2019.

Medium Term position

18. There is considerable uncertainty about the funding position for the period from April 2020 and this will only become clearer once the Government has completed the 2019 Spending Review and published the results in the autumn of 2019. The areas of particular concern include:
- How RSG is to reduce from its expected level of £3.9m in 2019/20 and to what extent the anticipated increase in the retained share of business rates will compensate for this and, failing that, what offsetting funding mitigation arrangements may be put in place
 - Will part funding by the Government for the increased employer contributions to the firefighters pension continue beyond one year
 - Will there be council tax flexibility at a level which provides the potential to increase the council tax to meet service demands and financial pressures
 - How the expected “resetting” of the business rates retention scheme may impact on the top up/tariff arrangements
19. At the present time, for the purposes of planning for the four year period from April 2020, assumptions have been made about the level of funding and about the potential costs increases that may be faced by the Authority.
- Reductions in Government funding of about 2%
 - Precept increase of 2.99% per annum
 - Taxbase increases in line with local authority’s forecasts
 - Pay inflation of 2% per annum
 - Non-pay inflation of 2%
20. Based on the broad assumptions set out above, the current forecasts suggest that the Authority will need to make cumulative savings of about £3.3m between April 2020 and March 2024. Notwithstanding the uncertainties, the Authority is likely to be required to make significant reductions in expenditure for the foreseeable future. The Whole Service Review and other work that is being led by the Chief Fire Officer and Chief Executive will be fundamental to matching service requirements with resources.

Financial Implications

21. The financial implications are covered in the report.

Legal Implications

22. The Authority is required to approve a balance budget and set its council tax precept in February 2019.

Equality and Diversity Implications

23. This is a strategic report that does not contain detailed proposals that have any equality and diversity implications.

Environmental Implications

24. This is a strategic report that does not contain detailed proposals that have any environmental implications.

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BACKGROUND PAPERS: NONE