

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 13th FEBRUARY 2019
REPORT OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: DRAFT 2019/20 BUDGET, COUNCIL TAX PRECEPT
AND MEDIUM TERM FINANCIAL PLAN 2019/22

Purpose of Report

1. The purpose of this report is to allow Members to:
Approve the Authority's Medium Term Financial Plan (MTFP) for 2019/22;
Set the Authority's budget for 2019/20;
Set the Authority's precept as required by law for 2019/20;
Approve the Capital Programme and funding;
Approve the Authority's Capital Strategy; and
Approve the Authority's Reserve Strategy.

Recommended that Members:

- 1) Approve the Medium Term Financial Plan set out in Appendix 1
- 2) Agree the Budget Requirement set out in Table 1, paragraph 9, noting the base budget and inflation figures and determining the Commitments, Growth and one-off items contained in Appendices 2a and 2b;
- 3) Note the Funding Elements set out in Table 1 paragraph 9, and determine the level of council tax increase, if any;
- 4) Set the council tax precept that accords with the decision about the level of council tax precept in recommendation 3;
- 5) Approve the proposed capital programme for 2019/20 set out in Table 2 contained in paragraph 26 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 27.

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 2019. 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 Plan. 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. The MTFP only covers the period 2019 to 2022 because there are a number of significant uncertainties over funding, not least the outcome of the spending review in 2019. The MTFP is augmented by strategies relating to reserves and capital and other associated documents, which support financial planning and management.
4. On the 13 December 2018, the Government issued the 2019/20 Local Government Finance Settlement. The Settlement has been designed in the context of the overall Spending Review package announced in 2015. The Government confirmed the final year of the four-year funding deal, which was accepted by 97% of authorities (including Cheshire Fire Authority) at the 2016/17 Local Government Finance Settlement in return for publishing efficiency plans. The Government proposes to allocate funding in 2019/20 in accordance with the agreed methodology announced by the Secretary of State in 2016/17, which ensures that authorities delivering similar services receive a similar percentage change in settlement core funding for those services.
5. 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 from the relevant year's budget or through reserves.
6. 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 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.
7. In recent years, the Government has set a cap on the amount by which a local authority can increase its Council Tax each year. The cap that applied to this Authority was previously 2%, but since 2018/19, the cap has been set at 3%. The Authority may increase its Council Tax above this level, but can only do so after approval by the local electorate through a referendum. For the purpose of this MTFP, it is assumed that the 2% capping limit will be reintroduced from 2020/21.

8. Included within the MTFP and the 2019/20 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 – 2% per annum throughout the MTFP period
- 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 per the Treasury Management Advisors.

Proposed Budget 2019/20

9. Based upon all of the above information, assumptions and plans, three budget proposals are presented to the Authority for consideration as set out below:

| Table 1 – Budget Proposals | | Council Tax Options | | |
|----------------------------|--|----------------------|-----------------|-----------------|
| | | 2.99% £000 | 1.99% £000 | 0% £000 |
| Budget Elements | Base Budget | 41,826 | 41,826 | 41,826 |
| | Inflation | 877 | 877 | 877 |
| | Commitments (Appendix 2a) | 450 | 450 | 450 |
| | Growth – permanent (Appendix 2a) | 522 | 522 | 522 |
| | One-off items (Appendix 2b) | 1,142 | 1,142 | 1,142 |
| | Budget Requirement pre savings | 44,817 | 44,817 | 44,817 |
| Funding Elements | Government - Settlement Funding Assessment | (13,428) | (13,428) | (13,428) |
| | Section 31 Business Rates Grant | (652) | (652) | (652) |
| | Collection Fund (surplus)/deficit - business rates | 85 | 85 | 85 |
| | Precept (Council Tax) | (29,084) | (28,800) | (28,238) |
| | Collection Fund (surplus)/deficit - council tax | (382) | (382) | (382) |
| | | Total Funding | (43,461) | (43,177) |
| | Budget Shortfall | 1,356 | 1,640 | 2,202 |
| | Identified Savings (Appendix 3) | (1,356) | (1,356) | (1,356) |
| | Budget Shortfall - net of savings | 0 | 284 | 846 |
| | Precept (Council Tax - Band D) | £77.74 | £76.98 | £75.48 |
| | Increase from 2018/19 for Band D | £2.26 | £1.50 | Nil |

10. Should Members wish to select a council tax precept increase of less than the 2.99% maximum flexibility permitted by the Government, further savings would be required as indicated in the table above and a report would need to be

brought back to the Authority with proposals on how those savings would be achieved. The line in Table 1, 'Budget Shortfall' shows the savings required.

11. Commitments; proposed permanent growth and one-off items reflects the unavoidable costs and demands that need to be funded. There are two types of growth, permanent - those that will form part of the base budget going forward; and one-off items for 2019/20 only. A full list of all the £972k proposed growth and one-off items is included in Appendix 2a with the some key items described below.

Commitments

12. At the Authority meeting on 14th February 2018, Members agreed to reinstate the second pump at Crewe. This was funded from reserves in 2018/19 and has been included in the base budget from 2019/20 and shown as the commitment within Table 1 of £450k. In addition, funding (within the one-off items) has been included in the proposed budget for the second pump at Ellesmere Port while the review, commissioned by Members at the Authority meeting in February 2018, is undertaken

Growth

13. Within the growth proposals there are a number of initiatives to provide firefighters with appropriate equipment to support their fitness and wellbeing, together with a Mental Health and Wellbeing Advisor to be recruited on a 12-month trial basis.
14. In the past, the apprentice scheme has been temporarily funded from reserves. The scheme has been a great success and has proven its worth consistently. Therefore, it is proposed that this scheme is now built into the base budget.
15. As a result of the Firefighters Pension Scheme actuarial review, there has been a change to the discount rate applied. This has significantly increased the employers' contribution rate. The estimated cost for Cheshire is £1.84m of which the Government has allocated specific grant of £1.8m in 2019/20. There is uncertainty about the funding post 2020. It is expected to be considered within the spending review due this year.

Savings

16. 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 the Government and council tax precept, is not sufficient to meet expenditure. Dependent on which precept increase is approved, the level of savings for 2019/20 would be:
 - £1.356m with a 2.99% increase in council tax;
 - £1.640m with a 1.99% increase in council tax; or
 - £2.202m without any increase in council tax.

17. A full list of the proposed savings for 2019/20 is included in Appendix 2c. The main savings are described in the following paragraphs.
18. Insurance costs have been reviewed since the move to the arrangements through the Fire & Rescue Indemnity Company Limited (FRIC). The actual costs have been consistently under budget resulting in £100k saving.
19. As part of each budget setting process estimates are made of the impact of inflation on the non-pay budgets. As actual increases become known budget is allocated to fund the increase. Overall this has released £103k in savings.
20. Within the 2018/19 budget, an increase in vacancy provision to 5% (non service delivery) was agreed together with the proposal to introduce a 2% vacancy provision in service delivery. As a result, £371k was saved in the 2018/19 budget with the additional saving (£265k) achievable in 2019/20.
21. Service Delivery Administration teams have been operating under establishment for some time. Having reviewed these teams, it is proposed to remove three posts saving £73k. As these posts are vacant, the saving does not involve any redundancy.
22. A review has taken place on non-pay expenditure within Fleet Management with savings of £80k being identified. These include savings on fuel; tyres and repairs and maintenance together with a reduction in leased cars.
23. In the past, the base budget has included contributions to reserves as part of the funding for capital and equipment replacement. As part of the review of reserves held and in line with both the Revenue and Capital Strategies, this has been reduced by £363k.
24. All pay budgets have been reviewed with a view to matching budget to the establishment and actual costs and where appropriate, savings have been made. These are budget savings rather than changes to roles and there are no redundancies as a result.
25. Finally, all non-pay budgets have been scrutinised and managers challenged over whether there is an on-going need and if so, what level of funding is appropriate. As such, significant non-pay savings have been achieved.

Capital Strategy

26. In addition to the revenue budgets, a programme of capital investment is proposed for 2019/20. 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. 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 in Appendix 3.

| Table 2 – Capital Scheme Proposals | 2019/20 £000 |
|---|-------------------------|
| Annual Replacement Schemes: | |
| Fleet Vehicles | 960 |
| Operational Equipment | 28 |
| New Schemes: | |
| Estates – Training Centre | 8,800 |
| Estates – Chester FS | 4,400 |
| Estates – Crewe FS | 1,300 |
| Estates – FS Modernisation | 2,000 |
| Capital Expenditure | 17,488 |
| Financed by: | |
| General capital grants | 0 |
| Capital Receipts | 0 |
| Revenue Contributions to Capital | 0 |
| Use of Reserves | 8,688 |
| Borrowing | 8,800 |
| Total Funding | 17,488 |

Financial Health Targets

27. 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).
 - 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.
28. Performance against these targets will be reported to Members as part of the quarterly financial reviews.

Reserves Strategy

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.

Robustness of Estimates

30. 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

31. 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 2018/19 the overall tax base for 2019/20 has increased by 6674.84 (1.84%). The following tables show 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 – Council Tax Precept for 2019/20

| Unitary Council | Tax base | 2.99% Increase | 1.99% Increase | 0.00% Increase |
|-------------------------|-------------------|----------------------|----------------------|----------------------|
| | | £ | £ | £ |
| Cheshire East | 149,517.54 | 11,623,493.56 | 11,510,167.04 | 11,285,583.92 |
| Cheshire West & Chester | 121,757.60 | 9,465,435.82 | 9,373,149.89 | 9,190,263.65 |
| Halton | 34,950.00 | 2,717,013.00 | 2,690,522.72 | 2,638,026.00 |
| Warrington | 67,892.00 | 5,277,924.08 | 5,226,465.47 | 5,124,488.16 |
| | 374,117.14 | 29,083,866.46 | 28,800,305.12 | 28,238,361.73 |

Table 4 – Council Tax for Bands A to H

| Bands | 2.99% Proposal £ | 1.99% Proposal £ | 0.00% Proposal £ |
|----------|------------------------|------------------------|------------------------|
| A | 51.83 | 51.32 | 50.32 |
| B | 60.46 | 59.87 | 58.71 |
| C | 69.10 | 68.43 | 67.09 |
| D | 77.74 | 76.98 | 75.48 |
| E | 95.02 | 94.09 | 92.25 |
| F | 112.29 | 111.20 | 109.03 |
| G | 129.57 | 128.30 | 125.80 |
| H | 155.48 | 153.96 | 150.96 |

Conclusion

32. The 2019/20 budget proposals are based on the final year of the Government's four year settlement. Going forward funding is uncertain and subject to the proposed spending review in 2019. 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.
33. Section 43 of the Local Government Finance Act 1992 requires an authority to set its budget requirement. Based on the three options included in this report, the budget requirement (the amount financed by council tax, government grant and business rate income) will be:
- 2.99% proposal: £43.461m
 - 1.99% proposal: £43.177m
 - 0% proposal: £42.615m

Financial Implications

34. This report is financial in nature.

Legal Implications

35. 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

36. 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 individually identified and assessed

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BACKGROUND PAPERS: NONE