

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 10th DECEMBER 2019
REPORT OF: TREASURER/HEAD OF FINANCE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: 2020-21 DRAFT BUDGET AND MEDIUM TERM
FINANCIAL POSITION

Purpose of report

1. To inform Members of the progress made in preparing a draft revenue budget and capital programme for 2020-21.

Recommended:

- [1] That Members note the position on the 2020-21 draft revenue budget and medium term financial plan.

Background

2. The Local Government Finance Act 1992 requires the Authority to approve a revenue budget and set a precept (the Authority's share of council tax) before 1st March. To meet this statutory requirement, at its meeting on 12th February 2020, the Authority will be presented with the annual budget for 2020-21 and proposed council tax options for approval. In order to make those decisions the report to the Authority meeting will contain all relevant information including the likely impact of policy options, the level of resources available, the financial pressures and the demands on the service

Current funding assumptions for 2020-21

Funding from Government

3. The Authority receives an annual Settlement Funding Assessment from the Ministry for Housing, Communities and Local Government (MHCLG) that comprises Revenue Support Grant (RSG), Business Rates Top Up Grant, the Government's projection of the Authority's 1% share of local business rates and any Specific Grants (referred to as Section 31 Grant) to compensate for the impact of Government decisions particularly in respect of business rates. With the general election being held in December, the announcement of these details for 2020-21 has been delayed and is not expected until mid January 2020 at the earliest.

4. In September 2019 the Government published “Spending Round 2019” which set out the Government’s spending plans for 2020-21 and indicated that “a full multi year spending review will follow in 2020”. As this only set out departmental spending totals, it did not include allocations at an individual fire authority level. However the Government did issue a technical consultation document “Local Government Finance Settlement 2020-21” in October 2019 that provided a broad indication of the funding principles:
 - A proposed “roll forward” of the 2019-20 Local Government Finance Settlement;
 - RSG to continue in 2020-21 and to be uplifted for inflation;
 - Council tax increases to be limited to 2% without triggering a local referendum; and
 - The planned local government funding reforms (including Fair Funding, resetting of the business rates scheme and retention of 75% of business rates) are to be delayed until April 2021.
5. Although there is the potential for the final Local Government Finance Settlement for 2020-21 to depart from the position set out in the consultation document, this currently provides the most reliable basis on which to plan for 2020-21. The draft budget is therefore being compiled on this basis.

Council Tax income

6. In February 2019, the Authority set a Band D Council Tax for 2019-20 of £77.74: this represented a 2.99% increase from the previous year. The total amount of council tax precept set by the Authority was £29.084m, reflecting a council tax base of 374,117 Band D equivalent properties. The taxbase is the number of properties that the four unitary Cheshire authorities can collect council tax from. Changes in the taxbase is usually the result of:
 - New domestic properties being constructed
 - Changes in council tax banding as a result of adjustments and appeals
 - Discounts, exemptions and reliefs granted, particularly as a result of changes to council tax support schemes
7. In accordance with legislation, formal notification of the taxbase position is not due until January 2020. However current estimates provided by the Cheshire local authorities suggest an increase in the taxbase of 5,378 (or 1.4%) Band D equivalent properties. This will provide additional council tax income in 2020-21 irrespective of the level of increase to the council tax precept.

Collection Funds

8. Each Cheshire unitary authority is required to maintain collection funds that record the receipts from Council Tax and Business Rates payers and the payments out that are made to the local authorities including the Fire Authority. Any surplus on a fund is required to be distributed in the following financial year in proportion to the precepts on the fund. The Fire Authority budget for 2019-20 included a Council Tax Collection Fund surplus of £382k and a Business Rates Collection Fund deficit of £85k.
9. The position on each fund will depend on a range of factors including payments received to date, reliefs and discounts awarded, the likely levels of arrears and provisions for bad debts. The Cheshire unitary authorities are required to estimate the year end balance on the funds by 15th January and to notify the Authority of its share of any estimated surplus or deficit. At the present time, estimates suggest that there is a small surplus on the council tax collection fund and a balanced business rate collection fund.

Expenditure Projections

10. The Authority at its meeting on 13th February 2019 set a budget requirement of £43.461m for 2019-20. This forms the basis for constructing the budget for the following year, with uplifts for pay awards and price inflation and also for other cost pressures. The assumptions that have been made about the levels of pay awards and non pay inflation suggest that approximately £0.9m will be required based on the following:
 - Provision for pay awards of 2%
 - General price inflation of 2%
 - Specific increases where known: e.g. business rates of 5%
11. The Authority will also face some unavoidable cost increases in 2020-21 as a result of contractual commitments and the full year effect of prior year growth. This will include any additional contributions to pension schemes as a result of actuarial reviews and any increases in revenue expenditure as a result of capital schemes. Provisional figures have been identified which suggest that approximately £1.3m will be required for inclusion in the budget.
12. As part of the budget process, the Chief Fire Officer and Chief Executive has led discussions with Service Management Team colleagues to review the current base budget, consider the level of unavoidable cost increases and to identify revenue savings. This process has focussed on ensuring that potential additional expenditure is broadly offset by savings given the uncertainties around the level of funding for 2020-21.
13. The process of reviewing budgets has been assisted by the introduction of Priority Based Budgeting (PBB) which has facilitated a comprehensive review of the entire revenue budget, identifying and ranking services offered on the basis of the Authority's priorities. This diagnostic process will assist in aligning resources to priorities and should enable Members, officers and stakeholders to see stronger

links between funding decisions and the Authority's Integrated Risk Management Plan. PBB is intended to provide flexibility to respond quickly and appropriately to differing funding scenarios, while at the same time meeting the priorities and outcomes set by the Authority.

Summary Position for 2020-21

14. As indicated, the budget process is ongoing and work is continuing to refine expenditure projections and to finalise proposals to reduce expenditure. This will include an assessment of the deliverability of proposals within the timescales involved and an understanding of the potential impact on service delivery, if any. Although further work is required and the position on funding is uncertain, officers are confident that sufficient progress has been made to present a balanced budget to Members in February 2020. This assumes a 1.99% increase in the council tax precept and an expectation that savings of about £1.3m will be required. The position is summarised below:

| | |
|----------------------------------|----------------|
| Funding: | <u>£'000</u> |
| Forecast net increase in funding | <u>763</u> |
| Proposed Changes: | |
| Pay & Price Inflation | 924 |
| Potential increased demands | 641 |
| Potential one-off demands | 736 |
| Use of reserves | (235) |
| Proposed savings | <u>(1,303)</u> |
| | <u>763</u> |

15. 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 2020.

Medium Term Financial Position

16. This report sets out the assumptions relating to the 2020-21 financial year. When considering the budget report in February it will be necessary to consider the position beyond April 2021. However, the Spending Round 2019 only covered one financial year, the funding position for future years is unknown. The areas of particular concern include:
- What will the level of Government funding be going forward including Revenue Support Grant
 - Will the part funding by the Government for the increased employer contributions to the firefighters pension continue
 - Will there be council tax flexibility at a level that allows the Authority to increase the council tax precept 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

17. At the present time, for the purposes of planning for the four year period from April 2021, 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% per annum
 - Precept increase of 2% per annum
 - Taxbase increases in line with local authority's forecasts
 - Pay inflation of 2% per annum and non-pay inflation of 2% per annum
18. Based on the broad assumptions set out above, the current forecasts suggest that the Authority will need to make cumulative savings of about £2m between April 2021 and March 2025. Notwithstanding the uncertainties, the Authority is likely to be required to make reductions in expenditure for the foreseeable future and fund any significant growth from savings. The Whole Service Review, Priority Based Budgeting and other work that is being led by the Chief Fire Officer and Chief Executive will be fundamental to matching service requirements with resources.

Capital Programme

19. On 13th February 2019 the Authority approved a capital programme of £17.4m in 2019-20. This was part of an overall Capital Strategy - that was approved at the same meeting – for a total capital programme of approximately £35m from April 2019 to March 2024. The financing strategy to support this expenditure involves a combination of contributions from capital reserves, revenue contributions and new borrowing.
20. The capital programme is being revised to reflect the latest assessment of spending on approved schemes together with proposed new capital starts. There will be a revision to the timing of expenditure, particularly in respect of Crewe fire station which will involve revised proposals being submitted to the Authority. This will impact on the financing strategy and will mean that new borrowing will not be necessary until a later date than originally anticipated.
21. The revised capital programme and proposals for new capital starts will be submitted to the Authority meeting in February 2020. This will include a Capital Strategy and a Reserves Strategy that will set out how the capital programme is to be financed.

Financial implications

22. This report considers financial matters.

Legal Implications

23. There are no legal implications arising from the report.

Equality and diversity implications

24. There are no equality and diversity implications arising from this report.

Environmental implications

25. There are no environmental implications arising from this report.

BACKGROUND PAPERS: NONE