

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 12th FEBRUARY 2020
REPORT OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: DRAFT 2020/21 BUDGET, COUNCIL TAX
PRECEPT AND MEDIUM TERM FINANCIAL PLAN
2020/25

Purpose of Report

1. The purpose of this report is to allow Members to:
 - Approve the Authority's Medium Term Financial Plan 2020/25;
 - Agree the Authority's budget for 2020/21;
 - Agree the Authority's Council tax precept for 2020/21 as required by law;
 - Approve the Authority's Capital Programme and funding;
 - Approve the Authority's Capital Strategy; and
 - Approve the Authority's Reserves Strategy.

Recommended that Members:

- [1] Approve the Medium Term Financial Plan as set out in Appendix 1;
- [2] Agree the Budget Requirement of £44.830m for 2020/21 (as set out in Table 1, paragraph 8) which takes account of adjustments for inflation, growth, one off items and savings (as set out in Table 2, paragraph 12 and Appendices 2a, 2b and 2c respectively);
- [3] Agree the proposed council tax increase of 1.99% (which represents a Band D council tax precept of £79.29) for 2020/21;
- [4] Agree the council tax precepts set out in Table 4, paragraph 31;
- [5] Approve the proposed capital programme for 2020/21 set out in Table 3, 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 28.

Medium Term Financial Plan and Funding Position

2. The Authority is required to approve a budget and set a precept (the Authority's position of the council tax bill) for the financial year commencing 1st April 2020. 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. Government funding is provided through a Settlement Funding Assessment (SFA) which includes Revenue Support Grant (RSG) and Baseline Funding (i.e. Business Rates paid over to the Authority by the four local authorities), together with a Top Up grant from Government to provide a minimum agreed funding level. A three year spending review had been expected in 2019 which would have provided some certainty over funding but in the Chancellor's statement only a one year settlement was provided with the full spending review postponed until 2020.
4. 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.
5. 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 revisions to the Business Rates Retention Scheme come 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.
6. 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 has generally been 2%, but for 2018/19 and 2019/20, the cap increased to 3%. For 2020/21, the cap has reverted to 2% again. The Authority may increase its Council Tax above this level, but can only do so after approval by the local electorate through a referendum.
7. Included within the MTFP and the 2020/21 budget proposals are a number of financial assumptions. The level of expenditure required 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 as advised by the Treasury Management Advisors.

Proposed Revenue Budget 2020/21

8. The 2020/21 budget proposals are based on the Local Government Finance Settlement for 2020/21 which is a one year settlement. The Settlement includes Council Tax Referendum Principles that allow for an increase in council tax of 1.99%, without triggering a local referendum. An increase of 1.99% in the council tax generates an additional £1m council tax income compared to 2019/20, based on the increased council taxbase of Band D equivalent properties. When other elements of funding are included – such as revenue support grant and business rate income - the overall net revenue budget would increase by £1.369m compared to the previous year. This is shown in the table below.

Table 1: Financing of the proposed Net Revenue Budget

Net Budget Requirement	2019/20 £'000	2020/21 £'000	Change £'000
Revenue Support Grant	(3,927)	(3,991)	(64)
Business Rate Income	(4,395)	(4,462)	(67)
Business Rates Top Up Grant	(5,106)	(5,190)	(83)
Council tax income - precept	(29,084)	(30,141)	(1,057)
Collection funds (surplus)/deficit:			
Council tax	(382)	(260)	122
Business rates	85	(7)	(92)
S.31 Grant	(652)	(780)	(128)
Total Funding	(43,461)	(44,831)	(1,369)

9. A consultation was undertaken seeking feedback on the proposed council tax increase of 1.99%. The consultation ran between 13 January and 3 February, receiving 173 responses from across Cheshire. The consultation was also supported by media communications, a prominent feature on the homepage of the Service's website and a targeted Facebook advertising campaign which reached 15,252 users of the platform.
10. Overall 77% of survey respondents indicated their support for the proposal to increase the precept by 1.99% for the 2020/21 financial year, while 22% indicated their opposition. 45 comments were received in total, 23 of which indicated support for the proposed increase in the precept. Eight comments expressed support for an increase which was conditional on extra revenue

geared towards emergency fire cover and increased community engagement. A further ten responses stated the individuals' opposition to the proposal, with some comments highlighting the impact of council tax increases on those with fixed or limited incomes.

11. The proposed revenue budget will need to include suitable provisions for the impact of pay awards and inflation, as well proposed additions for unavoidable costs, service developments and increased demands. Permanent growth will form part of the base budget going forward and one-off items for 2020/21 only. A full list is shown in Appendices 2a and 2b with the some key items described later in the report.
12. The table below shows the proposed adjustments to the revenue budget. The increase in funding of £1.3m will not be sufficient to balance the budget and therefore savings proposals of £2.4m have been identified to ensure that planned spending matches the level of proposed resources.

Table 2 – Construction of proposed 2020/21 Revenue Budget £000

Budget Elements	Base Budget	43,484
	Inflation	924
	Growth – permanent (Appendix 2a)	2,444
	One-off items (Appendix 2b)	474
Budget Requirement pre savings		47,326
Funding Elements	Government - Settlement Funding Assessment	(13,643)
	Section 31 Business Rates Grant	(780)
	Collection Fund (surplus)/deficit - business rates	(7)
	Precept (Council Tax)	(30,140)
	Collection Fund (surplus)/deficit - council tax	(260)
Total Funding		(44,830)
Budget Shortfall		2,496
Identified Savings (Appendix 2c)		(2,496)
Budget Shortfall - net of savings		0

Precept -1.99% increase (Council Tax - Band D)	£79.29
Increase from 2019/20 for Band D	£1.55

13. The proposed increase in council tax of 1.99% would result in a Band D Council Tax precept of £79.29: an increase of £1.55 (or 3p per week) for a Band D property. Should Members wish to propose a council tax precept increase of less than the 1.99%, further savings would be required in order to balance the budget. For example, if Members were to propose a 1% increase or a freeze in the council tax, additional savings of £293k and £588k respectively, would need to be identified. Given that the Fire Authority has previously urged the

Government to increase finding it is assumed that Members will wish to increase Council Tax.

Growth proposals

14. The proposed budget includes a number of growth items that relate to proposals contained in the draft Integrated Risk Management Plan (IRMP) that is currently subject to consultation. The Fire Authority will not consider the outcome of the consultation and approve the IRMP until it meets on 22nd April 2020. For the purposes of setting the budget and council tax precept, the report assumes that the Fire Authority will approve the proposals in the IRMP and that the relevant growth items will be required. However it is acknowledged that this might not be the case and that there ultimately may be a reduction in the amount of growth that is required. If this were to happen, there would be a revised list of proposals that would be subsequently submitted for Member approval.
15. The workforce planning report submitted to the Staffing Committee in October 2019 addressed the need to ensure the Authority has a competent and inclusive workforce and to address any skills shortages. The report looked at the need to recruit and maintain adequate crewing and skill levels in response to leavers and retirements. In the short-term this means Service Delivery running over establishment requiring additional funding while staff go through training and become competent in their roles.
16. In 2019/20, funding (within the one-off items) was included in the approved budget for the second fire appliance at Ellesmere Port whilst the review, commissioned by Members, was undertaken. The outcome of the review is included within the draft IRMP currently out for consultation with the funding being made permanent within this proposed budget.
17. Growth was included within previous budgets to fund the capital financing costs of taking out loans to pay for the Training Centre. No loans have been taken out to date and with the changes to the capital programme, including the delay to the replacement at Crewe Fire Station, borrowing is not required at this point. As such the budget for the relevant capital financing costs has been removed.
18. On-call recruitment, retention and deployment has been an issue for some time and a pilot was undertaken in 2019/20 to assess what practical support could be provided. This pilot has ended with the Watch Manager post removed. The outcome is the introduction of three Crew Manager posts to support and provide cover at the on-call stations, as well as working on the various projects which are addressing the on-going on-call issues.
19. Pay inflation within this proposed budget has been set at 2%. The actual amount is subject to national negotiations. Equally, there is currently an employment tribunal sitting in relation to the McCloud/Sargeant Pension ruling. The remedy outcome of this ruling is expected during 2020/21 for which funding is unclear. As such, a contribution to reserves is included within the 2020/21 budget to cover these risks.

One-off growth items

20. Every three years, the Local Government Pension Scheme (LGPS) is valued with the latest valuation taking place in March 2019. The outcome of the valuation shows the cost of the estimated liabilities to pay current and future pensions against the assets held by the fund. Any shortfall needs to be covered either through an uplift in the employers' contributions or as a one-off payment at the start of the following three year period. The one-off payment saves interest and is therefore better value for money and reserves have been set aside for this purpose.
21. As the Training Centre progresses, there is a need for additional support and alternative facilities to be utilised. Temporary funding has been included for 2020/21 to meet these costs.
22. Each year, operational equipment need replacing and one-off funding is included to cover these items. Additionally, in recognition of the wildfires experienced over the last few years, additional equipment is requested to ensure appropriate response is possible and firefighter safety is maintained.

Savings proposals

23. As shown earlier in the report, 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. Proposals of £2.496m have been identified which represent a balanced budget position. A full list of the proposed savings is included in Appendix 2c to meet the £2.496m requirement for savings. The main savings are described in the following paragraphs.
24. Once the one-off items funding in 2019/20 has been reversed, the remaining savings include the reversal of a growth item included in the budget for the firefighter pension costs. At the time of setting the 2019/20 budget the cost of the firefighters' pension scheme had not been finalised. To manage the uncertainty a contingency was created. When final figures were known, the additional cost over the estimated rate given out in December 2019, was offset by an additional grant. Therefore, the contingency is now unnecessary.
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 2020/21. Wherever there is discretion about elements of the programme Members have previously had sight of business cases at their Planning Days in order to gauge their support. Funding for these comes from reserves held by the Authority and borrowing, when necessary. Details of the

proposed capital programme is shown in Table 3 together with the proposed funding. Further details are included in the Capital Strategy in Appendix 3.

<u>Table 3 – Capital Scheme Proposals</u>	2020/21 £000
<u>Expenditure:</u>	
Annual Replacement Schemes:	
Fleet Vehicles	1,665
Operational Equipment	100
ICT & Communications	520
New Schemes:	
Estates – Training Centre	3,446
Estates – Chester FS	4,014
Estates – Crewe FS	1,750
Estates – FS Modernisation	2,250
Estates – Houses Modernisation	350
Capital Expenditure	14,095
<u>Financed by:</u>	
Capital Receipts	350
Capital Reserves & Revenue Contributions	7,343
Borrowing	6,402
Total Funding	14,095

Reserves Strategy

27. 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.

Financial Health Targets

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

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 2019/20 the overall tax base for 2020/21 has increased by 6674.84. The following tables show the proposed level of precepts for each local authority and the individual amount per each council tax band based on the proposed increase.

Table 4 – Council Tax Precepts

Unitary Council	Tax base	1.99% Increase
		£
Cheshire East	152,597.84	12,099,028.91
Cheshire West & Chester	123,713.30	9,808,859.63
Halton	35,359.00	2,803,509.95
Warrington	68,464.00	5,428,306.95
	380,134.14	30,139,705.44

Table 5 – Council Tax for each band

Bands	1.99% Proposal £
A	52.86
B	61.67
C	70.48
D	79.29
E	96.91
F	114.53
G	132.15
H	158.57

Conclusion

32. The 2020/21 budget proposals are based on the Local Government Finance Settlement which is a one year settlement. Going forward funding is uncertain and subject to the proposed spending review in 2020. 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. The Local Government Finance Settlement for 2020/21 includes Council Tax Referendum Principles that allow for an increase in council tax of 1.99%. If Members were to agree an increase of 1.99% in the council tax, this would generate an additional £1m council tax income compared to 2019/20. In such a scenario, the overall proposed net revenue budget would increase by £1.369m compared to the previous year.
34. Section 43 of the Local Government Finance Act 1992 requires an authority to set its budget requirement. Based on the proposed council tax increase of 1.99%, the budget requirement (the amount financed by council tax, government grant and business rate income) will amount to £44.830m.

Financial Implications

35. This report is financial in nature.

Legal Implications

36. 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

37. This is a strategic report is 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

BACKGROUND PAPERS: NONE