

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 9th DECEMBER 2020
REPORT OF: TREASURER/HEAD OF FINANCE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: 2021-22 DRAFT BUDGET AND MEDIUM TERM FINANCIAL PLAN

Purpose of report

1. To inform Members of the progress made in preparing a draft revenue budget and capital programme for 2021-22.
2. To ask Members to consider the recommendations from the Estates and Property Committee concerned with the allocation of additional capital expenditure (Fire Station Modernisation Programme, £3m and Crewe Fire Station, £2m).

Recommended: That Members

- [1] Note the report;
- [2] Determine whether to allocate additional capital funding for the Station Modernisation Programme, £3m and/or Crewe Fire Station, £2m.

Background

3. The Local Government Act 1992 requires the Authority to prepare and approve its budget and set a precept (the Authority's share of council tax) before 1st March. To meet this statutory requirement, at its meeting on 10th February 2021, the Authority will be presented with the annual budget for 2021-22 and proposed council tax options for approval. In order to make those decisions the Authority's budget report will contain all relevant factors including the likely impact of policy options, the level of resources available, the financial pressures and the demands on the service

Current funding status

4. The Chancellor announced the Government's Spending Review 2020 on 25 November 2020. It prioritises funding to support the Government's response to Covid-19 and sets departmental budgets for 2021-22 and devolved administrations for the same period, confirming the core day-to-day spending.
5. Within the Spending Review there is no mention of Fire specifically and as such it is assumed that the funding levels will remain the same for 2021-22, although this has yet to be confirmed. This will be clearer when the Local Government Finance Provisional Settlement is published, which is expected mid-December.

6. There are a few general items within the Spending Review which are worth mentioning. Firstly, a pay freeze is set to impact upon most public sector workers in 2021-22, (although this excludes NHS staff and those public sector workers earning less than £24k, the latter receiving an increase of £250). As 2.5% was previously built into the Medium Term Financial Plan (MTFP), this has a significant impact. Secondly, the Government has decided to provide support to local authorities in relation to the expected reduction in income from council tax and business rates during 2020-21 caused by Covid. The Government intends to compensate local authorities for 75% of irrecoverable council tax and business rates. This would normally have been funded through local authority budgets and the Authority would have been responsible for a share of this. Thirdly, the Spending Review also confirmed that local authorities will be able to increase their council tax bills by 2% without needing to hold a referendum.
7. In addition to Government funding, the Authority receives its share of the council tax based on the precept it sets. The total level of council tax income is calculated based on the local authority taxbase which is determined by the four unitary authorities within Cheshire. The taxbase is the number of council tax bills issued by these authorities, adjusted for the impact of new houses; local council support scheme adjustments; other discounts; and voids/losses. Current estimates provided from the local authorities show an overall increase in taxbase of 347 (the increase was 6017 in 2020-21). This is a much lower increase than in previous years due to the impact of the pandemic (in fact for Cheshire West and Chester Borough Council and Halton Borough Council the taxbase has reduced). Had the increase remained in line with previous years, there would have been an increase in funding of approx. £345k prior to any change in precept, but due to the lower taxbase, this year that sum is just £25.5k.
8. Each unitary authority will also notify the Authority of the position on the collection funds which they manage on behalf of precepting authorities (council tax and business rates). If the collection performance has improved, or if the assumed taxbase 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. In previous years, this would have been the expectation. Of course if the opposite is true, then as mentioned above there will be a deficit which the Authority will be required to contribute to in order to rectify the position.
9. In recognition of the impact such deficits will have, the Government has issued The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020. These allow the 2020-21 deficits to be spread over the next three years rather than full recovery in 2021-22. In addition, as part of the spending review the Government has provided grants to local authorities of 75% towards covering such in-year deficits. Taking all of these into account, the current estimates suggest that a net £85k is likely to be payable by the Authority over the next three years. Final figures will be provided by the local authorities in January 2021.

Budget Process & Financial Assumptions

10. The traditional approach to budgeting has always been incremental, with last year's budget serving as the basis for the budget of the following year. In response to the uncertainty of funding going forward, a revised approach to

budgeting has been introduced. The Priority Based Budgeting (PBB) model provides a comprehensive review of the Authority’s entire revenue budget, identifying and ranking services offered on the basis of the Authority’s priorities. This diagnostic process allows funding decisions to be aligned to the Authorities priorities. PBB provides flexibility to respond quickly and appropriately to differing funding scenarios, while at the same time focusing spending where it can help meet the priorities set by the Authority.

11. The revenue budget would normally need to include sufficient funding to meet the costs of pay awards and price inflation. As part of the formulation of the draft 2021-22 Revenue Budget the following assumptions have been made about the levels of pay awards and non pay inflation:

- Provision for pay awards of 0% for 2021/22 per Spending Review
- General price inflation of 2%
- Specific increases, where known (e.g. the Authority’s Business Rates 5%)

12. The Authority will face some unavoidable cost increases in 2021-22 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 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 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.

13. The following table summarises the overall position based on a 2% increase in precept:

Funding:	£'000
Forecast net increase in funding	278
 Proposed Changes:	
Pay & Price Inflation	321
Potential increased demands	202
Potential one-off demands	24
	546

14. Based on the work to-date, there are net savings proposals of £269k 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 2021.

Medium Term position

15. There is considerable uncertainty about the funding position going forward due to there being another one-year settlement rather than the three year spending review originally planned pre-Covid. The areas of particular concern still remain as follows:
 - Government funding going forward including Revenue Support Grant
 - Will the part funding by the Government for the increased employer contributions to the firefighters' pension scheme continue
 - How the expected "resetting" of the business rates retention scheme may impact on the top up/tariff arrangements
16. At the present time, for the purposes of planning for the four-year period from April 2022, assumptions have been made about the level of funding and about the potential costs increases that may be faced by the Authority.
 - Government funding to remain static – i.e. flat cash
 - Precept increase of 1.99% per annum
 - Taxbase movement in line with local authority's forecasts (lower than previous)
 - Pay inflation of 0% in 2021-22 and 1% thereafter (2.5% previous)
 - Non-pay inflation of 2% in general
 - Funding for £11m approved borrowing only
17. Based on the broad assumptions set out above, the current forecasts suggest that the Authority will need to make cumulative savings of about £1.3m between April 2022 and March 2026. 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.

Capital Programme

18. In order to fund the currently approved capital programme all capital reserves have been committed and £11m of borrowing is approved. Under the Government's funding arrangements there are no general capital grants provided and while there is a funding provision for a small capital replacement programme within the revenue budget, any additional capital spend above that is unfunded and will require additional borrowing which impacts on the revenue budget.
19. At the Estates and Property Committee 6th November 2020, reports were received in relation to two capital schemes and Members recommended the additional capital funding should be approved by the Fire Authority (Fire Station Modernisation, £3m and Crewe Fire Station, £2m). These reports are contained in the Agenda Pack. This additional funding, if approved, will require additional borrowing and add £0.3m to the revenue budget in terms of interest and repayment. Further capital spend beyond this will also increase the impact on the revenue budget through additional borrowing.

20. Members will recall from a presentation at a recent Planning Day that additional capital funding will also be required for further property-related projects. The following figures are broad estimates:
- Fire Station Modernisation Programme – to complete, circa £6m
 - Wilmslow Emergency Services Facility – contribution, at least £3m
 - Warrington Fire Station (currently, no proposals exist, but significant investment or replacement will be necessary within the next five years).
21. If Members are minded to approve additional capital expenditure for the projects mentioned in paragraph 20 this will have a further and significant impact on the revenue budget; circa £650k per annum will be required to fund the Fire Station Modernisation Programme and Wilmslow Emergency Service Facility. These are not decisions to be taken lightly as they will have a lasting impact on the revenue budget and will increase the likelihood of the Authority being forced to make difficult choices in future.
22. When the budget is presented to Members in February 2021, the MTFP and capital strategy will be updated to reflect any additional borrowing. The report will also need to remind Members about any other property-related projects the funding of which would have a long-term impact on the budget position.

Financial implications

23. This report considers financial matters.

Legal Implications

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

Equality and diversity implications

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

Environmental implications

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

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BACKGROUND PAPERS: NONE