

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 10TH FEBRUARY 2021
REPORT OF: CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: DRAFT 2021-22 BUDGET, COUNCIL TAX
PRECEPT AND MEDIUM TERM FINANCIAL PLAN
2021-26

Purpose of Report

1. The purpose of this report is to allow Members to:
 - Approve the Authority's Medium Term Financial Plan 2021-26;
 - Agree the Authority's 2021-22 budget;
 - Agree the Authority's 2021-22 precept 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 £46.203m (as set out in Table 1 paragraph 24) which takes account of adjustments for inflation, growth, one off items and savings (as set out in Table 2 paragraph 27 and detailed in Appendix 2);
- 3) Agree the proposed council tax increase of 1.99% and set a Band D council tax precept of £80.87 for 2021-22;
- 4) Agree the levels of council tax precept set out in Table 4 paragraph 48;
- 5) Approve the proposed capital programme for 2021-22 set out in Table 3 paragraph 42 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 44.

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 2021. 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 MTFP. 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 2020 which would have provided some certainty over future funding but in the Chancellor's Statement only a one-year settlement was provided with the full spending review postponed until 2021 due to the impact of Covid-19.
4. 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. 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.
5. In recent years, the Government has set a limit on the amount by which a local authority can increase its council tax each year, unless it carries out a referendum and gains approval. In the Provisional Local Government Finance Settlement, published in December 2020, the limit for 2021-22 is 2%. The Authority may increase its council tax above this level, but can only do so after approval by the local electorate through a referendum.
6. In addition to the precept, there is the financial impact of both the council tax and business rates collection funds. Each year council tax and business rates income is calculated based on assumed levels of collection rates by the local authorities. This means that, at the end of each year, an adjustment has to be made to reflect the actual collection rates. This can lead to a one-off surplus or deficit on the fund which must be accounted for within the calculation of the following year's net budget requirement, but the actual amounts are not declared until mid-January each year. The Authority will either receive or pay its share of any surplus or deficit.

7. Included within the MTFP and the 2021-22 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 – 0% for 2021-22 in line with the Government’s Spending Review and 1% per annum thereafter
 - 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 the spend profile and interest rate movement. Interest payable is based on forecast interest rates per the Treasury Management Advisors
 - Impact of Covid-19 – years 2 and 3 of the collection funds deficits will be included within the MTFP in line with local authorities’ forecasts and Government regulations – please see later.

Covid-19 Impact

8. Whilst the report follows a similar format to those that have been presented in previous years, the current and ongoing impact of Covid-19 makes it much more difficult to forward plan with the usual level of relative confidence.
9. The following paragraphs attempt to summarise current understanding of the impact of Covid-19. However, a range of factors could alter the situation and it will be important to regularly return to check assumptions and financial performance to enable financial plans to be reviewed and updated as the impact of Covid-19 becomes clear.

Council Tax base

10. A key source of funding is the Authority’s share of council tax. This is calculated based on each local authorities’ tax base. A tax base is the number of ‘Band D equivalent’ domestic properties in a local authority area. To calculate the tax base for an area, the number of properties in each council tax band is adjusted to take account of any discounts, premiums or exemptions and collection rates. It also takes account of the number of households in receipt of council tax support: the higher the number of households receiving council tax support, the lower the council tax base, all other things being equal.
11. In previous years, the tax bases in Cheshire have grown providing additional funding. Due to the pandemic, the previously anticipated growth has not materialised, which reduces the overall level of funding from council tax from the level previously forecast. The tax base for 2021-22 is 380701.40 Band D equivalent properties, an increase of just 567.26 (or 0.15%) compared to the

tax base for 2020-21. The Government have recognised the impact of additional pressures on council tax support schemes on the council tax base and is providing a one-off grant in 2021-22: this is referred to later in the report. It is not clear if and when the previously experienced levels of growth in the tax base will return in future years.

Business Rates Grants (Section 31 Grants)

12. The Authority receives specific grants (referred to as S31 grants) from the Government as compensation for loss of income as a result of policy decisions taken by Government. This usually relates to extensions of small business rates reliefs and other measures to support local businesses. For 2021-22 the Government has frozen the inflation uplift in business rates to support businesses during the pandemic and therefore the level of S31 grants received by the Authority will increase compared to previous years. The amount included in the budget is as follows:

Business Rates S31 Grant	£1.341m
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Collection Fund Deficits

13. In accordance with legislation, each of the four Cheshire local authorities is required to account for income and expenditure relating to Council Tax and Business Rates separately from other revenue expenditure. These details are held in a Council Tax Collection Fund and a Business Rates Collection Fund. In January of each year the position on the Collection Funds is reassessed on the basis of collection performance in the year to date and if performance has been better than expected, it can result in an estimated surplus which is shared amongst the local authorities including Cheshire Fire Authority. Conversely if the collection performance has been worse than had been expected, that can result in an estimated deficit, which local authorities including Cheshire Fire Authority, would need to contribute to.
14. The coronavirus pandemic has had a significant impact on the collection performance of the Cheshire authorities in terms of both council tax and business rates in 2020-21. Whereas in previous years there has often been a relatively healthy overall surplus, the estimated position is now predicting significant deficits.
15. The Fire Authority's share of the estimated deficits must be included in the revenue budget for 2021-22. The Government anticipated that local authorities would be in this position and amended secondary legislation to allow authorities to spread the estimated deficits on the 2020-21 Collection Funds over three financial years, from 2021-22 to 2023-24. The provisions do not allow deficits in subsequent financial years to be phased in this way, although it is possible that this situation could change.
16. The forecast deficit on the Business Rates Collection Funds is much greater than had been included in the Fire Authority's Medium Term Financial Plan. Much of the increase is attributable to further support being given to sectors of

the economy considered by the Government to be particularly impacted by the pandemic, including retail, nursery and local newspaper sectors. Although local authorities had initially received compensation for the loss of business rates, this appears to be mainly for cash flow purposes and there is an expectation that it will be repaid.

17. The Regulations relating to the apportionment of the deficit over 3 years, only relate to that part of the deficit that is specific to pandemic events in 2020-21. This results in a charge for each of the next three financial years of £0.104m. The remaining elements of the estimated deficits will need to be included in the 2021-22 budget only. The overall levels to be included in the budget for 2021-22 are as follows:

Deficits on Business Rates Collection Funds	£2.031m
Deficits on Council Tax Collection Funds	£0.084m

Collection Fund Deficit (Coronavirus) S31 Grant

18. The Government are providing support to compensate for loss of business rate income referred to in paragraph 16 above and the impact this loss has had on Collection Funds. At the present time, the indications are that this could amount to £1.974m for the Fire Authority. However the calculation of the Grant will depend on returns submitted by the local authorities with some of those returns not due until March 2021. As a result, the Government is unable to provide indicative allocations and the eventual amount may not be finalised and confirmed until much later in the 2021-22 financial year.
19. The budget for 2021-22 will need to include this grant although there is considerable uncertainty about the level that the Authority will receive. An estimate has been made as to the potential level of grant although this could prove to be inaccurate and may significantly change. Given the uncertainty, it is proposed that a proportion of this grant be set aside in a reserve until the position becomes clearer. The proposed budget includes the following amounts:

Collection Fund Deficit S31 Grant	£1.974m
Contribution to Reserve	(£1.151m)

Local Council Tax Support Grant

20. The autumn 2020 Spending Review contained proposals to provide support to local authorities in recognition of the increased costs of providing local council tax support and other help to economically vulnerable households during the pandemic. The increased level of council tax support has impacted on the council tax base calculations and therefore led to a reduction in council tax income in 2021-22 compared to our planning assumptions. Indicative allocations released in January 2021 suggest that the Authority will receive the following one-off grant in 2021-22

Local Council Tax Support Grant	£0.505m
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Local Tax Income Guarantee

21. The Spending Review also contained proposals to compensate local authorities for 75% of their council tax and business rate losses in 2020-21. In December 2020 the Government provided details of these arrangements which it called the Local Tax Income Guarantee.
22. The arrangements for calculating those council tax losses and business rate losses that are within the scope of the guarantee are complex and rely on data from local authorities, some of which will only be available at the end of the financial year. As a result, the Government is unable to provide indicative allocations of the proposed grant which is likely to be distributed by January 2022. In essence, the losses that are within scope are those that have arisen directly as a result of the pandemic rather than losses which may have been expected to occur in a “normal” year.
23. It is not known if the Authority will receive this further support in 2021-22 and if so how much this would amount to. Given the uncertainties at this time, the budget proposals do not include any such amounts. This will be reviewed during the course of the financial year

Proposed Revenue Budget 2021-22

24. 2021-22 budget proposals are based on the Local Government Finance Settlement for 2021-22 which is a one-year settlement. The Settlement includes Council Tax Referendum Principles that allow for an increase in council tax of up to 2%, without triggering a local referendum. If Members were to agree an increase of 1.99% in the council tax, this would generate an additional £646k council tax income compared to 2020-21, based on the tax bases 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 £1.37m compared to the previous year, including two one-off grants totalling £2.48m. This is shown in Table 1 below.

Table 1: Financing of the Budget Requirement	2020-21 £000	2021-22 £000	Change £000
Revenue Support Grant	3,991	4,013	22
Business Rate Income	4,462	4,508	46
Business Rates Top Up Grant	5,190	5,190	0
Council Tax Precept (1.99% increase)	30,141	30,787	646
Business Rates S.31 Grant	780	1,341	561
Collection Funds surplus/(deficit)			
Business Rates	7	-2,031	-2,038
Council Tax	260	-84	-344
Collection Fund Deficit S.31 Grant	0	1,974	1,974
Local Council Tax Support Grant	0	505	505
Budget Requirement	44,831	46,203	1,372

25. A separate report on the Agenda deals with the consultation that was undertaken in relation to the proposed Council Tax increase of 1.99%.
26. The proposed revenue budget will need to include suitable provisions for the impact of inflation, as well as 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 2021-22 only. A full list is shown in Appendices 2a and 2b with some key items described later in this report.
27. Table 2 below shows the proposed adjustments to the revenue budget. The increase in funding of £1.372m will not be sufficient to balance the budget and therefore savings proposals of £0.499m have been identified to ensure that planned spending matches the level of proposed resources. These proposed savings are shown in Appendix 2c and the total is shown in the table below. The proposals represent a balanced budget of £46.203m for 2021-22.

Table 2: Construction of proposed 2021-22 Revenue Budget	2020-21 £000
Base Budget	43,793
Inflation	321
Commitments (Appendix 2a)	-410
Contribution to Reserves (Appendix 2a)	2,695
Growth – Permanent (Appendix 2a)	279
Growth – One Off (Appendix 2b)	24
Savings (Appendix 2c)	-499
Total Net Revenue Budget	46,203

28. The proposed increase in council tax of 1.99% would result in a Band D precept of £80.87p: an increase of £1.58p (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 £301k and £602k respectively, would need to be identified.

Commitments

29. Commitments reflect the impact of previous decisions that have a financial consequence in 2021-22 or are due to legal or regulation changes and are shown in Appendix 2a. For example, one-off funding items included in the 2020-21 budget end on 31 March 2021 (shown as Reversal, £474k).
30. Also included is the commitment to provide some funding for the capital programme bearing in mind that the Authority no longer receives any direct Government funding towards such investments.

31. Due to the uncertainty surrounding business rates income, the impact of Covid-19 support on collection funds and the grants that will be received, there is a high risk that the estimated amounts included in this budget will significantly change as stated earlier. A transfer to reserves has been included within the commitments.

Growth proposals

32. In line with the approved Integrated Risk Management Plan (IRMP) and in recognition of the impact of Covid-19 on the service, a number of growth proposals have been made and are set out in Appendix 2a
33. In response to the Covid-19 pandemic, the service has been following national guidance with regards to the provision of Personal Protective Equipment (PPE) and cleaning products to ensure the safety of its personnel. Government funding was initially available to support the purchasing of these essential items, however there is no guarantee that further funding will be forthcoming. This budget includes growth to cover all of the items that are being used to specifically mitigate the risk of the spread of Covid-19.
34. Funding was previously provided for the increase in the Firefighter's Pension Scheme employers' contributions. While Government grant was anticipated towards this, the amount is slightly higher and therefore previous growth can be reduced accordingly.
35. 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 meant Service Delivery running over establishment requiring additional funding while staff go through training and become competent in their roles. Additional funding was provided in 2020-21 to cover this temporary increase based on workforce plans that showed a need to be 30 posts above establishment. Based on the current workforce plan as reported to Staffing Committee in November 2020, this is expected to reduce to 15 posts above establishment during 2021-22.

One-off growth items

36. As part of the IRMP, Rapid Response Rescue Units (RRRUs) will be deployed over the next year. These will require radios and a one-off growth has been included to fund this vital equipment.
37. The Service currently has a supply of portable Carbon Monoxide detectors (CO) which are used by officers in Service Delivery and Prevention as well as by Flexi-Duty Officers carrying out Fire Investigation (FI) roles. The detectors allow quick identification of CO which is the most abundant flammable and toxic gas produced in fire. The current units were purchased in 2011 with a 10-year lifespan. As such the proposal is to buy 68 units to ensure that this

vital resource continues to be available. It will be funded from the appropriate earmarked reserve.

38. Fleet has retained an apprentice as a full time mechanic within the workshop to support the increased activity as the IRMP investment in vehicles is rolled out.
39. Finally, when Safety Central was opened, its budget included funding for building maintenance etc. As it is still a relatively new building, this funding has not been required to-date. As such it is proposed to release this again for 2021-22 to support other one-off investments.

Savings proposals

40. 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, local business rates and council tax precept, is not sufficient to meet expenditure demands. Proposals for savings totalling £499k have been identified which provide a balanced budget position. A full list of the proposed savings is included in Appendix 2c.
41. As part of the overall budget setting process, each department's non-pay budget has been scrutinised to ensure that it remains relevant, fit for purpose and in line with current commitments and expenditure plans.

Capital Strategy

42. In addition to the revenue budgets, a programme of capital investment is proposed for 2021-22. 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, when necessary. 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 which is attached to this report as Appendix 3.

Table 3 Capital Programme 2021-22	2021-22 £000
<u>Expenditure:</u>	
Annual Replacement Schemes:	
Fleet Vehicles	1,150
Operational Equipment	28
New Schemes:	
Estates – Crewe FS	900
Estates – FS Modernisation	5,800
Estates – Houses Modernisation	350
Capital Expenditure	8,228
<u>Financed by:</u>	
General capital grants	0
Capital Receipts	450
Capital Reserves & Revenue Contributions	3,778
Borrowing	4,000
Total Funding	8,228

Reserves Strategy

43. Section 25 of the Local Government Act 2003 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 an authority. A Reserves Strategy is attached to this report as 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

44. 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).

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

Robustness of Estimates

46. 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

47. 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 2020-21 the overall tax base for 2021-22 has increased by 567. This is a significantly lower increase than in previous years due to the impact of Covid-19.
48. 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 of 1.99%.

Table 4 – Council Tax Precepts

Unitary Council	Tax base	1.99% Increase
Cheshire East	153,796.10	12,437,491
Cheshire West & Chester	122,724.30	9,924,714
Halton	35,154.00	2,842,904
Warrington	69,027.00	5,582,213
	380,701.40	30,787,322

Table 5 – Council Tax for each band

Bands	2021-22 1.99% £	2020-21 Actual £	Yearly Increase £	Weekly Increase pence
A	53.91	52.86	1.05	2p
B	62.90	61.67	1.23	2p
C	71.88	70.48	1.40	3p
D	80.87	79.29	1.58	3p
E	98.84	96.91	1.93	4p
F	116.81	114.53	2.28	4p
G	134.78	132.15	2.63	5p
H	161.74	158.57	3.17	6p

Conclusion

50. The 2020-21 budget proposals are based on the Local Government Finance Settlement was again a one-year settlement. Going forward funding remains uncertain and subject to the proposed spending review in 2021 as well as the on-going financial impact of the pandemic. 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.
51. The Local Government Finance Settlement for 2021-22 includes Council Tax Referendum Principles that allow for an increase in council tax of up to 2%. If Members were to agree an increase of 1.99% in the council tax, this would generate an additional £646k council tax income compared to 2020-21 taking into account the much lower increase in the taxbase as a consequence of the pandemic.
52. 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 £46.203m.

Financial Implications

53. This report is financial in nature.

Legal Implications

54. 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

55. 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 identified and assessed at the time.

BACKGROUND PAPERS: NONE