CHESHIRE FIRE AUTHORITY

ITEM: 2

MEETING OF	**:**	**FIRE AUTHORITY**
DATE	**:**	**12 FEBRUARY 2014**
REPORT OF	**:**	**CHIEF FIRE OFFICER**
AUTHOR	**:**	**HEAD OF FINANCE**

SUBJECT : 2014-15 DRAFT BUDGET, COUNCIL TAX AND MEDIUM TERM FINANCIAL PLAN

Purpose of Report

1. This report seeks Member approval for the Authority's budget for 2014-15, Council Tax precept level for 2014-15 and its Medium Term Financial Plan (MTFP) for 2014-15 to 2017-18.

Recommended: That

[1] Members consider the two 2014-15 budget proposals shown in Table 1 of the report (which follows paragraph 55) and

a) Approve one of the proposals.

b) Having approved one of the proposals, agree that the precept on the collection funds for 2014-15 be set by reference to the amount corresponding to the chosen proposal in Table 2 (which immediately follows Table 1).

c) Having approved one of the proposals, approve the appropriate MTFP which corresponds to that proposal shown in either Appendix 1 or 2.

[2] the Revenue Growth proposals for 2014-15 as set out in Appendix 3 be approved;

[3] the Savings proposals for 2014-15 as set out in Appendix 4 be approved

[4] the 2014-15 Capital Programme as set out in Appendix 5 be approved, and the items shown as part of the anticipated Capital Programme for 2015-16 (also set out in Appendix 5) be approved.

[5] the Strategy for Managing Reserves as set out in Appendix 6 be approved;

[6] the Reserves Risk Assessment as set out in Appendix 7 and the Robustness of Estimates and Adequacy of Reserves (paragraphs 32 to 46) be noted;

[7] the suite of Financial Health Indicators (paragraph 47) be adopted;

[8] the Prudential Indicators for the years 2014-15 to 2016-17 as set out in Appendix 8 be approved and the Head of Finance be authorised to alter the mix of borrowing and other long term liabilities within the authorised limit and operational boundary.

Background

2. Cheshire Fire Authority (the Authority) is required to approve its budget and set the Council Tax precept for the year commencing 1 April 2014. In determining a budget which it considers reasonable, the Authority must have regard to all the relevant factors, including the likely impact of policy options on the achievement of the Authority's objectives and the uncertainty associated with the economic scenario.

3. This is the third budget report of three. The first was considered by the Fire Authority on 11 December 2013 and the second by Policy Committee on 29 January 2014. Members met to develop the Authority's financial plans during Planning Days in July and November 2013 and most recently in January this year. Officers have challenged the assumptions and proposals underlying the Medium Term Financial Plan (MTFP) and budget.

4. The report asks Members to consider two budget options, based on:-

   a) Accepting Council Tax Freeze Grant; or

   b) Increasing the precept by 1.99%

   The two budget proposals are shown in Tables 1 and 2 of the report (after paragraph 55).

5. The report is structured as follows, leading to the summary budget proposals:

   - Cheshire Fire Authority Budget for 2013-14;
   - The Comprehensive Spending Review and National Context;
   - Medium Term Financial Plans - covering the period up to and including 2017-18;
   - Revenue Growth Proposals;
   - Savings;
   - Funding of Cheshire Fire Authority;
   - Capital Programme;
   - Budget Consultation;
   - Robustness of Estimates and Adequacy of Reserves;
   - Financial Health Targets;
   - Prudential Code;
   - Summary Budget Proposals 2014-15;
   - Impact Assessments;
   - Conclusion.

The following appendices are attached:

1 MTFP with Council Tax Freeze Grant
2 MTFP without Council Tax Freeze Grant and an increase in precept of 1.99%
3 2014-15 Revenue Growth
4 2014-15 Savings
5 2014-15 Capital Programme
6 Strategy for Managing Reserves
7 Reserves Risk Assessment
8 Prudential Indicators

Information

Cheshire Fire Authority Budget for 2013-14

6. The Authority's revenue budget for 2013-14 is £43.6m, financed by a combination of Council Tax and Settlement Funding Assessment (a combination of Revenue Support Grant and Business Rates). The Band D Council Tax was set at £67.75 which generated a net total of £22.9m (53% of total funding). The balance of £20.7m (47%) is met by the Settlement Funding Assessment.

7. In addition the Authority approved a capital programme for 2013-14 of £4.2m funded from capital grant and prudential borrowing.

The Comprehensive Spending Review (CSR) and National Context

8. 2014-15 will be the final year of the current CSR period. Members will be aware that the Chancellor announced a Mini Comprehensive Spending Review for 2015-16 in June 2013. The tone of this was very much about continuing pressure on public sector spending into the foreseeable future.

9. DCLG announced an illustrative settlement for 2014-15 in February 2013. In July 2013 the Government announced a further cut to Public Sector spending, and DCLG issued a revised illustrative settlement for 2014-15 and 2015-16. The Autumn Statement in December confirmed the settlement for 2014-15 and the settlement amount for 2014-15 is as expected after the July 2013 announcement, although there have been minor changes in the structure of the funding (see paragraphs 25 to 27).

Medium Term Financial Plan

10. Appendices 1 and 2 model the effect of existing assumptions and show how the Authority would produce a balanced budget in 2014-15, if it accepted Council Tax Freeze Grant (Appendix 1) or if it rejected Council Tax Freeze Grant and increased precept by 1.99% (Appendix 2). For Members information the current precept level is £67.75 per band D property per annum. A 1.99% increase would increase it to £69.09 per annum.

11. Members will see that there is a need to produce savings over the next four years of between £8m or £9m in order to produce balanced budgets, based on the assumptions used in each of the two scenarios.

12. In Appendix 1, it is difficult to estimate beyond 2015-16, because the Government has only committed the provision of Council Tax Freeze Grant to that year. For the purposes of the MTFP in this scenario, it is assumed that the Authority will choose to increase its precept by 1.99% in the years 2016-17 and 2017-18.

13. On the basis of extending the same set of assumptions into the years beyond 2017-18, savings of around £2m per year would be needed to produce balanced budgets. Whilst savings of around £4m are expected to flow from the delivery of the Emergency Response Programme (ERP), the remainder of the savings throughout the lifetime of the MTFP and beyond will need to be found from elsewhere. Officers will need to present options for further cost reductions for Members consideration to meet the gap between the savings identified as being required in the plan and those delivered by the ERP. This will be a particularly challenging exercise and Members should not underestimate the difficult questions that will be posed as a result.

14. The following assumptions have been made within the plans:-

    a) Settlement Funding Assessment ;
        - 2014-15 and 2015-16 per DCLG settlement December 2013
        - then reduction of 8% in the following years.
    b) Pay inflation of 1.5% per annum over the lifetime of the plan.
    c) Non-pay inflation 2.0% per annum over the lifetime of the plan.
    d) Savings of £8m to £9m over the next four years of the plan, after some unavoidable growth, the impact of the ERP and the impact of the proposed Safety Centre.
    e) No Council Tax Freeze Grant after 2015-16
    f) Council Tax Freeze Grant for 2014-15 and 2015-16 to be baselined by 2016-17
    g) Contribution to IRMP reserve in the next three years in the plan.

Revenue Growth

15. Members considered a list of revenue growth items at the Member Planning Day on 17 January 2014, and a slightly revised list was presented to Policy Committee on 29 January 2014. The revised list is attached at Appendix 3. The only change to the list presented at the Member Planning Day is that £82k is included in 2014-15 for the potential impact of the proposed Safety Centre. This will cover set up costs. It was included in the MTFP presented to Members at the Members Planning Day on 17 January 2014, but as part of the revenue growth for 2015-16 so it is merely a case of moving it to a year earlier. To remind Members, the revenue costs for the Safety Centre are estimated to be £555k. Of this, the £82k is included in the proposed budget for 2014-15, and a

further £273k as a growth item in the MTFP in 2015-16. The remaining £200k, in respect of capital charges, is not specifically included in the MTFP, as the underlying need to borrow for this scheme is not anticipated to materialise until 2017-18 onwards, but will form part of the overall capital charges in future MTFPs.

16. If Members do not approve the Safety Centre, which is to be considered at item 4 on this agenda, then it is proposed that the budget for 2014-15 is not changed, but rather the £82k becomes an increase to the budgeted transfer to IRMP reserve. The MTFP will then be adjusted to remove the revenue growth in 2015-16 in relation to the Safety Centre and re-presented to Members at a future date. This will reduce the savings required to balance the budget in that year by £355k, and reduce pressure on the revenue budget in later years by a reduced requirement for capital charges.

17. Business cases for the growth in the Princes Trust Team's budget and the On the Streets project were presented to Members at the Planning Day. The remaining growth items are mainly unavoidable costs, but there are also some offsetting reductions as earlier growth items are removed or reduced.

18. Appendix 3 also shows those items of growth in the budget which are covered by transfers from reserves. Significant amongst these are those costs borne by the IRMP reserve in relation to timing issues in the realisation of savings in the delivery of the ERP.

Savings

19. Members considered a list of savings at the Member Planning Day on 17 January 2014. The list is attached as Appendix 4. As Members are aware, the key savings result from the ERP in respect of changes to service delivery at Runcorn and Macclesfield, and from riding with four firefighters on all fire appliances on all fire stations. The other key savings are as a result of the introduction of North West Fire Control and the impact of the Value For Money reviews across the Service.

Funding of Cheshire Fire Authority

Council Tax

20. The Authority is a precepting authority which means that it generates part of its funding by setting a precept on Council Tax. Details of the precept are included within the Council Tax bills issued to each household within the boroughs of Cheshire East, Cheshire West and Chester, Halton and Warrington.

21. The Government has made Council Tax Freeze Grant available for 2014-15 and 2015-16. Members will be aware that this Grant is only available to those Authorities who choose to freeze or reduce their Council Tax. The indicative amount available to the Authority, and included in the draft budget, is £259k per annum. This is slightly more than 1% of the

Authority's current Council Tax income as it is based on a revised tax base. The actual figure may slightly differ from this figure, but it unlikely to be by a significant amount. The Government has indicated that the Council Tax Freeze Grant will be "baselined" into Authorities' Settlement Funding Assessments. The Government has indicated that the amount of increase in precept which would trigger a referendum for 2014-15 is 2%.

22. The estimated difference in funding in 2014-15 between taking the Council Tax Freeze Grant and increasing the precept by 1.99% is £199k, The difference in savings required over the life of the MTFP is estimated to be around £438k.

23. The Authority continues to include a small provision in respect of the potential impact of failure by its constituent authorities to fully collect Council Tax. The constituent authorities remain confident that they have been successful in the current financial year, but it is considered prudent to retain this item until the new system has bedded in.

24. It is anticipated that the arrangement whereby the Authority "passports" Council Tax on Second Home discounts to partner authorities will continue in 2014-15, at a cost of approximately £40k to the Authority.

Settlement Funding Assessment

25. The Settlement Funding Assessment is made up of two elements, Revenue Support Grant and Baseline Funding Level. Baseline Funding Level is itself split into two parts, Business Rates Baseline and Top Up Grant.

26. The Government calculates the overall total Settlement Funding Assessment for each Authority, and then calculates how much of that should be met by the Baseline Funding Level. Business Rates Baseline is paid to the Authority directly by each of its four constituent authorities. The difference between Baseline Funding Level and Business Rates Baseline is Top Up Grant, paid directly to the Authority by Government. Then the difference between total Baseline Funding Level and the Settlement Funding Assessment is made up with Revenue Support Grant, also paid directly by Government.

27. The Government has indicated that the increase in the percentage by which Business Rates will increase in 2014-15 would not be as much as had been thought. To compensate Authorities for this, and other changes in business rates announced in the Autumn Statement, Government has made specific grant available for 2014-15, although it is not clear whether this will remain in place beyond then. The MTFPs in Appendices 1and 2 assume that this grant will not be continued after 2014-15. It is unclear exactly how much this grant will be, and the amount shown in the MTFPs, £213k, is based on the latest information supplied by the four billing Authorities at the end of January 2014.

Capital Programme

28. The proposed Capital Programme for 2014-15 is shown in Appendix 5, totalling just under £14m. The key items are the continuation of approvals for the ERP and the inclusion of the proposed Safety Centre (£3.9m). The proposed funding of the programme is also shown in Appendix 5.

29. If Members do not approve the Safety Centre, which is to be considered at item 4 on this agenda, then the Capital Programme will be reduced by the amount shown for the Safety Centre in Appendix 5, offset by an equal reduction in the use of prudential borrowing to fund the programme.

30. Appendix 5 also includes an amount of £1.3m relating to the purchase of vehicles in 2015-16. It would be helpful to obtain Member approval for this at this stage to enable officers to book build slots and try to achieve economies of scale in the procurement process.

Budget Consultation

31. The Authority has undertaken an extensive IRMP/budget consultation exercise adopting a range of different approaches. The Head of Planning, Performance and Communications has prepared a detailed report on this agenda in relation to the IRMP 11 consultation, and he will deal with the responses in relation to Finance, in particular in relation to the precept.

Robustness of Estimates and Adequacy of Reserves

32. Section 25 of the Local Government Act 2003 places a requirement on the Chief Financial Officer (in this case the Head of Finance) to provide to the Authority, when it is making statutory calculations required to determine Council Tax levels, a report assessing the adequacy of unallocated reserves in the context of corporate risks facing the Authority and to report on the robustness of estimates used in preparing the budget. The Authority must balance the necessity for reserves against the immediate impact on Council Tax payers and arrive at a level it considers adequate and prudent, but not excessive.

33. As a part of the budget setting process, the Authority will need to take account of the level of risk and uncertainty regarding its budgetary estimates and planned levels of reserves. The Authority's MTFP is designed to allow Members to make informed judgements on setting the overall budget (including reserves), capital programme and Council Tax.

34. The Authority has a policy and expenditure planning process, which takes account of the IRMP and MTFP. Alongside this, a four year indicative value for the capital programme has been produced taking into account forecasted central Government funding, borrowing limits and Council Tax.

35. For 2014-15, full consideration of these issues has led to:

- Revenue proposals to reflect changes in demand for services and growth pressures offset wherever possible by savings, increased income and other budget reductions. The on-going revenue impact of new capital projects has also been considered.

- A proposed capital financing requirement based on prior years' and the 2014-15 capital programme.

36. When using estimates in preparing the budget, every effort is taken to ensure that they take into account the most up to date data. However, it should be noted that there are a small number of areas where the actual impact could vary from the estimates used in setting the budget. The main areas are:

- Pay awards
- Inflation
- Fluctuation in interest rates
- Service financial performance (i.e. under or overspending)
- Collection of Council Tax and Business Rates
- Actual grant funding

It is the last of these that has the potential for the greatest impact. The Authority is planning on the basis of the DCLG settlement figures announced in December 2013 and is assuming further cuts of 8% per annum to the Settlement Funding Assessment in 2016-17 and 2017-18.

37. There are many factors that can affect financial performance 'in-year' including under or over-achievement of savings plans, income and other financial targets. The Authority takes a number of steps to minimise the impact including:

- Seeking wherever possible to explore in full the implications and achievability of revenue and capital proposals before the budget is set.
- Promoting a robust approach to financial management requiring budget holders to monitor expenditure against budget and to take early action in reporting and responding to forecast variances.
- Regular reporting to Members of the projected outturn and any necessary remedial action.

38. Members should be aware that whilst every effort is taken to ensure that the budget is balanced, there is always the possibility of over or underspends occurring. This is one of the reasons why the Authority holds reserves against unanticipated cost pressures.

Adequacy of Reserves

39. In determining the budget and Council Tax precept, Members will also wish to have regard to the level of reserves held by the Authority.

40. Reserves enable the Authority to budget with greater confidence and provide greater scope for managing strategic change. In addition, they provide resilience against unforeseen operational requirements and earn interest. This increases flexibility and also offers some mitigation against likely difficulties in financial years to come. However, as Members will realise reserves can only be used once and should not normally be used to bridge budgetary funding gaps.

41. It is estimated that the level of the General Reserves on 1 April 2014 will be £6.5m, and they have been at a similar level for the last couple of years.

42. The Authority's strategy to manage reserves is included in Appendix 6.

43. The Head of Finance has carried out an assessment of the adequacy of the level of unallocated reserves, set against the corporate and financial risks facing the Authority. Appendix 7 identifies a number of risks which have been scored in terms of likelihood and impact. Taking into account control measures put in place to mitigate those risks, an estimated financial impact has been allocated to each risk. The overall likelihood of all of those risks being incurred in any one year is extremely low and therefore, it is not deemed prudent to hold sufficient unallocated reserves to cover all eventualities.

44. Most notable amongst the Authority's risk profile is the potential impact of Government grant reductions and the consequences of not realising the planned savings. It would seem inevitable that the Authority would be faced with very difficult decisions in the future if it was to continue to produce a balanced budget.

45. In order to test the robustness of reserves, the likelihood of the risk materialising (despite the control measures) has been estimated as follows:
    - High level of likelihood – 75%
    - Medium level of likelihood – 50%
    - Low level of likelihood – 25%

46. By applying this methodology to the estimated financial consequence of each risk, the overall impact of the risks is estimated at approximately £6.5m as shown in Appendix 7. It is therefore the Head of Finance's view that:

    - The Authority has a healthy level of unallocated reserves in the short term, which is sufficient to provide operational resilience and assist in mitigating the longer term consequences of its risk profile.

    - The budget setting process and the budget estimates are robust and demonstrate a clear link to the Four Year Strategy and IRMP.

Financial Health Targets

47. It is considered best practice to develop a set of Financial Health Targets. The Financial Health Targets below are those 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 the time of the mid-year review.

  The Authority does approve its reserves strategy on an annual basis and also considers the level of reserves at the time of the mid-year review.

- That the Authority maintains its revenue spending within 1% of budget following the mid-year and three quarter review.

  It is anticipated that this target will be met in 2013-14.

- That the Authority reduces slippage to 25% of the total capital programme in 2012-13. (The total capital programme includes the 2012-13 capital programme and the slippage brought forwards from previous years).

  The Authority met this target in 2012-13. However, in 2013-14 the impact of the ERP means that there is likely to be considerable slippage into 2014-15.

- That the Authority continues to monitor actual Prudential Indicators on an annual basis against the indicators set in the Budget Report.

  The Authority will meet this target by considering and approving the Prudential Indicators set out in Appendix 8.

  The Authority raises 95% of invoices within one month of the debt falling due and collects 95% of income within 90 days.

  Current performance on this indicator is 70% and 63% for raising invoices and payment within one month respectively. Although this is part of the suite of Financial Indicators, we do not consider this to be a high risk area for the Authority. We have begun to take quarterly reports on debt collection to Performance and Overview Committee as part of the quarterly performance review.

Prudential Code

48. The Local Government Act 2003 introduced the “prudential” approach to capital financing from April 2004. The former system of credit approvals was abolished. The Prudential Code (“the Code”) is essentially a framework for the self-regulation of capital expenditure.

49. The intention of this approach is to give well managed authorities the flexibility to make “real” decisions on the balance of spend between revenue and capital. The key objectives of the Code are to ensure, within a clear framework, that the Authority’s:

- capital expenditure plans are affordable
- external borrowing is within prudent and sustainable levels
- treasury management decisions are taken in accordance with good professional practice

50. To demonstrate that authorities have fulfilled these objectives, the Prudential Code sets out a number of indicators which must be used. The benefits of the indicators will be derived from monitoring them over time rather than from their absolute value. The indicators are not intended to be used as comparators between authorities, but as a tool for demonstrating that the Authority is well managed in this area.

51. The Prudential Code introduced the Capital Financing Requirement which replaces the term capital debt. It represents the Authority’s past and future capital expenditure which has been met from borrowing and has yet to be charged to the revenue account.

52. The Government has the reserve power to prevent Authorities’ plans from jeopardising national economic policies by placing a limit on the amount of borrowing Local Authorities can raise in a given year, either individually or in total. It is not known if or how this power would be exercised.

53. This report seeks approval for the Authority’s proposed Prudential Indicators for 2014-17, as set out in Appendix 8. Members should have regard to the impact of their capital decisions on each of these indicators. The key indicators of affordability and prudence are the estimates of the “incremental impact of capital investment decisions on the Council Tax” in each of the three years 2014-15 to 2016-17 and estimates of the “Capital Financing Requirement” as at the end of each of these years.

54. The “Impact on Council Tax” express the effect of the Authority’s capital programme and financing decisions and plans in terms of £ per Band D Equivalent increases in Council Tax. The “Capital Financing Requirement” reflects the Authority’s underlying need to borrow to fund its capital programme commitments and plans.

55. It can be seen from the prudential indicators shown in Appendix 9 that the key objectives of the Code are being met :-

    (a) Capital expenditure plans are affordable

    Gross capital financing costs are a small percentage of the Authority’s net revenue stream, as shown in paragraph B of Appendix 8 and the impact of the capital programme on the level of Council Tax is small, as shown in paragraph C.

(b) External borrowing is within prudent and sustainable levels

Net borrowing is well below the capital financing requirement throughout 2014-15 to 2016-17, demonstrating that the Authority is only borrowing for capital purposes. Also, as mentioned above, capital financing costs are a small percentage of the Authority's net revenue stream demonstrating that external borrowing is within prudent and sustainable levels.

(c) Treasury management decisions are taken in accordance with good professional practice

The Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The authorised limit and operational boundaries for debt are being set in accordance with good professional practice, as shown in paragraphs F and G of Appendix 8. Upper limits on net fixed rate borrowing and net variable rate borrowing are being set at prudent levels with the emphasis on fixed rate net borrowing, whilst giving some flexibility for variable rate net borrowing, where this is advantageous (as shown in paragraph I and J of Appendix 8). The upper and lower limits for the maturity structure of the Authority's fixed rate borrowing are being set to enable the cost of refinancing loans to be minimised, as shown in paragraph H of Appendix 8.

Summary Budget Proposals 2014-15 (and precepts on Collection Funds).

Table 1 below summarises the two budget proposals to help inform Members:

Table 1: **Cheshire Fire Authority 2014-15 Budget Proposals**

	Proposal 1: With Council Tax Freeze Grant	**Proposal 2: Increase in precept 1.99%**
Item	**£000**	**£000**
Expenditure		
2013-14 Budget	43,623	43,623
Revenue Growth	174	174
Estimated pay and price increase	699	699
Efficiencies and Savings	(2,156)	(2,156)
Section 31 grants Business Rates	(213)	(213)
Transfer to IRMP reserve	364	563
Total Draft Budget 2014-15	**42,491**	**42,690**
Funding		
Council Tax	23,197	23,655
Start Up Funding Assessment	19,068	19,068
Council Tax Freeze Grant	259	0
Surplus on Collection Fund	117	117
Provision for non collection	(150)	(150)
Total Funding 2014-15	**42,491**	**42,690**
Precept per Band D property	**£67.75**	**£69.09**

Table 2 below shows the detailed Council Tax precepts based on the above the above scenarios for each billing Authority:

Table 2: 2014-15 Precept on Billing Authorities Collection Funds		
	Proposal 1: **With Council Tax Freeze Grant**	**Proposal 2:** **Increase in precept 1.99%**
	£	£
Cheshire East	9,318,912.91	9,503,227.94
Cheshire West and Chester	7,515,846.25	7,664,499.15
Halton	2,127,350.00	2,169,426.00
Warrington	4,234,307.25	4,318,055.91
Total	**23,196,416.41**	**23,655,209.00**

Conclusion

56. The budget setting process for 2014-15 is being undertaken at a time of serious financial challenges for the public sector as a whole. There is no indication that this is likely to change in the medium term.

57. Members will appreciate that the current economic position is dynamic and difficult to predict. The MTFP is kept under constant review and changes will be reported to Members in a number of meetings and forums as the Service continues to drive the changes necessary to meet the financial challenges ahead. At any given time it represents officers' best judgement of the financial position of the Authority.

Financial Implications

58. This report is financial in nature.

Legal Implications

59. The Authority is required to approve a balanced 2014-15 budget by the end of February 2014.

Equality and Diversity Implications

60. This is a strategic report. Where the report includes approval for projects and efficiencies, they will be individually assessed as part of the Authority's project management process.

Environmental Implications

61. This is a strategic report. Where the report includes approval for projects and efficiencied, they will be individually assessed as part of the Authority's project management process.

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BACKGROUND PAPERS: NONE