CHESHIRE FIRE AUTHORITY

ITEM: 2

MEETING OF : FIRE AUTHORITY
DATE : 10 FEBRUARY 2016
REPORT OF : CHIEF FIRE OFFICER AND CHIEF EXECUTIVE
AUTHOR : HEAD OF FINANCE

SUBJECT : 2016-17 DRAFT BUDGET, COUNCIL TAX PRECEPT AND MEDIUM TERM FINANCIAL PLAN

Purpose of Report

1. This report seeks Member approval for Cheshire Fire Authority's (the Authority) budget for 2016-17, Council Tax precept level for 2016-17 and its Medium Term Financial Plan (MTFP) for 2016-17 to 2019-20.

Recommended: That

[1] Members consider the two 2016-17 budget proposals shown in Table 5 of the report (paragraph 81) and

a) Approve one of the proposals;
b) Having approved one of the proposals, confirm that the precept on the collection funds for 2016-17 be set by reference to the amount corresponding to the chosen proposal in Table 6 (which immediately follows Table 5); and
c) Having approved one of the proposals, confirm the appropriate MTFP which corresponds to that proposal shown in either Appendix 1 or 2.

[2] the revenue growth proposals for 2016-17 as set out in Appendix 3 be approved;

[3] the savings proposals for 2016-17 as set out in Appendix 4 be approved;

[4] the 2016-17 Capital Programme as set out in Appendix 5 be approved, and the items shown as part of the Capital Programme for 2017-18 (also set out in Appendix 5) also be approved;

[5] the Reserves Strategy as set out in paragraphs 29 - 50 be approved;

[6] the statement on robustness of estimates and adequacy of reserves (paragraphs 79-80) be noted;

[7] the Financial Health Targets (paragraph 78) be adopted for 2016-17; and

[8] the Prudential Indicators for the years 2016-17 to 2019-20 as set out in Appendix 7 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. The Authority is required to approve its budget and set the Council Tax precept for the financial year commencing 1st April 2016. 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 9th December 2015 and the second by Policy Committee on 27th January 2016. Members also considered the Authority's financial plans at Planning Days throughout the year, 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) Increasing the precept by 1.99% to £71.86; or
   b) Maintaining the precept at its 2015-16 level at £70.46.

   The two budget proposals are shown in Tables 5 and 6 of the report (paragraph 81).

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

   - Cheshire Fire Authority Budget for 2015-16;
   - Medium Term Financial Plan – (covering the period up to and including 2019-20):
     - The Comprehensive Spending Review and national context;
     - Key assumptions;
     - Savings in the MTFP;
     - Outline Capital Programme 2016-17 to 2019-20;
   - Reserves Strategy;
   - Budget 2016-17:
     - Funding,
     - Revenue Expenditure,
     - Capital Programme 2016-17,
     - Budget Consultation;
   - Robustness of Estimates;
   - Prudential Code;
   - Financial Health Targets;

- Statement on robustness of estimates and adequacy of reserves;
- Summary Budget Proposals 2016-17 (and precepts on Collection Funds);

The following appendices are attached:

1. MTFP with an increase in precept of 1.99%
2. MTFP with no increase in precept
3. 2016-17 Revenue Growth Items
4. 2016-17 Savings
5. 2016-17 Capital Programme
6. Estimated position on reserves
7. Prudential Indicators

6. At the time of writing the settlement has not had final parliamentary approval. Whilst it is not anticipated that the settlement will change it is important that Members understand how any changes will be accommodated. It is essential that the precept is approved on 10th February so that the necessary notifications can be provided to the collection authorities. This will not alter as a result of any change in the settlement. However it would lead to a change in the budget and knock on effect on the MTFP. This would be accommodated by:

   - a reduction or increase in Settlement Funding Assessment in 2016-17
   - an equal and opposite change in the movement on IRMP/Capital reserve in 2016-17

   This would be reported to Members as appropriate.

CHESHIRE FIRE AUTHORITY BUDGET FOR 2015-16

7. The Authority's budget for 2015-16 is £42.4m, 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 is set at £70.46 which generates a total of £24.5m (58% of total funding), with an additional £0.3m (1%) coming from the 2014-15 surplus on the Council Tax element of the Collection Fund. The balance of £17.5m (41%) is met by Settlement Funding Assessment, including a small additional amount of Business Rates.

8. In addition, the Authority approved a capital programme of £2.3m funded from capital receipts, reserves and prudential borrowing.

MEDIUM TERM FINANCIAL PLAN 2016-17 TO 2019-20

The Comprehensive Spending Review (CSR) and national context

9. The Chancellor announced the results of the Comprehensive Spending Review on 25th November 2015. This indicated that reductions in

government spending will continue, as the Government seeks to move the national budget into surplus by 2019-20.

10. The announcement of the detailed draft Authority settlement was made on 17th December 2015. This included the provisional figures for 2016-17, together with an indicative settlement for the years 2017-18 to 2019-20. If this indicative settlement is to be accepted by the Authority, then an efficiency statement will need to be developed and agreed with Government. At this stage there are no clear details of how this would work in practice and Members will be kept informed as more information becomes available.

11. The CSR indicated that the Government is considering changes to the way in which local government is to be funded. Members will be aware that the funding of fire authorities comprises two key elements, Council Tax and Settlement Funding Assessment (SFA). Council Tax is simply the amount of funding yielded by the Authority's precept applied to the taxbases of constituent local authorities. The total of SFA for any individual fire authority is based on the Government's assessment of funding required by that authority. It is split into two parts, Revenue Support Grant (RSG) and Baseline Funding Level. The latter element is intended to be funded by Business Rates. However, at present the amount of Business Rates actually available to fire authorities is 1% of its constituent local authorities' Business Rates and this is less than the Baseline Funding Level. The shortfall is funded by Top Up Grant paid directly from Government.

12. The detailed estimates in the draft settlement show that SFA is estimated to fall in fire authorities overall over the life of the CSR by about 20%. As can be seen in table 1 of paragraph 14, the Authority's reduction in SFA over the same period is estimated to be about 24%.

13. It is the Government's intention to remove RSG. This would in effect be replaced over time by growth in Business Rates and Council Tax, but Top Up Grant will remain. As Government reduces the overall level of SFA in the future, because it assumes increase in one element of it, Business Rates Baseline, it is able to cut the other, RSG. The government has indicated that it will consult on reforming the funding of local authorities during the lifetime of the CSR (i.e. before 2019-20).

14. The Government now focuses on the term "spending power" when it discusses the funding of fire authorities. The spending power of a fire authority is Council Tax and SFA added together. Overall, in stand-alone fire authorities, the 2016-17 settlement shows a reduction in spending power of 2%. The estimates of what authorities' spending power will be in future years includes assumptions of 1.75% annual increases in Council Tax, increases in council taxbases, and increases in Business Rates. Table 1 shows the Authority's spending power according to the figures in the settlement i.e. the government's own estimates. As can be seen, the Government believes that this leads to a reduction of about 2.5% in spending power over the life of the MTFP.

Table 1 – Spending power reductions using government estimates

	2015-16 (Current year)	2016-17	2017-18	2018-19	2019-20	%ge change from 2015-2016 to 2019-2020
	£m	£m	£m	£m	£m	%
Council Tax	24.5	25.1	25.9	26.7	27.6	13%
Settlement Funding Assessment	17.4	16.0	14.3	13.6	13.3	-24%
Spending Power	**41.9**	**41.1**	**40.2**	**40.3**	**40.9**	**-2.5%**

15. Therefore it is believed that if the Authority continues to follow the MTFP (in Appendix 1 with increases in precept at 1.99%), the estimated reduction in spending power could be as low as 1.7% (see Table 2 below)

Table 2 – Spending power reductions in the MTFP in Appendix 1

	2015-16 (Current year)	2016-17	2017-18	2018-19	2019-20	%age change from 2015-2016 to 2019-2020
	£m	£m	£m	£m	£m	%
Council Tax	24.5	25.5	26.3	27.1	27.9	14%
Settlement Funding Assessment	17.4	16.0	14.3	13.6	13.3	-24%
Spending Power	**41.9**	**41.5**	**40.6**	**40.7**	**41.2**	**-1.7%**

16. In previous years the Government has restricted Council Tax precept increases to less than 2% (without triggering a referendum). This is intended to continue. However, in previous years, authorities that did not increase Council Tax received a freeze grant. From 2016-17, this is no longer available.

17. The CSR also announced that authorities could make more flexible use of capital receipts (which can normally be used only to fund capital expenditure or debt repayment), allowing capital receipts received between April 2016 and March 2019 to be used to fund revenue projects which are designed to generate revenue savings. This may assist with the funding of the Blue Light Collaboration project.

Key assumptions

18. Appendix 1 shows the Authority's MTFP assuming that the Authority decides to increase its precept by 1.99% in 2016-17. Appendix 2 shows the Authority's MTFP assuming that the Authority decides not to increase its precept in 2016-17. The following assumptions have been used in both, except where indicated.

Council Tax

19. There is an increase of 1.99% in Council Tax precept in every year in the MTFP in Appendix 1, and every year except 2016-17 in Appendix 2. Council Tax base grows in 2017-18 to 2019-20 by 1% per annum.

Settlement Funding Assessment

20. SFA is included in accordance with the government estimates in the 2016-17 settlement.

Inflation

21. The Government has indicated that it expects public sector pay to increase by 1% per annum over the life of the CSR. However pay inflation is included in the MTFPs at 1.5% in 2016-17 to cover increases in employer national insurance contributions from April 2016. In 2017-18 it remains at 1.5% to cover the 0.5% levy which the government is proposing to introduce to help to fund apprenticeships from April 2017. From 2018-19 it is 1% per annum. Non pay inflation is 2% per annum.

Growth

22. The MTFPs include an allowance for unavoidable growth. The amount of growth in 2016-17 is discussed in paragraphs 57-58 below. Any revenue growth assumed in the MTFP that proves not to be required will contribute to reducing the need for savings. Growth in recent years has included revenue implications of ERP1 (i.e. the revenue impacts of new stations), and unavoidable cost pressures in relation to pensions, insurance and Prince's Trust.

Contributions to IRMP / Capital reserves.

23. There is a contribution to capital reserves to help fund the capital programme going forward. This reflects the lack of capital grant available to fire authorities, and the capital funding strategy which seeks to minimise borrowing. This will be regularly reviewed as the MTFP and Treasury Management Strategy are updated and monitored.

Section 31 grants for Business Rates.

24. The Government pays local authorities Section 31 grants to counteract the impact on local authorities of the government's own policy of reducing Business Rates on new and small businesses. This is included in 2016-17. It is not assumed that this will continue into 2017-18 and beyond.

Surpluses/deficits on collection fund.

25. No assumptions are made about future surpluses or deficits on collection fund. The Authority has a provision against which shortfalls on Council Tax and Business Rates may be charged if necessary, or where in-year adjustments would be accommodated.

Savings in the MTFP

26. The MTFPs in Appendices 1 and 2 show the need for savings in the four year period from 2016-17 to 2019-20 of between £5.2m and £5.7m. This represents a significant challenge and its potential impact should not be underestimated. The Authority has already delivered almost £9m of savings in the previous CSR period from 2011-12 to 2015-16.

27. The Authority is well advanced in planning to meet the savings target to 2019-20. Savings proposed for 2016-17 are detailed in paragraph 59-60 below. The remaining savings required in the MTFPs of between £4.3m and £4.8m will be found from the remaining elements of ERP1, as a result of changes to Crewe, Ellesmere Port and Widnes, and from the proposals contained in ERP2, which will be presented to Members in the spring. Blue Light Collaboration is also programmed to make savings. Other efficiency savings will also continue to be explored.

Outline Capital Programme 2016-17 to 2019-20

28. The estimated capital programme for 2016-17 to 2019-20 is shown in table 3 below. The majority of the expenditure will be on new appliances and equipment. It is anticipated that the core capital programme will be wholly funded from reserves, capital receipts and revenue, although this will remain under review.

Table 3 – Estimated capital programme to 2019-20

2016-17	2017-18	2018-19	2019-20
£2,618k	£2,152k	£2,108k	£2,176k

RESERVES STRATEGY

Purpose of holding reserves

29. The Authority has two types of useable reserves. It maintains a General Reserve which currently stands at £6.47m, and which has been at a similar level for a number of years. Amongst the risks it mitigates against is that the austerity measures will be significantly worse than anticipated. The level of the General Reserve will be kept under review in the light of falling budgets and reduced levels of activity.

30. The Authority also holds a number of earmarked reserves. These are intended to:

- meet particular needs which the Authority has identified,
- help smooth out the impact of the Authority's activities on its revenue budget,
- smooth out peaks and troughs in expenditure,
- support the funding of the capital programme.

31. The earmarked reserves which the Authority holds are described below and an explanation for each is given below. Appendix 6 shows anticipated position on the reserves over the current and next four financial years.

IRMP Reserve

32. The purpose of this reserve is to meet the needs placed upon the Authority in meeting delivery programmes falling out of each IRMP, and the reserve has been built up by contributions from the revenue budget and by earmarking budget underspends. One key IRMP activity, falling out of IRMP 9 but impacting on all IRMPs since then, is the Emergency Response Review. A programme to deliver this, the Emergency Response Programme (ERP1), is in progress. The main element of this is the building of four new fire stations and a safety centre. Government Grant has been attracted to part-fund this and existing capital reserves will also be utilised. The balance will be funded from the IRMP reserve.

33. In addition, there are revenue implications from delivering ERP1. Examples are the pay protection for firefighters moving from one shift system to another, relocation expenses, training new on-call cohorts and running over-establishment. More firefighters than expected have opted to retire or leave the Service over the last three years, and other revenue impacts have not been as significant as expected. This means funding for the revenue impact of the ERP1 from the IRMP reserve has been lower than anticipated.

34. It is likely that the second phase Emergency Response Review (ERP2) (which will help to meet the savings challenge identified in the MTFP) will also generate the need for capital or one-off revenue investment.

There may also be other IRMP-related activity which will require funding. The level of IRMP reserve is therefore necessary to ensure that the Authority is able to flexibly deliver the changes which will be needed in the future. It may also be used to supplement the capital programme where necessary.

Capital

35. It seems likely that if any capital grants are made available to the Authority in future they will be biddable, with little opportunity to access capital grants for core need such as appliance replacement. The present strategy for funding capital is that the Authority will fund capital from existing reserves or from the revenue budget. As the Authority reviews its MTFP and Treasury Management Strategy, this funding strategy will also be reviewed.

Staff related

36. The Authority has a number of staff related issues to deal with, mostly relating to current and legacy pension and taxation, future recruitment costs, and some smoothing of costs like ill health pension payments (some of which bear directly on the Authority). It is felt necessary to maintain a reserve to meet any future costs as these issues can have a considerable financial impact in any year.

Legal and insurance

37. A large part of this reserve is designed to meet any future potential costs arising out of court proceedings associated with the work of the Protection Team. The other key risk covered by this reserve relates to the new insurance arrangements (which the Authority entered into in November 2015), and more broadly other insurance-related issues. The novel nature of the new insurance arrangements means it is prudent to maintain a reserve until they are fully bedded in.

ICT and Systems Development

38. The Authority undertook a Programme of Change to upgrade its ICT infrastructure during 2012 and 2013. However the nature of ICT is that developments are constant.

Training

39. The Authority is committed to maintaining its current high standard in training its workforce. In particular part of the training reserve will be used to help fund the development of the future managers of the Authority.

Equipment and uniforms

40. The Authority has some substantial costs which fluctuate between years, and this reserve provides a mechanism to smooth out the expenditure. Examples are the purchase of new and improved protective personal equipment, the purchase of high cost equipment (such as cutting equipment) and the development of the Incident Command Training Suite. At any one time it would be expected that there would be balances on this reserve, the amount available depending upon the replacement cycle.

Collaborations and partnerships

41. Fire authorities are being actively encouraged to enter into collaborative arrangements. Two such arrangements that the Authority has entered into which are covered by this reserve are NW Fire Control and a training partnership at Manchester Airport. The Authority had prudently retained a reserve to cover any unforeseen issues with the implementation of NWFC. That reserve could be reassigned to cover potential costs associated with other collaborative activities, including Blue Light Collaboration.

Property-Related

42. The Authority has no plans at present to develop any of its existing properties. However, it is considering potential schemes which might reshape its property portfolio. Should these come to fruition, consideration would be given to using the IRMP reserve to support delivery. The reserves shown in the property-related section in Appendix 6 are mainly in relation to existing schemes or invest to save projects.

New Dimensions

43. This is Government funding designed to supplement the cost of ensuring that firefighters are suitably trained and equipped to meet the needs of serious incidents in the modern day. It will be used primarily to supplement the significant cost of upgrading key elements of firefighter equipment in 2019-20.

Specific projects

44. These are small projects like the firefighter fitness initiative or developments to the Authority's website.

Prevention

45. The main activities covered by these reserves are the sprinkler initiative and Home Safety Assessments. It may also be used to cover cost volatility in the Prince's Trust teams and in Road Safety activity. In future marketing costs of Safety Central may also be taken from this reserve.

Unitary Performance Groups

46. Within each of the Authority's Unitary Performance Groups (UPG), a budget is available for the funding of local prevention activity. This has not always been spent in-year and this reserve has been created out of underspends to allow further initiatives to be undertaken.

General Reserve

47. The Authority has around £6.47m in General Reserve which is intended to offset the potential impact of corporate risk. This would cover any major incident risk such as that which may occur at a COMAH site, as well as risks relating to other Authority activity. Table 4 below shows some of the Authority's key risks and shows a range of potential costs should they come to fruition. Whilst the amounts shown are estimates, they are not considered to be unrealistic.

Table 4 – Estimated range of costs associated to risk.

TITLE	RISK	Worst case £000	Medium case £000	Best case £000
Impact of Government austerity measures.	Reductions on grants necessitating cost reductions that impact on service delivery.	3,000	2,000	1,000
Cost of major incident.	Impact of providing additional resources to deal with major incident.	1,500	500	250
Competing demands on the Authority's resources due to changing external environment.	Inadequate capacity to deliver strategic objectives and programmes due to increase in numbers and complexities of programmes.	750	500	250
Fire in Iconic Heritage Buildings.	Irreplaceable loss or damage to heritage premises.	750	500	250
Completion of Safety Centre build within timeframes/ overspend/lack of use.	Delays in Safety Central opening / cost overrun.	750	500	250
Claims from historic insurable events.	The historic insurers of the Authority having insufficient funds to meet the cost of claims.	3,000	2,000	250

Given the range of potential costs above, the level of the Authority's General Reserve is considered reasonable.

Other issues

48. The Authority is investigating paying contributions that are required by the Local Government Pension Scheme (LGPS) earlier than necessary, which would require up-front investment out of reserves, and lead to savings to revenue. At the time of writing this report all the necessary information is not to hand, but a future report to the Policy Committee will inform Members of the outcome of the discussions with the administrators of the LGPS and make an appropriate

recommendation. This could impact on the level of reserves as they would be used to fund the early repayments.

Costs and Benefits of Holding Reserves

49. By creating reserves, the Authority has built up cash balances which it invests in accordance with its Treasury Management Strategy. As the ability to generate income from investments diminishes, the Authority has reviewed its policy on the repayment of its debt portfolio, to ensure that it receives maximum benefit from the use of cash balances. At present it is not considered financially advantageous to repay debt early due to the high level of premium payable on early redemption. The Authority will continue to review this position. In addition, the continuing use of cash balances to fund the Authority's capital programme has reduced the need to borrow in recent years.

50. The Authority does need to hold a level of reserves commensurate with managing its risk profile, and as can be seen from Table 4, the Authority believes that level of reserves it holds is adequate to manage its exposure to risk.

BUDGET 2016-17

51. The proposed alternative budgets for 2016-17 are shown in the columns headed "2016-17" in the MTFPs in Appendices 1 and 2. The paragraphs below explain some of the details included within the budget. Summaries of the proposed budgets are included in paragraph 81.

Funding available to the Authority

Council Tax

52. The Authority precepts on the taxbases of its constituent local authorities. For 2016-17 those taxbases have increased in total by around 2.2%. This means that the Authority can expect to receive an additional £530k in Council Tax in 2016-17.

53. The Authority has in recent years increased its Council Tax precept by 1.99%. An increase of 1.99% in 2016-17 means that the Authority would receive about an additional £498k. Should the Authority choose to increase its precept by 1.99%, the precept for a Band D property would increase from its current rate of £70.46 per annum to £71.86, an increase of £1.40 per annum.

54. At the end of each year billing authorities consider the balances on their collection funds and decide whether they are in a position to declare a surplus or deficit, of which the Authority receives a share. Notification of this arrives towards the end of January. This year all the Cheshire authorities have declared surpluses on their Council Tax collection funds, and in total the Authority will receive £457k extra funding than had been anticipated in previous reports. The timing

means that it will be transferred into reserves, as the savings for 2016-17 have already been agreed.

Settlement Funding Assessment

55. The Authority's settlement shows the SFA for 2016-17 as being £16,036k, split £4,493k Business Rates baseline; £4,173k Top Up Grant; £7,370k RSG. This represents a reduction on 2015-16 of around 8%.

56. The latest estimated level of Business Rates baseline shown on the constituent authorities' returns to Government mean that the amount of Business Rates baseline the Authority will actually receive in 2016-17 is £4,642k. This means that the Authority will receive £149k more than had been anticipated in previous reports. However, two of the authorities have declared deficits on their Business Rates collection fund, of which the Authority's share is totalling £152k. Given that this amount is similar to the additional Business Rates it is proposed to offset them in the budget for 2016-17.

Revenue expenditure

Revenue growth

57. Appendix 3 contains a list of revenue growth items totalling £293k. The growth is mainly the result of the impact of new stations and Safety Central. In addition, the new fitness advisor and the cost of the development of the On The Streets project are being included in the base budget in 2016-17.

58. Appendix 3 also shows those items which are either one-off or of a fixed term and which are being funded from reserves, totalling £1.6m. Much of this relates to equipment, vehicles or property, and Members considered business cases for some of these items at the Members' Planning Day on 15th January 2016, and considered the list of items at Policy Committee on 27th January 2016. Suitable earmarked reserves have been identified to fund these items, which will lead to some revisions to the sums contained in earmarked reserves.

Savings

59. Appendix 4 contains a list of savings included in the draft budget for 2016-17, totalling £900k. Members considered the list of these items at the Members' Planning Day on 15th January 2016, and again at Policy Committee on 27th January 2016.

60. The main saving is as a result of an organisational review which has identified non pay savings amounting to £792k. Principal amongst these are savings on the contingency budget and reductions in capital charges, in part driven by the current strategy of funding the capital programme from revenue. Other examples are a reduction in fleet maintenance costs, ICT bringing work in house, and reductions in the budget for prosecution costs in the Protection Team.

Capital Programme 2016-17 (2017-18)

61. Appendix 5 shows the Capital Programme, which totals just over £2.6m for 2016-17. Members considered business cases for some of the items at the Members' Planning Day on 15th January 2016, and also considered the list at Policy Committee on 27th January 2016. Members will note that the programme mainly consists of the purchase of vehicles and operational equipment.

62. At the Authority meeting in February 2015 which approved the 2015-16 budget, Members agreed in principle some items for inclusion in the 2016-17 capital programme (shown in green in Appendix 5). This forward approval improves the Authority's procurement position, and enables the Authority to deal with very long lead times on ordering vehicles. Members are therefore asked to consider the items shown in the second table (marked 2017-18) in Appendix 5, totalling £1.2m, and approve those items in principle for inclusion in the 2017-18 capital programme.

Budget Consultation

63. This is dealt with within the IRMP report included on the agenda at item 3.

ROBUSTNESS OF ESTIMATES

64. 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 Government funding, borrowing limits and Council Tax.

65. For 2016-17, full consideration of these issues has led to:

   i. 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.

   ii. A proposed capital financing requirement based on prior ` years and the 2016-17 capital programme.

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

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

67. 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.

68. 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 which are available to offset unanticipated cost pressures.

PRUDENTIAL CODE

69. 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.

70. The intention of this approach is to give well managed authorities the flexibility to make 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:

a. capital expenditure plans are affordable,
b. external borrowing is within prudent and sustainable levels,
c. treasury management decisions are taken in accordance with good professional practice.

71. To demonstrate that authorities have fulfilled these objectives, the 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 an authority is well managed in this area.

72. The 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.

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

74. This report seeks approval for the Authority's proposed Prudential Indicators for 2016-17, as set out in Appendix 7. Members should have regard to the impact of their decisions on capital spending 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 2016-17 to 2018-19 and estimates of the "Capital Financing Requirement" as at the end of each of these years.

75. The "Impact on Council Tax" expresses 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.

76. It can be seen from the Prudential Indicators shown in Appendix 7 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 section B of Appendix 7 and the impact of the capital programme on the level of Council Tax is small, as shown in section C.

(b) External borrowing is within prudent and sustainable levels. Net borrowing is well below the capital financing requirement throughout 2016-17 to 2019-20, 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

77. 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 sections F and G of Appendix 7). 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 sections I and J of Appendix 7). 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 section H of Appendix 7).

FINANCIAL HEALTH TARGETS

78. It is considered best practice to maintain 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 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).
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- That the Authority continues to monitor Prudential Indicators on an annual basis against the indicators set in the report dealing with the approval of the Authority's budget.
- The Authority raises 95% of invoices within one month of the debt falling due and collects 95% of income within 90 days.

STATEMENT ON ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

79. 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.

80. The adequacy of reserves is discussed in the Reserves Strategy and the robustness of estimates is covered in paragraphs 64-68 above. It

is the Head of Finance's view that the level of reserves is adequate and that the estimates are robust.

SUMMARY BUDGET PROPOSALS 2016-17 (AND PRECEPTS ON COLLECTION FUNDS).

81. Table 5 below summarises the two budget proposals contained in Appendices 1 and 2 to assist Members:

Table 5: Cheshire Fire Authority 2016-17 Budget Proposals		
	Proposal 1: Increase in precept 1.99%	**Proposal 2: Increase in precept 0%**
Item	**£000**	**£000**
Expenditure		
2015-16 Budget	**42,382**	**42,382**
Revenue growth	293	293
Estimated pay and price increase	678	678
Savings	(900)	(900)
Transfer to IRMP reserve	(509)	(1,007)
Section 31 Grants	36	36
Provision for non collection	50	50
Total draft budget 2016-17	**42,030**	**41,532**
Funding		
Council Tax	25,541	25,043
Surplus on Council Tax Collection Fund	457	457
Deficit on Business Rates Collection Fund	(152)	(152)
Settlement Funding Assessment (including additional Business Rates)	16,184	16,184
Total Funding	**42,030**	**41,532**
Precept per Band D property	**£71.86**	**£70.46**

Table 6 below shows the Council Tax precepts based on the above alternative proposals for each billing Authority:

Table 6:2016-17 Precept on Billing Authorities' Collection Funds

Constituent local authority (billing authority)	Council Tax base	Proposal 1: Increase in precept 1.99% £	Proposal 2: Increase in precept 0% £
Cheshire East	142,186.6	10,217,529.08	10,018,467.84
Cheshire West and Chester	115,125.0	8,272,882.50	8,111,707.50
Halton	32,948.0	2,367,643.28	2,321,516.08
Warrington	65,156.0	4,682,110.16	4,590,891.76
Total	**355,415.6**	**25,540,165.02**	**25,042,583.18**
Precept per Band D property		**£71.86**	**£70.46**

Conclusion

82. The budget for 2016-17 is set in the context of continuing financial austerity and sufficient savings identified to balance the budget. Going forward there is still the need to make significant further savings to ensure that the Authority's future budgets are balanced. In addition the Government's intention to review the funding regime for local authorities means that considerable uncertainty remains which increases risks in the financial planning process.

Financial Implications

83. This report is financial in nature.

Legal Implications

84. The Authority is required to issue a precept to the billing authorities before 1st March. In order to do so the Authority must approve its budget.

Equality and Diversity and Environmental Implications

85. This is a strategic report is which does not deal with the detailed proposals. Individual policy options and savings will have equality and diversity and environmental implications which will be individually identified and assessed

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BACKGROUND PAPERS: NONE