Summary

1. Cheshire Fire Authority (“the Authority”) is required to approve a budget and set the Council Tax precept for the year commencing 1 April 2012. In reaching the decision the Authority must have regard to all the relevant factors, including the likely impact of policy options on the Fire and Rescue Service, the prevailing economic climate and the impact of future grant reductions during the current Comprehensive Spending Review (“CSR”) period (2011-12 to 2014-15).

2. This is the first of three budget reports; the second will be considered by Policy Committee on 25 January 2012 and the third and final report by the Authority on 8 February 2012. In addition, a further ‘budget setting’ Members Away Day is scheduled for 20 January 2012 at which Members will be asked to consider a range of policy options to be built into the 2012-13 budget, consolidating work already undertaken at Member Away Days during the year.

3. This report provides background to the financial position of the Authority, refers to the national context and identifies some risks that the Authority should take into consideration. The report also refers to the Medium Term Financial Plan (“MTFP”), savings, the capital programme, reserves and the overall effects on precept.

4. Whilst the report has been written in advance of the formal announcement of the government financial settlement, indications are that the provisional funding for 2012-13, announced at the time of the 2011-12 settlement, is likely to be confirmed. However, if more detailed information is available by the time of the Authority meeting, then the implications will be presented.

Recommended: That

5. [1] the report and information relevant to the setting of the 2012-13 budget and precept be noted.
Funding of Cheshire Fire Authority

6 The Authority is a precepting authority which means that it generates a part of its funding by setting a precept. That precept is included within the Council Tax bills issued to each household within the boroughs of Cheshire East, Cheshire West and Chester, Halton and Warrington. The Authority also produces a Council Tax Leaflet providing an explanation of the Fire Authority precept for the public.

7 The Authority receives grant in the form of Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR) direct from Central Government. RSG and NNDR are distributed to authorities on the basis of the relative needs formula and resident population.

8 The Authority currently funds its capital programme via capital grant, capital receipts, loans taken out with the Public Works Loans Board under the auspices of the Prudential Code for Capital Financing in Local Authorities, and contributions from reserves and revenue. At present the Authority is able to use its own cash balances to fund the capital programme, but ultimately this will materialise into a need to borrow.

Cheshire Fire Authority Budget for 2011-12

9 The Authority’s budget for 2011-12 is £43.7m, financed by a combination of Council Tax, RSG and NNDR. The Band D Council Tax was set at £66.43 which generated a total of £25.033m (57% of total funding). The balance of £18.669m (43%) was met by RSG and NNDR.

10 In addition the Authority approved a new capital programme of £0.799m funded from capital grant.

The Comprehensive Spending Review and National Context

11 2012-13 will be the second year of the current CSR period. As indicated above, the final settlement, due shortly, is expected to confirm the provisional RSG and NNDR settlement at £19.04mil for 2012-13, which is 2% above the settlement for 2011-12, (which itself was 1% above the settlement for 2010-11).

12 Indications from DCLG show that there is likely to be an average reduction in RSG and NNDR of 8.5% for 2013-14 (IRMP 10), and of 5.0% for 2014-15 (IRMP 11). Members should note that this is an increase on the estimated reduction of 5.5% in each year presented to Members at previous Away Days. Such a level of reduction has a significant impact on the MTFP, and work is underway to consider how we can deliver the levels of savings that will be required to meet the plan. In addition, whilst the reductions quoted are for the whole
fire sector, the effects on individual FRS’s are likely to vary around the average.

13 The Chancellor’s Autumn Statement identified a number of issues, some of which will significantly impact on the MTFP:

- Increase of up to 1% in public sector pay at the end of the current pay freeze (2013-14 onwards)
- Spending plans for 2015/16 (IRMP 12) and 2016/17 (IRMP13) will be in line with the Chancellors Autumn Statement.

This serves to emphasise the scale of the challenge which the Authority faces during and beyond the current Comprehensive Spending Review period. It is set against the forecast for economic growth being downgraded to 0.9% for 2011 and 0.7% for 2012.

14 DCLG made around £70m capital grant available in 2011-12, and distributed it on the basis of population. The Authority received £1.4m. DCLG have indicated that for 2012-13 they are to continue the present arrangements and distribute around £70m in a similar way. In 2013-14 and 2014-15 DCLG have indicated that capital grant will be distributed in two ways; a proportion on the current basis of population and the remainder on a bidding process. It is not yet clear at what level the proportions will be set and how the bidding process will operate, and the consequences of this may impact on the MTFP.

**Council Tax**

15 As previously stated, the Band D (the average household) precept for the Authority is £66.43 and the revenue generated provides a large proportion (57%) of our funding. Therefore decisions about changing precept levels have a material effect on the Authority’s finances.

16 In the CSR, the Government stated that it would provide support to authorities who froze their precept. The support would be in the form of additional grant which would equate to the equivalent of a Council Tax increase of 2.5%.

17 In the budget for 2011-12, Members agreed to accept this grant (£626k), which will last for the period of the four year spending review.

18 DCLG have recently announced that for 2012-13, an additional, “one off”, grant, equivalent to a 3% precept increase (£751k), will be made available to the Authority.

19 Officers consider that the Authority should accept this grant, but leave the base budget at a level that does not take it into consideration for spending purposes. This will allow the Authority to use the funding to plan for expenditure which will be incurred as part of future IRMPs. It
will also avoid the need to consider an increase to the Authority’s precept in 2013 – 14.

20 If Members decide not to accept the grant, then in order to fund the budget they would need to consider an increase in precept. Our intelligence is that Fire Authorities in the North West and most Local Authorities will accept the grant.

21 Members are not asked to make a decision on the position the Authority should take at today’s meeting. It is intended that this issue will be further discussed at the Members’ Away Day on 20 January 2012, leading up to the formal decision at the Authority meeting in February 2012.

22 Members are asked to note that the detail surrounding the 3% grant has not yet been provided. Accordingly there is some uncertainty about how this should be treated.

Risks to the Financial Scenario

23 Although it is unlikely, there is a risk the details of the actual RSG and NNDR grant settlement will differ from the current suggested level. It is hoped that by the time this report is presented the announcement confirming this will have been made.

24 The other significant assumption within the MTFP is that the planned savings and reductions are all delivered on time and in line with original assumptions. Clearly this will require careful management and scrutiny to ensure that the proposals are both realistic and deliverable. This issue is discussed further in the section of this report covering reserves.

25 The potential risks arising from Council Tax Grant are explained in the previous section.

26 Historically the Authority has benefited from increases in taxbases and surpluses on Council Tax collection funds. However, given the economic climate it is not clear at present whether the constituent Authorities have deficits or surpluses on collection funds. It is, therefore, considered prudent at this stage to assume that increases in taxbases will be offset by deficits on collection funds.

Medium Term Financial Plan (MTFP)

27 Appendix 1 models the effect of our existing assumptions and show how the Authority would produce a balanced budget, assuming Members agree to accept the Council Tax Grant. The MTFP extends into 2015-16, which is in the first year of the next CSR. Members will see that there is a need to produce savings over the next four years of £3.97m in order to produce balanced budgets. This represents a
significant and difficult challenge given the nature of the Service’s cost base, as approximately three quarters of the Service’s expenditure is pay related.

28 The following assumptions have been made within the plan:-

- Grant settlement – as per provisional settlement 2012-13 (see paragraph 11), then reduction of 8.5% in 2013-14 and 5% thereafter. As indicated above this is in excess of reductions we had previously been anticipating.
- No pay inflation until 2013-14, and then 1%
- Non-pay inflation 3% 2012-13, and then 2%
- New investment is limited to approximately £0.5m per year
- Establishment of IRMP pump priming reserve to finance some of the investment needed to realise savings, including recognising that not all savings are realised in the year in which action to effect them is taken
- Savings of £3.97m over the next four years

29 Members should note that officers have already developed a ‘long-list’ of proposals for development (that also reflect some unavoidable costs) and savings and these continue to be scrutinised and refined by the Service Management Team and presented to Members at their Away Days.

30 The effect of these assumptions, should they hold true, is that the Authority can produce a balanced budget for the next four years. However, the plan will be continually revised as the factors underpinning the assumptions, particularly in respect of RSG and NNDR funding become certain.

**Savings**

31 In setting the 2011-12 budget the Service identified £1.9m of cashable savings that Members agreed some of which could be reinvested into service delivery. Some savings from 2011-12 and earlier have not yet been realised and this is reflected in the need to find savings of around £1m in 2012-13.

32 Savings of £3.97m are now planned for the next four years (IRMP 9, 10, 11 and 12) and Members will be familiar with the broad proposals having been instrumental in agreeing the priorities. Officers are working on developing specific programmes to achieve savings based on the policy decisions which Members have considered at Away Days during the year. In some cases, and as already agreed by Members, the Authority will need to consider the use of reserves to smooth the impact of introducing savings which offer longer term benefits, but which may require pump priming. There will be a further chance for Members to consider specific proposals at the Away Day in January 2012.
Capital Programme

33 The capital programme is driven by business need as identified in the IRMPs. The programme consists of a number of individual projects and every project must clearly demonstrate the extent to which it contributes to corporate objectives and provides value for money. Each project is prioritised against other bids.

34 Whilst the draft programme is being developed, for financial planning purposes, no revenue impact is identified. As with all policy options, Members should be assured that all capital proposals will be challenged with the same rigour as that applied to revenue proposals. The MTFP does include costs in relation to the potential repayment of PWLB loans, which have been used in the past to fund capital schemes.

Draft Budget for 2012-13

35 The table below summarises the core draft budget proposals for 2012-13 based on the assumptions set out in paragraph 32:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012-13 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12 budget</td>
<td>43,702</td>
</tr>
<tr>
<td>Estimated pay and price increases</td>
<td>242</td>
</tr>
<tr>
<td>Savings</td>
<td>-1,058</td>
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<tr>
<td>Policy options</td>
<td>534</td>
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<tr>
<td>Contribution to pump priming reserve</td>
<td>760</td>
</tr>
<tr>
<td>Capital programme financing and revenue consequences</td>
<td>600</td>
</tr>
<tr>
<td>Allocation of add’l Council Tax (second homes)</td>
<td>39</td>
</tr>
<tr>
<td>Council Tax Grant</td>
<td>-751</td>
</tr>
<tr>
<td>TOTAL DRAFT CORE PROPOSALS</td>
<td>44,068</td>
</tr>
<tr>
<td>ESTIMATED FUNDING</td>
<td></td>
</tr>
<tr>
<td>RSG and NNDR</td>
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</tr>
<tr>
<td>Council Tax</td>
<td>19,039</td>
</tr>
<tr>
<td>TOTAL ESTIMATED FUNDING</td>
<td>44,068</td>
</tr>
</tbody>
</table>

SUMMARY OF DRAFT CORE BUDGET PROPOSALS

Note re: Estimated Funding
Information on levels of RSG and NNDR, Council Tax collection rates, surpluses and the taxbase will have an impact on funding. Assumptions about these have been incorporated in the figures above, but final information will only be available in January 2012.
Reserves

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

37 As at 1 April 2011 the Authority had a General Reserve of £6.5m.

38 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, earn interest which increases flexibility and offer the opportunity to smooth some of the financial challenges facing the Authority. The MTFP assumes transfers of funds into IRMP pump priming reserves during the following four years. The main purpose of this is, wherever possible, to smooth the impact of realising savings. The Service is becoming more sophisticated in recognising that the realisation of savings may be delayed as a result of costs which offset the impact of realisation, but which then fall out over time. More work is currently being undertaken to attempt to quantify this, but because some of the significant variables are very difficult to estimate, it is very hard to be definitive. However, the potential size and significance of some of these costs means that they cannot be ignored, and that the Authority should recognise the risk and plan accordingly.

39 In addition, the Head of Finance is currently in the process of risk assessing the level of general reserve against risks identified in the Corporate Risk Register. The results of this will be reported to Members in January, although it is likely that the level of general reserve is sufficient to manage the existing risk profile.

Consultation

40 The Head of Corporate Communications is currently leading the formal consultation exercise on the Authority’s IRMP9. The results of this exercise will be reported to Members in order that the views of residents and other stakeholders can inform their budget decisions.

Impact Assessment

41 Financial – the body of the report covers the financial implications.

42 Legal – the Authority is required to approve a balanced 2012-13 budget and issue its precept by the end of February 2012.

43 Equality and Diversity - this is a strategic report that does not deal with detailed proposals. Individual policy options and savings will have equality and diversity dimensions and environmental impacts which will be individually identified and assessed.
Conclusion

44 The budget setting process for 2012-13 is being undertaken at a time of serious financial challenges for the public sector as a whole. The next four years will see significant grant reductions across all public bodies, but the need to deliver high quality public services remains constant.

45 Members will see from Appendix 1 that the Authority is heavily impacted as a result of the anticipated overall financial situation. Over the four year period of the MTFP period (2012-13 to 2015-16), our base budget is by projected to fall by £1.4 m, and we are required to make savings of around £3.97m.

46 Members will appreciate that the current economic position is dynamic, to say the least. Accordingly, there is much greater difficulty in predicting the budgetary situation for future years. Therefore, it is likely that the MTFP will need to be refined more often and that this could involve more significant changes than will have been necessary in the past.

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