



STAFFORDSHIRE COMMISSIONER

Police | Fire and Rescue | Crime

Medium Term Financial Strategy Update Report 2019/20

**David Greensmith
Director of Finance
Staffordshire Commissioner's Office /
S151 Officer**

Contents

1 Purpose of Report	3
2 Conclusion	3
3 The Budget Process	4
4 Funding Background for FRA	4
5 Assumptions and Sensitivity Analysis	5
6 Efficiency Plan Delivery into the Medium Term	5
7 Risks and Opportunities for 2019/20 and into the medium term	7
8 Gap	8
9 Risk based review of Reserves	9
10 Capital Funding	10

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide an update on the delivery of the Medium Term Financial Strategy (MTFS).
- 1.2 A high level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2020/21 budgeting process and updated MTFS.
- 1.3 The MTFS for the five year period 2019/20 to 2023/24 was approved by the Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 15 February 2019. This approved MTFS included a savings target of £0.5m to be achieved during the year 2019/20 delivering the final year of the approved Efficiency Plan covering the four year period 2016/17 to 2019/20.
- 1.4 This MTFS report provides an update on the estimated savings required beyond 2019/20 and reviews a number of the upward pressures incorporated into the approved strategy.
- 1.5 The Chancellor announced the outcome of the Spending Round (SR2019) for next year on 4 September 2019. The SR2019 set out public spending totals for the financial year 2020/21 with good news that the Home Office will receive a settlement of £12.9bn for 2020/21 representing a 6.1% real terms increase on 2019/20. Decisions on funding for fire and rescue from the Home Office will be made as part of the allocations process that will now follow the Spending Round. This will include consideration of the fire pensions grant, National Resilience grants, Emergency Services Network (ESN) and other Home Office fire funding streams.
- 1.6 Fire and Rescue budgets are therefore expected to be protected in real terms for 2020/21 with Settlement Funding Assessment being increased by inflation. The council tax referendum threshold limit is likely to be reduced back down to 2% (set at 3% for last 2 years). A technical consultation has now been issued and a response will be returned by the Director of Finance.
- 1.7 As part on the budget process for 2020/21 the MTFS will be updated as further information becomes available and assumptions become more certain, up until the confirmation of the budget proposal by the Commissioner (and endorsement of the precept for Fire by the Police, Fire and Crime Panel), in February 2020.

2 CONCLUSION

- 2.1 The Outlook for the next financial year has improved following the announcement that overall funding will be protected for 2020/21 and this will ensure that the Staffordshire Commissioner and the Service will be in a better position to deliver a balanced budget for 2020/21.
- 2.2 However pressure on funding continues into the medium term as uncertainty remains around assumptions for pay, pensions and implications arising from the next Comprehensive Spending Review 2020 and the review of fire funding (Fair Funding Review) and the introduction of a possible 3 to 4 year funding settlement.
- 2.3 The Commissioner is committed to working with the Fire and Rescue Service to deliver the required efficiencies beyond 2021 supporting the new Corporate Safety Plan (Integrated Risk Management Plan) covering the period April 2020 to March 2024. The Service has now formally commenced a programme of efficiency reviews to support this work, discussed later in this paper.
- 2.4 The update MTFS assumes a funding gap of £3.1m by March 2024 (approved MTFS £3.2m gap).

3 THE BUDGET PROCESS

3.1 The 2020/21 budget process for Staffordshire Fire and Rescue Service has now commenced. As undertaken in previous years the budget will be built using a zero base approach with full consultation being undertaken with budget holders and representative bodies.

3.2 The headline timetable for the 2020/21 budget process is shown below:

<u>Budget Timetable</u>	<u>Task</u>
1 October 2019	Budget Preparation commenced
14 October for 6 weeks	Budget holder consultation
29 October 2019	Capital Review Group Meeting – Draft 3 year capital programme
30 November 2019	Draft Budget ready for review process
5 December (provisional)	Draft Settlement Funding released (expected date)
December 2019 – January 2020	Budget Consultation and budget presentation to the Strategic Governance Board
31 January 2020	Business Rates Budget Finalised (NNDR1)
10 February 2020	Police, Fire and Crime Panel Budget 2020/21 / MTFS Report
February 2020	Precept Notices issued following Commissioner approval

4 FUNDING BACKGROUD FOR FRA

4.1 In 2016 the Authority accepted Settlement Funding from the Department for Communities and Local Government for the four year period 2016/17 to 2019/20 in return for the publication of an Efficiency Plan covering the four year period.

4.2 The Settlement Funding included a total reduction in Revenue Support Grant of £4.8m during this period. To date this reduction has been applied in full.

4.3 The Settlement Funding for 2019/20 is made up of three separate areas:

	2019/20 £m
1% share of Local Business Rates	3.667
Business Rates Top-up	5.962
Revenue Support Grant (RSG)	4.675
Total Settlement Funding	14.304

- 4.3 In addition to the above the above Council Tax is collected by the nine billing authorities in Staffordshire and Stoke on Trent. The current Band D Council Tax is set at £75.73 (£1.46 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of £26.247m for 2019/20 based upon a collection tax base of 346,580 properties and a collection surplus of £0.385m.
- 4.4 The Revenue Budget for 2019/20 was approved in February 2019 by the Staffordshire Commissioner at £40.936m, alongside the MTFs for the following four years up to 2023/24.
- 4.5 The approved budget included a final £0.5m of savings to be delivered in year. These savings are on track for completion of the £3.5m of approved Efficiency Plan Savings.

5 ASSUMPTIONS AND SENSITIVITY ANALYSIS

- 5.1 All assumptions contained within the MTFs are subject to change however they are useful in establishing the general size of the underlying pressures in the budget.
- 5.2 The current MTFs incorporates the following assumptions:

Description	2019/20 Actual	2019/20 Assumed	2020/21 Estimate	2021/22 Estimate
<u>Pay Awards</u>				
Grey Book	2.00%	3.00%	2.00%	2.00%
Green Book	2.00%	2.00%	2.00%	2.00%
<u>Non Staff Inflation</u>				
General	2.00%	2.00%	2.00%	2.00%
Utilities - Gas/Electric	5.00%	5.00%	5.00%	5.00%
<u>Funding</u>				
Revenue Support Grant	-11%	-11%	-7%	-7%
Council Tax Base Increase	1.50%	1.50%	1.30%	1.30%
Council Tax Precept Increase	2.99%	2.99%	1.99%	1.99%

- 5.3 The Grey Book pay award has been agreed for 2019/20 at 2% which is 1% less than the budgeted 3%. Discussions remain ongoing with the Fire Brigade Union and the National Joint Council (NJC) regarding broadening of the role of a firefighter.
- 5.4 A 1% sensitivity for pay awards across all staff is £0.22m.
- 5.5 A 3% pay award will now be assumed for 2020/21 with 2% for the following 3 years.

6 EFFICIENCY PLAN DELIVERY INTO THE MEDIUM TERM

- 6.1 As part of the Local Government Finance Settlement for 2016/17 single purpose fire and rescue authorities were all offered firm four-year funding allocations in return for robust and transparent efficiency plans that were published in order to enable local residents to scrutinise these plans. In October 2016 the Authority submitted the document to the Home Office to secure this funding offer.
- 6.2 The published Efficiency Plan includes detailed assumptions around the strategy that the Authority would adopt regarding future Council Tax increases, expected business rates increases and population growth during this time. In total the four year settlement included a reduction in Revenue Support Grant of £4.8m.

6.3 To date £3.0m of savings have been approved and fully implemented within the Service. The savings included:

- a reduction in wholetime crews of 40 Posts phased into the establishment from 1 January 2017 (28 posts) and 1 January 2018 (12 posts) which included the removal of two Targeted Response Vehicles (TRV's), in addition a new retained payment system was implemented from 1 January 2017 that also reduced the establishment by 43 posts
- the executive team was also restructured during 2016 removing one post from the structure
- a review of Prevention and Protection within the Service has now been complete, delivering c.£0.2m per annum
- a reduction in funding costs both in terms of MRP and interest payments saving c.£0.3m per annum
- a review of community safety budgets has been undertaken. A more effective and targeted approach leading to savings of c.£0.2m per annum
- procurement savings are currently being captured and will be incorporated into the budget setting process c.£0.1m

6.4 The following areas are currently being reviewed in order to deliver the remaining saving of £0.5m:

- **Management Reduction** -This involves a review that has been undertaken with a number of operational management posts being removed in year, saving up to £0.3m
- **Dragons' Den** - The Service undertakes a Dragons' Den budget process where all budget holders are challenged to deliver savings in the current year that will be incorporated into the updated forecast position and also to offer permanent recurring budget efficiency savings for 2019/20, c.£0.2m per annum

6.5 **Service 2025**

The Service has already undertaken a number of scenario planning sessions and options have being discussed with the Staffordshire Commissioner in order to provide a pathway for delivery of the expected financial challenges post 2020.

A budget gap into the medium term is estimated at around £3.1m by 2023/24 as identified within the updated MTFs (see section 8). This is driven by the assumptions around funding for additional pension contributions, reduced Revenue Support Grant beyond 2021, in addition to cost pressures particularly around pay.

This scenario planning has now evolved and developed into a number of work streams that are being progressed as part of the Service 2025 project work that will form an integral part of the development of a number of options that will be incorporated into the updated Corporate Safety Plan. This will ensure that the Service is as efficient and effective as possible and fit for the future.

The project will review the following areas of service delivery:

- **Response** - Asset and skills based mobilisation, specials review, rostering of personnel, officer's rota, and service wide response model
- **The delivery of prevention and protection throughout the service** - Development of revised prevention and protection arrangements, development of multi-agency prevention hub
- **The administration requirements throughout the service**

The review of the areas listed above will provide a clear understanding of how the Service needs to be structured post 2020. This review will provide clarity on the changes that the Service will need to undertake in order to ensure that the Service can continue to deliver the highest possible levels of service to our communities.

7 RISKS AND OPPORTUNITIES FOR 2019/20 AND INTO THE MEDIUM TERM

High Level Risks:

- 7.1 **Pension Contributions** – Following the results of the 2016 Firefighters’ Pension Schemes valuation employer contribution rates have increased nationally on average by 12.6% to 30.2% from April 2019. In Staffordshire the actual percentage increase is 14.6% and has resulted in a total increase in pensions costs across all Firefighter Pension Schemes of £1.8m per annum. For 2019/20 and 2020/21 90% of this cost increase will be met by a government grant. It is not clear if the Treasury will agree to meet any of this additional costs beyond 2020/21.
- 7.2 **Revenue Support Grant** - As at 31 March 2020 the amount of Revenue Support Grant (RSG) has been reduced to £4.6m. RSG has been reduced by £4.8m since 2016/17 and cumulatively £9m since 2012. The MTFs assumes that further reductions of 7% per annum will commence in 2021/22. It is the intention of Ministry of Housing, Communities and Local Government (MHCLG) and the Home Office to remove RSG from funding across the public sector but the long term position for RSG within the fire sector remains unclear.
- 7.3 **Emergency Service Mobile Communications Programme (ESMCP)** - There remains significant uncertainty around the delivery and required funding for this programme. This uncertainty will potentially impact upon both capital and revenue spend and at the moment this impact is unknown. The MTFs assumes that costs will remain in line with current costings for the existing Airwave solution.
- 7.4 **Funding for the capital programme will require increase levels of capital financing and debt.** The capital programme has been funded mostly from savings and reserves for the previous six years. This has reduced levels of debt by £6.5m and through the use of internal cash external debt is lower also reducing interest payments. £1.5m of PWLB loans has been repaid in the last 18 months. Any future borrowing requirements will be impacted by the 1% increase announced in October 2019 for all Public Sector Loan Works (PWLB) borrowing.
- 7.5 **Business rates Pilot** – Staffordshire and Stoke on Trent successfully applied to take part in the pilot 75% business rates retention programme for 2019/20. This included an additional windfall payment of £0.2m for the Staffordshire Commissioner. It is currently unlikely that this arrangement will be carried forward into 2020/21 following the announcement that all 75% business rate pilots will cease from 31 March 2020. An application for the current arrangements to be rolled-over into 2020/21 has been submitted to MHCLG by the Staffordshire Pool.

Opportunities:

- 7.6 To increase the level of Council Tax for 2019/20 and beyond, above the levels included within the current approved MTFs. A response to the Governments technical consultation is being prepared that will request additional flexibility regarding the precept referendum limits and also to suggest a £5 increase option across the fire sector.
- 7.7 The bringing together of Fire and Police governance through the Office of the Staffordshire Commissioner will continue to deliver collaboration opportunities and savings between Staffordshire Fire and Rescue Service and Staffordshire Police.

- 7.8 Further savings around Estates Rationalisation and Enabling Services are currently being progressed by the joint collaboration team which includes a joint Police and Fire Station at Tamworth Belgrave and also proposals for a joint response base from Hanley Fire Station. To date shared services have now been implemented across Police and Fire which include; HR, Estates, Procurement, Communications and, from 1 November, Finance.
- 7.9 Annual collaboration savings of c.£0.8m per annum have now been reported through to the Joint Collaboration Board. These savings have been delivered through the change in governance arrangements and the bringing together of the first phase of the joint shared services. This saving excludes the opportunities for rationalisation of estates across both Services as per 7.8 above.
- 7.10 Following the announcement by the Chancellor on 4 September 2019 Fire and Rescue budget are expected to be protected for 2020/21 with Settlement Funding being increased by inflation (CPI). This is positive news for setting the budget for 2020/21 can be delivered without implementing significant change. This will allow the Service 2025 work to be implemented before further reductions in funding introduced.

8 GAP

- 8.1 Based upon the assumption contained within the current MTFS the total gap by 2023/24 is £3.1m.
- 8.2 The updated MTFS shows a balanced position for 2020/21 assuming that the level of funding is in line with the Chancellor's announcement on 4 September 2019.
- 8.3 The Gap includes a further reduction in Settlement Funding of 7% per year from 2021/22 and would reduce Revenue Support Grant to £1.8m by 2022/23.
- 8.4 The gap analysis includes the assumption that the Council Tax referendum limit will be reduced to 2% from 2020/21.
- 8.4.1 The gap also incorporates the full impact of an increase in employer pension contributions into the Firefighters' Pension Schemes from 2021/22. 90% of the increase in employer contribution into the fire pension schemes has been met by Government for 2019/20 and 2020/21.
- 8.5 The net funding gap of £3.1m by 2023/24 within the updated MTFS shows a marginal improvement of £0.1m from the current approved Strategy.

Gap Analysis:

	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget	Plan	Plan	Plan	Plan
Business Rates 1% local Share	3,668	3,741	3,816	3,893	3,970
Business Rates Top-up	5,962	6,155	6,352	6,556	6,765
Revenue Support Grant (RSG)	4,675	3,673	2,723	1,821	962
Council Tax (Precept) Band D	26,632	27,418	28,268	29,148	30,108
MTFS 2019/20 to 2022/23 FUNDING	40,936	40,987	41,160	41,417	41,806
BASE BUDGET	41,418	43,094	43,750	44,388	45,036
BASE MTFS GAP (Savings Required)	(482)	(2,107)	(2,590)	(2,971)	(3,230)
a) HOME OFFICE FUNDING CUTS					
RSG Down by 7% in 2021/22 (MTFS assumed 2020/21)		1,001	931	866	805
b) FIREFIGHTER PENSION SCHEME COST					
Required increase in employer contribution rate (Grant in place for 2019/20 and 2020/21)		900	(687)	(673)	(659)
c) OPERATIONAL PAY AWARD (Grey Book)					
3% award budget now in 2020/21	200				
d) FINANCING COSTS					
Lower MRP delivered through savings	208	159	159	162	166
f) BUSINESS RATES PILOT					
		(200)	(200)	(200)	(200)
g) INVESTMENT IN FIRE ENGINEERING					
	50	115	115	115	115
Savings Required (Cumulative)	408	1,860	204	156	112
REVISED GAP (Savings Required)	(74)	(247)	(2,386)	(2,815)	(3,118)

9 RISK BASED REVIEW OF RESERVES

- 9.1 The reserves strategy is currently under review by the Staffordshire Commissioner FRA. This refresh is due to be reviewed by the Strategic Governance Board on 28 November 2019 and will be further updated if required during the budget process.
- 9.2 The Total Reserve held by the Staffordshire Commissioner FRA as at 31 March 2019 was £16.1m. However, only £9.0m is accessible with £1.9m held as a General Reserve and £7.1m held as an earmarked reserve.
- 9.3 The updated reserves strategy will update the position for both of these reserves.

10 CAPITAL FUNDING

10.1 The approved capital programme for the three years to 2020/21 is as follows:

	2019/20 Budget	2020/21 Estimate	2021/22 Estimate
	£	£	£
Building & Infrastructure Works			
Refurbishment Programme	2,018,695	518,000	
Improvement Works	415,000	214,228	150,000
Total	2,433,695	732,228	150,000
Operational Equipment	407,750	287,000	125,000
Appliances & Vehicles			
Appliances & Specialist Vehicles	1,064,384	250,000	1,000,000
Vans & Cars	165,000	150,000	150,000
Total	1,229,384	400,000	1,150,000
Information Technology			
ICT Hardware, Software Systems & Installations	650,000	300,000	550,000
Total	650,000	300,000	550,000
Total Capital Programme	4,720,829	1,719,228	1,975,000
Funding			
Supported Borrowing			
Unsupported Borrowing	2,157,442	1,519,228	1,804,658
Capital Grant	1,531,695		
Use of Specific Reserves (Abbots Bromley)	417,000		
Use of Specific Reserves	614,692	200,000	170,343
Total Funding	4,720,829	1,719,228	1,975,000

10.2 The latest forecast for 2019/20 amounts to £4.2m and includes reduced spend on building enhancements and ICT.

10.3 The Capital Programme for the three years 2020/21 to 2022/23 is currently in development and the draft programme will be presented at the Capital Review Group meeting on 28 October 2019.

10.4 Capital Financing Requirement for the above approved capital programme is as follows:

	2018/19 Actual	2019/20 Budget	2020/21 Plan	2021/22 Plan
Debt Outstanding - 1 April	24,531,492	24,457,483	25,335,914	25,330,445
+ New Borrowing	2,449,000	4,720,829	1,719,228	1,975,000
TOTAL MRP CHARGEABLE	1,258,009	1,279,010	1,524,697	1,649,391
TOTAL DEBT POSITION (Post MRP)	25,722,483	27,899,301	25,530,445	25,656,054
less				
Capital Financing from Grants and reserves	1,265,000	2,563,387	200,000	170,343
Total Capital Financing Requirement	24,457,483	25,335,914	25,330,445	25,485,712
In year repayments	1,500,000	500,000		
LONG TERM FUNDED DEBT	18,050,000	17,550,000	17,550,000	17,550,000
INTERNAL FUNDING	6,407,483	7,785,914	7,780,445	7,935,712

10.3 As at the 31 March 2019 the total capital financing required was £24.5m (excluding PFI) of which £18.05m was financed through long term loans and £6.4 through the

use of internal cash. The capital programme had been fully funded by savings and reserves for the five years prior to 2018/19 reducing the capital financing requirement by £6.5m and reducing future borrowing cost requirements

- 10.4 The appliances and vehicles programme for 2019/20 includes the final delivery of new appliances as part of the procurement of 11 new appliances. The total cost of this investment is £2.7m and spans a three year period. The first 6 appliances are now operational.
- 10.5 In addition to the approved capital programme for 2018/19 there was a total carry-over of £2.2m from the previous year. This included the carry-over of the transformational funding grant for the Safe and Sound Programme and refurbishment options for Stafford Fire Station (total carry over £2m). The Safe and Sound Programme has now been delivered and is operational. Options for Stafford are being reviewed as part of the Service 2025 project.