



Item No. on Agenda

Report to the Police Fire and Crime Panel – 26th October 2020

Medium Term Financial Strategy (MTFS)

Current MTFS Update (Fire)

Report of the Staffordshire Commissioner

Introduction

The purpose of this report is to update the Police, Fire and Crime Panel on the Current Medium Term Financial Strategy (MTFS). This supports delivery of one of the Commissioner's key responsibilities under the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Update to current year's budget
- Update to future years' MTFS assumptions
- The impact of COVID-19 on financial performance and position
- Sensitivity analysis around key financial items
- Update on capital programme

Recommendations

The Police, Fire and Crime Panel is asked to note the information contained within this updated MTFS report

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1.0 Executive Summary

- 1.1 The MTFs for the five year period 2020/21 to 2024/25 was approved by the Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 10 February 2020. This approved MTFs included a savings target of £0.3m to be achieved during the year 2020/21 and included a gap of £1.5m by 2024/25.
- 1.2 This MTFs report provides an update on the estimated savings required beyond 2020/21 and reviews a number of the upward pressures incorporated into the approved strategy and also now updates the Panel on the potential impact on future funding resulting directly from the current Coronavirus pandemic.
- 1.3 The Settlement Funding for 2020/21 included an inflationary increase in Revenue Support Grant (RSG) set at 1.63%, this was the first increase for a number of years, and taken alongside the 1.99% increase in Council Tax the Authority started the year in a better financial position than that seen for a number of years with a reduction in saving requirements during the MTFs period.
- 1.4 However, the impact of COVID-19 on Authority finances may be severe and this report includes an assessment of the likely impact of a deficit on the Council Tax Collection Fund and also a reducing Council Tax Base and lower business rates collected.
- 1.5 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 2021.
- 1.6 The financial landscape has changed significantly due to the impact of COVID-19, and the future gap in funding is currently being assessed. This report explores the collection fund reductions and the data that has been made available from the nine billing authorities which results in a potentially challenging funding position into the medium term that will require action from the Authority and Service in order to meet the challenges ahead.
- 1.7 Pressure on funding continues into the medium term as uncertainty also 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). The current MTFs assumptions around pay and pensions remains unchanged within this update as there is not sufficient evidence at this time to revise these assumptions.
- 1.8 The Commissioner is committed to working with the Fire and Rescue Service to delivery 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 2025 programme of efficiency reviews to support this work, discussed later in this paper.
- 1.9 The Coronavirus pandemic is affecting funding across the wider public sector and it is unclear if further support will be provided by the Government as part of the Local Government Finance Settlement for 2021/22. Without further support the Staffordshire Commissioner will need to consider how the financial position can be supported through; Council Tax increases, the delivery of further savings, and also the intelligent use of reserves.

- 1.10 The update MTFS assumes a funding gap of £3.9m by March 2024 (approved MTFS £1.5m gap), this represents a pessimistic view and this paper includes a lower and upper estimate of the funding shortfall and future savings requirements.
- 1.11 A high level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2021/22 budgeting process and updated MTFS.

2.0 The Budget Process

- 2.1 The 2021/22 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.
- 2.2 The headline timetable for the 2021/22 budget process is shown below:

<u>Budget Timetable</u>	<u>Task</u>
1 October 2020	Budget Preparation commenced
12 October for 6 weeks	Budget holder consultation
23 October 2020	Capital Review Group Meeting – Draft 3 year capital programme
30 November 2020	Draft Budget ready for review process
December 2020 – January 2021	Budget Consultation and budget presentation to the Strategic Governance Board
31 January 2021	Business Rates Budget Finalised (NNDR1)
15 February 2021	Police, Fire and Crime Panel Budget 2020/21 / MTFS Report
16 February 2021	Precept Notices issued following Commissioner approval

3.0 Funding Background

Settlement Funding for the Authority comprises of three funding streams shown below. The Revenue Support Grant (RSG) and Business Rates top-up are shown below as extracted from the Local Government Finance Settlement issued for 2020/21, with the 1% share of local business rates based upon the Final NNDR1 submissions from the nine local billing authorities.

- 3.1 The Comprehensive Spending Review covering the current year 2020/21 was a one year settlement with the Home Office continuing with the review of the fire funding formula as part of the Fair Funding Review that should form the bases for a multi-year settlement position for 2021/22 and beyond. It remains unclear if a multiyear settlement will be possible for 2021/22, however the National Fire Chiefs Council have put forward to Treasury a submission based upon a three year settlement still being achieved.
- 3.2 The Settlement Funding for 2020/21 was made up of three separate areas:

	2020/21 £m
1% share of Local Business Rates	3.809
Business Rates Top-up	6.059
Revenue Support Grant (RSG)	4.750
Total Settlement Funding	14.618

- 3.3 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 £77.24 (£1.49 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of **£27.786m** for 2020/21 based upon a collection tax base of 352,801 properties and a collection surplus of £0.535m.
- 3.4 The Revenue Budget for 2020/21 was approved in February 2020 by the Staffordshire Commissioner at **£42.404m**, alongside the MTFs for the following four years up to 2024/25.
- 3.5 The approved budget included a final £0.3m of savings to be delivered in year, with a total funding gap of c.£1.5m by 2024/25. Plans to deliver against that medium-term gap were being developed and there was a level of confidence pre-COVID-19 that meeting the challenge was manageable.

4.0 Income Assumptions

- 4.1 All assumptions contained within the approved MTFs are subject to change under normal circumstances however due to the estimated impact of COVID-19 this will have a significant impact upon some key assumptions as the budget for 2021/22 is developed and considered into the medium term.
- 4.2 The main area for concern is the estimated economic impact of COVID-19 on council tax collection in year as well as the impact on the future council tax base and its growth.
- 4.3 The current MTFs assumes an increase in the council tax base of 1.5% per annum as well as average surpluses on the collection fund of c.£0.25m per annum. Both assumptions are now seen as over optimistic as a result of the COVID-19 impact. It is now forecast that the base will grow by 0.5% per annum following this year's fall, with no surplus on the collection fund into the medium term.

- 4.4 Within this billing authorities have provided the Commissioner with assumptions for the impact on the collection fund position in year. Whilst this does not affect the funding received in year by the Commissioner, the deficit on the collection fund will impact on the 2021/22 budget.
- 4.5 It is also worth noting that these estimates have been provided in a more volatile period than before. Whilst more individuals are in receipt of Local Council Tax Support (LCTS) as a means tested benefit, this is within the environment of furlough schemes and support to the self-employed. Whilst the unwinding of these schemes may be perceived to have a greater impact of LCTS claims other individuals may have deferred council tax payments that are now being paid down.
- 4.6 As part of the government's response to COVID-19 it is proposed that the 2020/21 deficit on the collection fund can be spread over the next three years as opposed to being recognised and accounted for in one year (e.g. over the period 2021/22 to 2023/24 as opposed to in 2021/22 only). Whilst detail is awaited on this scheme the current planning assumption is that the Commissioner will look to take up this flexibility.
- 4.7 It is unknown if the Government will address these significant changes in council tax income as part of the spending review. The government has committed to examining this as part of the spending review, however given the financial impact of the pandemic and other government priorities the current assumption is that no support will be forthcoming. It is hoped this is a 'worse case' position.
- 4.8 The current MTFS incorporates the following assumptions:

	2020/21 Budget	2021/22 Plan	2022/23 Plan	2023/24 Plan	2024/25 Plan
<u>PAY COSTS</u>					
Pay Award Operational Staff	3.0%	2.0%	2.0%	2.0%	2.0%
Pay Award Non Operational Staff	3.0%	2.0%	2.0%	2.0%	2.0%
Other Pay Costs	1.0%	1.0%	1.0%	1.0%	1.0%
Pension Costs - Fire Fighters Pension Schemes	+£1.8m	+£1.8m	+£1.8m	+£1.8m	+£1.8m
Pension Costs - Fire Fighters Pension Grant	(£1.7m)	(£1.7m)	(£1.7m)	(£1.7m)	(£1.7m)
<u>NON PAY COSTS</u>					
Electricity	5.0%	5.0%	5.0%	5.0%	5.0%
Gas	5.0%	5.0%	5.0%	5.0%	5.0%
Business Rates	2.0%	0.0%	0.0%	0.0%	0.0%
Water and Sewerage	2.0%	2.0%	2.0%	2.0%	2.0%
General Supplies and Services	2.0%	2.0%	2.0%	2.0%	2.0%
<u>INTEREST RATES</u>					
Interest on Investments	0.8%	1.0%	1.0%	1.0%	1.0%
Interest on Debt	4.2%	4.2%	4.2%	4.2%	4.2%
<u>GENERAL FUNDING</u>					
Council Tax Increases	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base Growth	1.79%	1.50%	1.50%	1.50%	1.50%
Revenue Support Grant Reduction	1.6%	-5.0%	-5.0%	-5.0%	-5.0%
Local Business Rates % incl top-up	0.0%	2.0%	2.0%	2.0%	2.0%

4.9 The table below shows the movements on Council Tax Precept income compared to the current MTFS based on the information received to date from billing authorities. The table includes a best and worst case scenario which will be developed further as more information is made available by the billing authorities.

	2020/21 Budget £000s	2021/22 Plan £000s	2022/23 Plan £000s	2023/24 Plan £000s	2024/25 Plan £000s
Budget Gap	(300)	(911)	(1,319)	(1,430)	(1,490)
Collection Fund Deficit 2020/21 (Spread 3 years)		(400)	(400)	(400)	
Loss of Assumed Council Tax Surplus		(300)	(250)	(200)	(150)
Growth reduced to 0.5% from 22/23)			(271)	(558)	(862)
Business Rates down 4.5% in 21/22		(200)	(194)	(188)	(183)
CSR assumed Cash Flat		731	694	660	627
Gap (Low Case)	(300)	(1,080)	(1,739)	(2,116)	(2,059)
4.5% hit in CT base for 2021/22 This is 6% worse than MTFS		(1,667)	(1,726)	(1,787)	(1,850)
Gap (High Case)	(300)	(2,747)	(3,465)	(3,903)	(3,909)
+/- Previous Gap		(1,836)	(2,147)	(2,474)	(2,418)

4.10 The impact upon the Council Tax base remains one of the areas of greatest uncertainty. The Billing Authorities are required to estimate the council tax base as part of a return to MHCLG in October 2020 these returns will provide a better estimate on the likely impact on precepting authorities. The reduction of 4.5% in Council Tax base above is therefore considered a worst case scenario.

4.11 The Commissioner has previously indicated, for planning purposes, increases in precept of 1.99% for the years 2021/22 onwards. Whilst the current referendum limit is unknown, and forms part of the fire funding settlement expected in December, the Commissioner will balance the needs of Fire for additional funding against the ability of Staffordshire residents to afford the policing precept. As part of the submission to Treasury NFCC have requested a maximum £5 increase in precept for all FRA's. A £5 increase in precept would be equivalent to a 6.5% increase. The current assumption around a 1.99% increase has not been updated at this time.

4.12 The approved MTFS assumed that as part of a three year CRS the amount of Revenue Support Grant would continue to reduce into the medium term. This update assumes a cash flat settlement for 2021/22 which provides some benefit to the Authority in year and £0.7m of mitigation against the expected reduction in Council Tax receipts.

5.0 Sensitivity Analysis

- 5.1 The MTFS refresh is being undertaken in a more uncertain environment as a result of the Covid-19 pandemic.
- 5.2 Funding assumptions both in relation to local and national funding are likely to cause material changes late on in the planning process, something that cannot be avoided but needs to be recognised.
- 5.3 The Grey Book pay award has been agreed for 2020/21 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 the future role of the Firefighter. The saving generated in the current year will be earmarked (2% pay award vs budget of 3%) and utilised when setting the budget for next year.
- 5.4 The following sensitivity analysis is based upon the approved MTFS paper from February 2020:

Cost Area	Change	£000
Pay Costs	1%	220
Utilities	1%	27
Vehicle Costs	1%	8
Supplies and Services	1%	70
Fire Pension Contributions (FPS)	1%	116
Business Rates	1%	38
Revenue Support Grant	1%	48
Precept	£1	260
Council Tax Base	1%	280

6 Finance Position 2020/21 and Service 2025 Update

- 6.1 The Revenue budget as stated within paragraph 3.4 was approved in February 2020 by the Staffordshire Commissioner at £42.2m.
- 6.2 As at the end of September 2020 the total revenue spend to date was £20.6m, £0.3m better than budget with the saving delivered mainly through lower pay costs. The pay cost saving year to date relates to a number of vacant support staff posts, and reduced operational risk reduction activities during the COVID-19 period. An additional saving will also be achieved due to the Grey Book pay award being agreed at 2% (Budget 3%).
- 6.3 Non Pay costs are also showing a small saving year to date again with lower spend on risk reduction activities due to the reduction in Safe and Well visits due to the COVID restrictions that do not allow home visits particularly to the more vulnerable members of our communities.
- 6.4 The financial forecast is currently under development in order to get a better picture for the year end outturn, but overall the required saving of £0.3m has already been achieved in year and the favourable position is likely to continue for the remainder of this year.

6.5 However, as a result of the likelihood of an increasing financial gap for 2021/22 and beyond the Service have been engaging with the Staffordshire Commissioners' Office in order to further develop of opportunities to deliver additional savings and efficiencies into the medium term.

7.0 **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 discussed within this paper the budget gap into the medium term is estimated to be increasing to around £3.9m by 2024/25 a significant increase from the £1.5m gap included within the approved MTFS.

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 and is now forming an integral part of the development of a number of options that will be reviewed and implemented during the Corporate Safety Plan period. This will ensure that the Service is as efficient and effective as possible and fit for the future.

The project has already reviewed the following areas of service delivery and started to develop an action plan for implementation which have been categorised into the following areas:

The financial scenarios are split into five separate areas, which are summarised below and supported by additional detail included within the options for change section.

7.1 **Structures** - The Staffordshire Commissioner is committed to ensuring that the staffing structures at all levels are appropriate. This includes reviews of how administration services are provided throughout the Service in addition to ensuring that departmental structures deliver economy where possible whilst continuing to be efficient and effective. Options for further establishment savings will continue to be developed and supported by a robust and fair voluntary redundancy programme.

7.2 **Prevention and Protection** – Prevention activities will continue to be targeted to ensure that the focus remains on the most vulnerable members within the communities that we serve. All prevention activity must be evaluated thus ensuring the Service has the ability to stop activities when the achieved outcomes have been delivered.

We will combine the risk stratification of vulnerable people and vulnerable buildings to prioritise our risk reduction activity. The Service is increasing the scope of the Risk Based Inspection Programme to include a wider range of residential buildings. We will be investing in this area and providing training and qualifications for operational personnel and our centrally based specialist teams. This will meet the requirements coming out of the Grenfell Tower inquiry, and the National Competency Standards.

7.3 **Response Options and capability reviews** - The Service has demonstrated that continued development of how we provide our emergency response services and the technology we use has resulted in more efficient ways of working. This concept will continue to be developed alongside our representative bodies ensuring that we are not compromising safety or service provision but can deliver an even more efficient service at a lower cost through adept resource allocation and streamlined management.

- 7.4 **Estates Strategy and Collaboration Opportunities** -The Service will continue to work with all partners but with a clear focus upon the delivery of savings through a shared estate with Staffordshire Police and the continued success of shared support departments and the joint workshop/transport facility.
- 7.5 **Procurement and Cost Efficiencies** - The FRA has a strong track record of delivering cost savings which includes more efficient procurement. This is supported by the Commercial Services team at Staffordshire Police with procurement support provided through the shared service arrangements. The Service will also continue to review all costs e.g. through its internal review process
- 7.6 This programme of savings that is being developed incorporates a number of scenarios that will need to be approved by the Commissioner and will be incorporated into the budget setting process for 2021/22 and into the updated Medium Term Financial Strategy and the Reserves Strategy. The total savings target has been set at £4m by 2024/25 but this will be dependent upon the level of saving required and some of the opportunities may not be fully supported by staff, the representative bodies and of course the communities that we serve. It should also be noted that the profile of savings requirements through to 2024/25 could change, with more savings required earlier on. The planning work taking place through Service 2025 will allow for specific savings to be brought forward, if that should prove necessary.

8.0 COVID-19

- 8.1 The MTFs review is set against a context of the COVID-19 pandemic both in relation to the in-year response as well as the ongoing potential impact on Fire funding.
- 8.2 This pandemic has impacted upon all areas of society and has meant that SFRS had to adapt quickly to new ways of working and Service delivery. The work has been complex and cut across numerous partner organisations and government departments locally, regionally, and nationally. SFRS have committed resources from across the whole of the Service area in order to support our communities and staff to stay safe
- 8.3 The fire and rescue sector have been allocated with grant funding of just over £1 million from the Ministry for Housing, Communities and Local Government (MHCLG) in order for the Service to deal with the additional costs incurred as a result of the pandemic. This funding being part of the overall £3.2 billion allocated to support local authorities by MHCLG.
- 8.4 During the year monthly reporting against this grant has been provided to the Home Office with the first return issued in May 2020. To date the Service is forecasting to spend around £0.5m of the £1.0m grant by the end of October 2020, and whilst spend levels have reduced in the last quarter this does not take into account potentially the impact of a second wave and further lock down restrictions during the winter. This money has been made available through a S31 Grant, and any balance remaining at the end of the year should be earmarked to support the reduction in Council Tax receipts.

9.0 Capital

- 9.1 As part of the current MTFS refresh and budget build for 2021/22 capital plans across Staffordshire Fire are being refreshed. This work is undertaken through the Capital Review Group that is chaired by the Director of Finance.
- 9.2 The budget for 2020/21 was approved at £6.2m with £1.5m of carry-over from 2019/20, resulting in a total programme of £7.7m.
- 9.3 This capital programme for 2020/21 also includes the £1.3m of capital work that is ongoing at Hanley Fire Station that will allow the local Policing team to move into the Fire Station in January 2021.
- 9.4 Refurbishment work planned at Abbots Bromley and Brewood have now been delayed this year due to the pandemic. However, it is still intended to commence the important refurbishment work at Abbots Bromley towards the end of the financial year with Brewood moving into 2021/22.
- 9.5 The options and proposals for Stafford Fire Station are currently being discussed with the Staffordshire Commissioner with a proposal due to be presented to the Strategic Governance Board in November 2020. This will result in spend also moving into 2021/22.
- 9.6 A full capital programme update and Capital Strategy will be presented to the Panel in February as part of the budget and MTFS papers.

10.0 Reserves

- 10.1 The Authority holds two reserves, a Specific/Earmarked Reserve which is build up through any surplus within the Income and Expenditure account. The utilisation of this fund has been established with the approved Reserves Strategy; and a General Reserve which is held to protect against any emergency conditions that may arise.
- 10.2 The Commissioner currently holds £1.9m in General Reserves and a risk assessment for this reserves was undertaken as part of the budget setting process for 2020/21 and the overall provision of £1.9m has remained unchanged for a number of years and represents 4.5% of the proposed revenue budget for the year.
- 10.3 At 1 April 2020 the Authority held £7.1m in Specific/Earmarked Reserves. This reserve is supported by the approved Reserves Strategy which is currently being updated.
- 10.4 Reserves, whilst set aside for a particular purpose, currently are utilised in cash terms to support capital spend in lieu of external borrowing. This internal borrowing, if replaced by PWLB through not being available, would result in a cost of £0.22m per annum.