



## **Report to the Police Fire and Crime Panel – 7<sup>th</sup> December 2021**

### **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 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

**Ben Adams**  
**Staffordshire Commissioner**

**Contact Officer:** David Greensmith  
**Telephone:** 01785 898690  
**Email:** david.greensmith@staffordshirefire.gov.uk

## **1.0 Executive Summary**

- 1.1 This report provides an update to the Police, Fire and Crime Panel on the current MTFS covering the years 2021/22 to 2025/26 including an update on the fiscal landscape facing the Fire and Rescue Service, current year financial performance, and the recent budget announcement made by the Chancellor on 27 October 2021.
- 1.2 The MTFS for the five-year period 2021/22 to 2025/26 was approved by the previous Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 15 February 2021. The approved MTFS included an estimate gap in funding of £1.7m during the year 2022/23 increasing to around £2.9m by 2025/26.
- 1.3 This MTFS report provides an update on the estimated savings required beyond 2021/22 and reviews a number of the upward pressures incorporated into the approved strategy, alongside the information delivered by the Chancellor in the recent budget statement.
- 1.4 The Staffordshire Commissioner is committed to ensuring that the Service continues to develop its transformation plan in order to meet the new financial and operational challenges with value for money being a key priority. Options for transformation have been presented to the Commissioner at the Strategic Governance Board and are now being progressed. Whilst, this report provides an update of these transformation workstreams further detail will be provided with the MTFS update presented to the Panel in February 2022.
- 1.5 The Panel should note that the Settlement Funding received by the Authority for 2021/22 included an inflationary increase in Revenue Support Grant (RSG) set at 0.5%. RSG has already been cut by around £9.0m during the period 2012/13 to 2019/20 following a number of years of reduced funding and austerity across the public sector.
- 1.6 Whilst overall the funding levels as a result of the ongoing pandemic are lower for 2021/22, in order to support the Government's intention, grants have been provided to support the reduction in Council Tax collection levels, a reducing Council Tax base and also lower Business Rate collection rate. Support for lower funding levels attributable to the pandemic for next year and beyond remain uncertain. In order to support the budget assumptions updated data from the nine billing authorities is currently being collected to understand better the likely impact upon both Council Tax and Business Rates collection levels.
- 1.7 As part of the budget process for 2022/23 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), on 15 February 2022.
- 1.8 Pressure on funding continues into the medium term as uncertainty also remains around assumptions for pay, pensions and increasing prices (RPI). The MTFS assumptions around pay and pensions remain under review but it is likely that with the removal of the public sector pay cap and increasing levels of inflation pay will increase above the current MTFS levels.
- 1.9 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2022/23 budgeting process and updated MTFS.

## 2.0 The Budget Process

- 2.1 The 2022/23 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 All budget holders are required to attend a challenge session which reviews budget proposals 2022/23 and also seeks to find efficiencies and savings for the current year. This is known within the Service as the Dragons' Den Budget review with a Principal Officer in attendance for all major budget challenge meetings.
- 2.3 The headline timetable for the 2022/23 budget process is shown below:

<b><u>Budget Timetable</u></b>	<b><u>Task</u></b>
10 October 2021	Budget Preparation commenced
18 October for 6 weeks	Budget holder consultation
24 November 2021	Capital Review Group
3 December 2021	Draft Budget ready for review process
December 2021 – January 2022	Budget Consultation and budget presentation to the Strategic Governance Board and Service Management Board
31 January 2022	Business Rates Budget Finalised (NNDR1)
14 February 2022	Police, Fire and Crime Panel- Precept setting and Budget 2022/23 / MTFS Report
18 February 2021	All Precept Notices issued following Commissioner approval

## 3.0 Fund Background and updated Financial Position 2021/22

- 3.1 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 per the Local Government Finance Settlement issued for 2021/22, with the 1% share of local business rates based upon the Final NNDR1 submissions from the nine local billing authorities.

3.2 The Settlement Funding for 2021/22 was made up of three separate areas:

	<b>2021/22 £m</b>
1% share of Local Business Rates	3.735
Business Rates Top-up	6.059
Revenue Support Grant (RSG)	4.777
<b>Total Settlement Funding</b>	<b>14.571</b>

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 £78.78 (£1.52 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of **£27.406m** for 2021/22 based upon a collection tax base of 348,733 properties and a collection deficit of £0.067m.

3.4 The total revenue budget was approved for 2021/22 at £41.977m.

3.5 The Staffordshire Commissioner Fire and Rescue Authority's total revenue spend when compared to the budget as at 31st October (period 7) was £24.3m, £0.4m favourable. Pay costs to date remain in line with budget with savings from support staff vacancies and On-call activity levels compensating for additional wholetime costs being incurred. Wholetime pay is cumulatively slightly over budget with casual contracts and crewing deficiency costs remaining high to support the required crewing levels for response. In addition, Firefighters and operational Grey Book staff received a 1.5% pay award from July 2021 which was not budgeted due to the pay pause instruction by the Chancellor.

3.6 Non-pay costs remain slightly favourable to budget as at 31st October and following the budget challenge sessions this position will be reviewed and a revised forecast produced. This forecast will reflect the savings that are being achieved in year through lower business rates costs following an appeal process and lower capital financing costs.

3.7 The outlook for the year-end financial position is therefore positive at this time, but of course this is prior to the impact of further winter pressures, the impact of rising prices, and any further consequences of the pandemic during the second half of the year.

#### **4.0 Income Assumptions**

4.1 The Commissioner receives funding from a number of sources as included above with the majority of this being received through Grant Funding and the Council Tax Precept. Income assumptions are currently being reviewed as part of the MTFs process ahead of the funding settlement usually received in December (estimated 6<sup>th</sup> December).

4.2 In relation to the Core Grant Funding, the current MTFs assumes that settlement funding would reduce by 5% per annum.

4.3 The economic impact of COVID remains a concern on council tax and business rates collection in year as well as the impact on the future council tax base and its growth, this position is currently under review with the nine billing authorities.

- 4.4 The current MTFS assumes an increase in the council tax base of 1% over the MTFS period, which had been significantly revised down due to the economic impact of COVID resulting in a reduced level of new domestic dwellings being built in addition to the increase in council tax support being offered to residents.
- 4.5 As part of the government's response to COVID-19 the 2020/21 deficit on the collection fund has been 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).
- 4.6 The Authority also received the grant compensation following the 1.2% reduction in the Council Tax base reported for 2021/22.
- 4.7 It is unknown if the Government will address any shortfalls in 2022/23 resulting from lower council tax and business rates receipts.
- 4.8 The current MTFS incorporates the following assumptions:

	2021/22 Budget	2022/23 Plan	2023/24 Plan	2024/25 Plan	2025/26 Plan
<b><u>PAY COSTS</u></b>					
Pay Award Operational Staff	0.0%	3.0%	2.0%	2.0%	2.0%
Pay Award Non Operational Staff	0.0%	2.0%	2.0%	2.0%	2.0%
Other Pay Costs	0.0%	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)
<b><u>NON PAY COSTS</u></b>					
Electricity	2.0%	2.0%	2.0%	2.0%	2.0%
Gas	2.0%	2.0%	2.0%	2.0%	2.0%
Business Rates	0.0%	1.0%	1.0%	1.0%	1.0%
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%
<b><u>INTEREST RATES</u></b>					
Interest on Investments	0.3%	0.8%	1.0%	1.0%	1.0%
Interest on Debt	4.3%	4.3%	4.2%	4.2%	4.2%
<b><u>GENERAL FUNDING</u></b>					
Council Tax Increases	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base Growth	-1.15%	0.50%	0.75%	0.91%	1.00%
Revenue Support Grant Reduction	0.1%	-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 On 27 October 2021 the Chancellor of the Exchequer, Rishi Sunak MP, announced the outcome of the 2021 comprehensive spending review (SR2021) alongside his Autumn Budget 2021. Sometimes referred to as the 'Spending Round' or the 'SR', the SR21 sets out public spending totals for the financial years 2022-23 to 2024-25. This was the Chancellor's second SR and his third Budget.

The headlines and anticipated impact on the MTFs for the Staffordshire Commissioner Fire and Rescue Authority is listed below:

- The Home Office settlement will provide an additional £4.2bn over the Parliament, increasing from £12.3bn in 2019-20, (14.6bn in 2021-22) to £16.5bn in 2024-25. Further reductions to Settlement Funding for Fire are not anticipated, however the improved efficiency and productivity will be required as part of the settlement.

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 2022/23 which provides some benefit to the Authority in year and £0.7m of mitigation against the impact of increasing pressure on pay, pensions and utility costs.

- Core spending power is estimated to increase for the Authorities by an average of 3% in real terms each year over the SR21 period.
- Council tax referendum limits expected to be 2% throughout the SR21 period. This referendum limit of 2% is in line with the MFTS assumption of 1.99% increase per annum. The Commissioner has indicated that early consultation will be undertaken regarding the proposed level of precept increase. A 1.99% increase in precept is equivalent to a council tax increase of £1.57 or 3p per week.
- Public Sector Pay Freeze to end in 2022. Pay pressure is therefore expected into the medium term, and a 3% assumption has been included for 2022/23.
- Business rates reliefs total £7bn. It is expected that this will be compensated through s31 grants. Further information is required in this area.
- SR21 confirms £5bn funding (£3bn of which is over the SR period) for remediation of the highest risk buildings with unsafe cladding to ensure everyone can feel safe and secure in their home.
- The SR will provide £125m resource funding in 2022-23 and a saving of £17m by 2024-25 as well as £121m capital funding for the ESMCP for the SR21 period.
- The government aims for a Provisional Settlement date of 6 December, though settlements are tended to occur closer to Christmas in recent years.

There is also the additional pressure around the announcement of a national insurance increase in employers contribution of 1.25% for Health and Social Care (of which the majority is earmarked for the Health service). This will result in a new pressure of £0.2m in 2022/23. This additional employment tax is equivalent to the costs of c.5 Firefighter posts. However, albeit not specifically drawn out, this appears to have been covered off with the spending review settlement and is not included as a pressure.

4.10 The table below shows the estimated impact of major assumptions based upon the current reporting position and the budget statement made by the Chancellor.

	2022/23	2023/24	2024/25	2025/26
	Plan	Plan	Plan	Plan
<b>Current MTFS Gap</b>	<b>(1.7)</b>	<b>(2.4)</b>	<b>(3.0)</b>	<b>(3.0)</b>
<i>Major movements in assumptions</i>				
No Reduction in Settlement Funding assumed	0.7	1.4	2.2	2.2
Pension Costs impact 2024/25 (assumed 2022/23)	0.7	0.7		
Impact of Pay Award 2021/22 @ 1.5%	(0.2)	(0.3)	(0.3)	(0.3)
Additional Award 2022/23 (above 2%) @1%		(0.1)	(0.2)	(0.2)
RPI Impact - Non Pay and Utilities		(0.5)	(0.5)	(0.5)
<b>Revised Estimate</b>	<b>(0.5)</b>	<b>(1.3)</b>	<b>(2.0)</b>	<b>(2.0)</b>
<i>+/- Previous Gap</i>	<u>1.2</u>	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>

## 5.0 Sensitivity Analysis

- 5.1 The MTFS refresh is being undertaken in a continuing uncertain environment and this should be noted by the Panel. This is highlighted by the ongoing concerns and speculation that the settlement issued to Authorities in December may only be for a single year.
- 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 2021/22 at 1.5%. This was not budgeted in year due to the public sector pay pause announced by the Chancellor.
- 5.4 The following sensitivity analysis is based upon the approved MTFS paper from February 2021:

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

## **6.0 Service Transformation**

- 6.1 The Service has already undertaken a number of scenario planning sessions and options have been discussed with the Staffordshire Commissioner in order to provide a pathway for delivery of the expected financial challenges post 2021.
- 6.2 As discussed within this paper the budget gap included within the approved medium term is estimated to be around £1.7m by March 2023 increasing over the life of the MTFS to around £2.9m by 2025.
- 6.3 Following the information released within the budget statement and when considering the impact of upward pressure from pay and pensions this gap is now estimated to reduce to £2.0m by 2025.
- 6.4 The Scenario Planning has become more developed and detailed options presented to the Strategic Governance Board Meeting held on 19 October 2021 for consideration.
- 6.5 Further information and detail will be provided to the Panel on 14 February as part of the budget setting for 2022/23. This detail will provide some assurance to the Panel that options for transformation are well developed and will be ready for consultation with Representative Bodies and the Public in the new year.

## **7.0 COVID-19**

- 7.1 The fire and rescue service were allocated 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 was part of the overall £3.2 billion allocated to support local authorities by MHCLG.
- 7.2 During the last year monthly reporting against this grant has been provided to the Home Office. This money has been made available through a S31 Grant, with a majority of the funding now allocated and spend.
- 7.3 The impact of COVID on business rates collection and the impact upon Council Tax Collections and Council Tax base is currently under review. It is likely that there is more bounce back in the Staffordshire economy that was anticipated earlier in the year.

## **8.0 Capital**

- 8.1 As part of the current MTFS refresh and budget build for 2022/23 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.
- 8.2 The budget for 2021/22 was approved at £6.0m with £0.4m of carry-over from 2020/21, resulting in a total programme of £6.4m.
- 8.3 The proposals for Stafford Fire Station are developing well which will see a smaller response base being developed on the existing Fire Station Site. This will result in lower



operating costs and result in a significant capital receipt for part of the site. This work should commence in February / March 2022.

- 8.4 The work scheduled for Abbots Bromley (minor refurbishment) is ongoing and should be completed by spring of next year.
- 8.5 Minor delays to both the Stafford and Abbots Bromley projects have been taken into account with a revised capital programme forecast of £4.8m.
- 8.6 A full capital programme update and Capital Strategy will be presented to the Panel in February as part of the budget and MTFS papers.

## **9.0 Reserves**

- 9.1 The Authority holds two reserves, an 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.
- 9.2 The Commissioner currently holds £1.9m in General Reserves and a risk assessment for this reserve was undertaken as part of the budget setting process for 2021/22 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.
- 9.3 At 1 April 2021 the Authority held £7.5m in Specific/Earmarked Reserves. This reserve is supported by the approved Reserves Strategy which will be updated for the new budget year.
- 9.4 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 £0.2m per annum.