



Item No. on Agenda

Report to the Police Fire and Crime Panel – 24 October 2022

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
- Sensitivity analysis around key financial items
- Transformation Update
- 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 This report provides an update to the Police, Fire and Crime Panel on the current MTFS covering the years 2022/23 to 2026/27 including an update on the fiscal landscape facing the Fire and Rescue Service, current year financial performance, and the recent mini-budget announcements made by the new Chancellor Kwasi Kwarteng and finally the impact of rising inflation on pay and direct costs.
- 1.2 The MTFS for the five-year period 2022/23 to 2026/27 was approved by the Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 14 February 2022. The approved MTFS included an estimate gap in funding of £2.0m by 2024/25.
- 1.3 This MTFS report provides an update on the estimated savings required beyond 2022/23 and reviews a number of the upward pressures increasing the level of future funding gap, mainly driven by pay pressure and increasing costs due to the escalating levels of inflation. These factors are outside of the control of the Authority.
- 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. A number of transformation options have been presented to the Commissioner at the Strategic Governance Board and are now being progressed. This report provides an update on these transformation workstreams as requested by the Panel.
- 1.5 The Panel should note that the Settlement Funding received by the Authority for 2022/23 included an inflationary increase in Revenue Support Grant (RSG) set at 3.1% (+£146k) as part of a three-year settlement. The new Chancellor has confirmed that department spending envelopes will remain, with no additional offset for increasing costs.
- 1.6 Following the budget and precept presentation to the Panel in February, the Commissioner approved a 1.99% increase in Council Tax equivalent to an additional £1.57 per annum in line with this referendum limit and increased Band D Council Tax for the Staffordshire Commissioner FRA to £80.35.
- 1.7 As part of the budget process for 2023/24 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 13 February 2023.
- 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 this update assumes higher than budgeted pay awards for both operational and support staff.
- 1.9 The local government pay award for support staff has been agreed by members of Unison. The Fire Brigade Union have rejected the 2% pay offer made by employers in July 2022 and is now considering a revised offer by the employers of 5%. Pay awards are therefore significantly above budgeted levels in year.
- 1.10 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2023/24 budgeting process and updated MTFS.

2.0 The Budget Process

- 2.1 The 2023/24 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 budget challenge session which reviews budget proposals for 2023/24 and also seeks to find efficiencies and mitigation for the current year cost pressures. A Principal Officer will be in attendance, alongside Finance, for all major budget challenge meetings to ensure that an appropriate and proportionate level of scrutiny has been consistently applied.
- 2.3 The headline timetable for the 2023/24 budget process is shown below:

<u>Budget Timetable</u>	<u>Task</u>
10 October 2022	Budget Preparation commenced
17 October for 6 weeks	Budget holder consultation
13 October and 12 December	Capital Review Group Meetings
30 November – 3 December 2022	Draft pay and non-pay budget ready for review process
December 2022 – January 2023	Budget Consultation and budget presentations to the Strategic Governance Board (23/01/23) and Service Management Board (09/01/23)
18 January 2023	ETAP (Finance Panel Meeting)
31 January 2023	Business Rates Budget Finalised (NNDR1)
13 February 2023	Police, Fire and Crime Panel- Precept setting and Budget 2023/24 / MTFS report / capital and treasury management strategy reports
17 February 2023	All precept notices issued following Commissioner approval

3.0 Background and updated Financial Position 2022/23

- 3.1 The total revenue budget was approved by the Staffordshire Commissioner for 2022/23 at £42.472m, following presentation to the Panel in February 2022.
- 3.2 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 2022/23, with the 1% share of local business rates based upon the Final NNDR1 submissions from the nine local billing authorities.
- 3.3 The Settlement Funding for 2022/23 was made up of three separate areas:

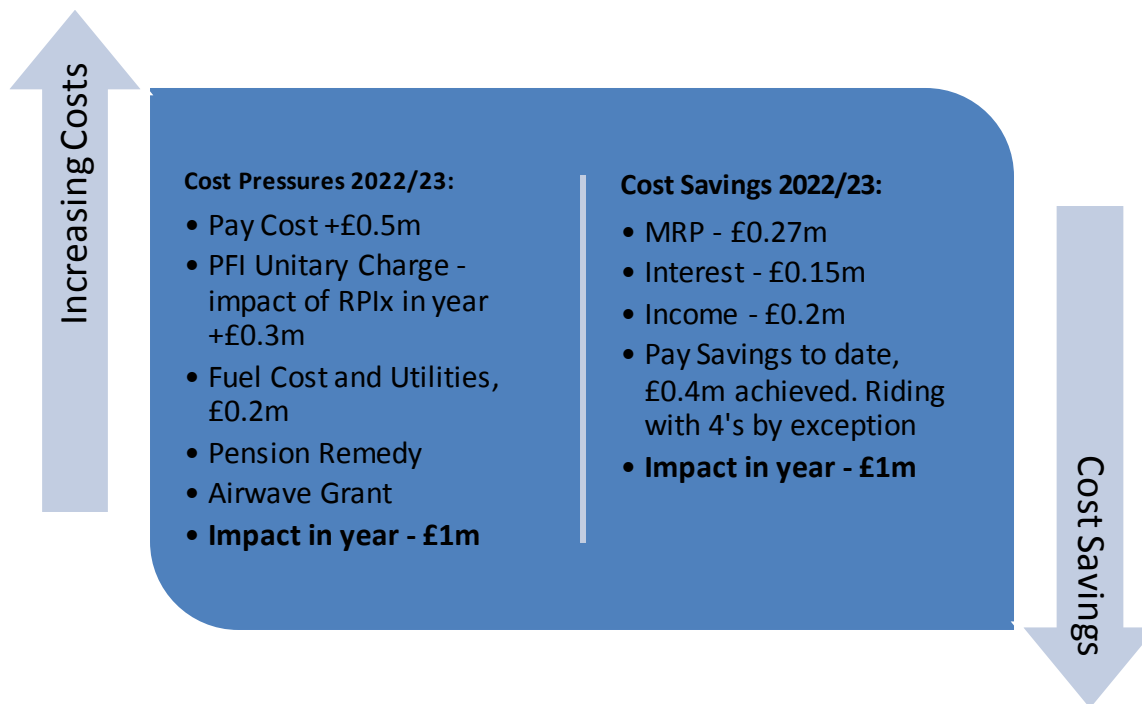
	2022/23 £m
1% share of Local Business Rates	2.670
Business Rates Top-up	6.059
Revenue Support Grant (RSG)	4.923
Total Settlement Funding	13.652

- 3.4 In addition to 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 £80.35 (£1.54 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of **£28.532m** for 2022/23 based upon a collection tax base of 355,100 properties and a collection surplus of **£0.288m**.
- 3.5 A three-year spending review was set out alongside the Chancellor's budget announcements on the 27th October 2021. The 2023/24 MTFS will be the second year of this period. The new Chancellor has confirmed that overall departmental spending envelopes will remain, with no additional offset for inflation or higher pay awards. This will see a return to real terms reductions in public expenditure.
- 3.6 The latest monthly financial position for the Staffordshire Commissioner Fire and Rescue Authority's reported an actual revenue spend of £18.8m as at 31st August (Period 5) being broadly in line with budget. This position included an underspend on pay across Wholetime, On-call and Support staff. In terms of Wholetime both overtime and crewing deficiency costs are at much reduced levels compared to last year. There are also a number of vacancies within support staff driving a saving for the year to date.

Wholetime overtime costs are also at a reduced level due to the benefit of the recently approved minimum crewing of 4 for wholetime appliance mobilisation. Lower overtime costs as part of the crewing change are considered in more detail within the transformation section of this report.

Non-pay costs are currently slightly worse than budget and includes higher costs being incurred on a number of key areas due to significant inflationary pressure e.g. for higher fuel and supplies and services costs. Income and finance costs are marginally behind budget due to the timing of receipts. The forecast for the unitary charge (UC) also reflects the increase in the variable cost element of the UC following the increase in RPIx.

- 3.7 The outlook for the year-end financial position remains in line with budget, but this position includes estimates increases for pay and non-pay costs and factors in delivery of savings for identified areas.
- 3.8 The risk and opportunities identified for the current year 2022/23 are reported below. The volatility of costs being experienced across all sectors is generating concerns about the financial position in year and of course the impact upon the MTFS. Whilst costs and savings at the moment are broadly equal in year this position is likely to change quickly and will be under close scrutiny to ensure all costs pressures and savings are accurately reported and updated.



4.0 MTFS 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 late December.
- 4.2 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 remains under review with the nine billing authorities with assumptions remaining in line with the approved MTFS.

4.3 The current MTFS incorporates the following assumptions:

	2022/23	2023/24	2024/25	2025/26	2026/27
	Plan	Plan	Plan	Plan	Plan
<u>PAY COSTS</u>					
Pay Award Operational Staff	3.0%	3.0%	3.0%	2.0%	2.0%
Pay Award Non Operational Staff	3.0%	3.0%	3.0%	2.0%	2.0%
Other Pay Costs	3.0%	3.0%	3.0%	3.0%	2.0%
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	30.0%	5.0%	5.0%	5.0%	5.0%
Gas	30.0%	5.0%	5.0%	5.0%	5.0%
Business Rates	2.0%	2.0%	2.0%	2.0%	2.0%
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	0.1%	0.3%	0.5%	0.5%	0.5%
Interest on Debt	4.4%	4.3%	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	1.83%	1.25%	1.50%	1.50%	1.50%
Revenue Support Grant	0.0%	2.0%	2.0%	2.0%	2.0%
Local Business Rates	(28.5%)	15.0%	5.0%	2.0%	2.0%
Business rates Top-up grant	0.0%	0.0%	0.0%	0.0%	0.0%

4.4 The following pressures on the MTFS have been identified and are reviewed in more detail below:

i) Pay Costs for 2022/23 and into the Medium Term

The budget included a 3% increase for both Operational and Support Staff. Pay negotiations for all staff groups are undertaken nationally on behalf of the employers by the National Joint Council for Local Government Services under a national framework.

On 25 July 2022 the National Employers agreed to make a one-year final offer to the unions representing the main local government NJC workforce with effect from 1 April 2022. This offer included an increase of £1,925 on all NJC pay points plus an additional one day in annual leave entitlement. This offer if accepted based upon the number of support staff within the Service is equivalent to an increase above 5% and results in a pay pressure of £0.2m per annum. On 27 September members of Unison agreed to accept this offer by a majority 63.5% to 36.5%. In order for the pay deal to be finalised so that it can be implemented and paid to employees, GMB and / or Unite must also vote to accept the employers' offer.

On 19 July 2022 the Executive Council of the Fire Brigades Union (FBU) informed the national employers (NJC) that their 2% pay proposal had been rejected by firefighters. The Executive Council have expressed their anger not to have received any improved proposal from the Employers side. The FBU have stated that they remain committed to negotiate a fair pay settlement to achieve pay justice for all firefighters irrespective of workplace, duty system or role/rank. To this end they urged the national employers to make a revised and improved proposal which is not an insult to their members.

On 4 October 2022, a revised offer of 5% was made by the NJC on behalf of the employers and this is now being considered by the FBU. All pay offers on behalf of the employers have been made without any additional funding commitment from central government and therefore increases the future funding gap as shown in table 4.5 below.

The necessary work to prepare for a ballot for national strike action is taking place by the FBU with industrial action likely to take place in November 2022, should this revised offer not be accepted. The Service is reviewing contingency arrangements and business continuity plans should strike action take place by members of the FBU.

This MTFs update assumes that this latest pay award offer of 5% for operational staff is agreed (as it has been agreed for Police Officers) but considers the sensitivity of a higher than 5% award.

ii) Non-Pay Costs and Inflation impact

Fuel costs are showing an increase as at the end of July, although pump prices are now reducing as the price of oil return to levels at the start of the year at c.\$95 a barrel (peak \$128). Utility increases are being evaluated as more data becomes available but there will be additional pressures moving into quarter 3 and the impact of support measures announced by the government for businesses is fully understood.

The two PFI contracts have variable and fixed elements built to the contracts, with the viable element increasing by RPIx (February measure). For 2022/23 this increase amounts to 8.3% and has increased costs in year by £0.3m, with a further £0.3m now likely for 2023/24 based upon the ongoing increase in this measure of inflation. This is a significant pressure on the MTFs. The latest RPI figures suggest that the headline measure could increase further by the end of the year but this rate has yet to be adjusted for the cap on gas and electricity price increases.

iii) Airwave Grant

The Home Office have announced that this grant of £0.23m will be removed completely over the next 5 years and is a pressure for the MTFs as there will be no income mitigation from central government.

4.5 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	2026/27
	Budget	Plan	Plan	Plan	Plan
Current MTFS Gap	(0.3)	(01.2)	(02.0)	(02.0)	(02.0)
<u>Material changes in Assumptions</u>					
Pay Award for Support Staff (Agreed) - 2022/23	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Pay Award for Operational Staff (Estimated 5% for 2022/23)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Pay Award for 2023/24 (increase by 1% to 4%)		(0.2)	(0.3)	(0.3)	(0.3)
Impact of savings achieved in 2022/23	0.50	0.30	0.30	0.30	0.30
Estimated Impact of Transformational Savings implemented	0.30	0.40	0.40	0.40	0.40
Investment returns	0.15	0.20	0.20	0.20	0.20
Inflationary Pressure - Unitary Charge	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Inflationary Pressure - Fuel and Utilities	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Impact of removal of Airwave Grant		(0.1)	(0.1)	(0.2)	(0.2)
Revised Estimated Gap	(0.3)	(02.2)	(03.1)	(03.2)	(03.2)
+/- Previous Gap		(1.0)	(1.1)	(1.2)	(1.2)

4.6 The table below shows the changes in assumptions based upon the MTFS set in February 2022, compared to the changes assumed in the table above:

Category		2022/23	2023/24	2024/25	2025/26	2026/27
		Budget	Plan	Plan	Plan	Plan
Pay award	MTFS	3.0%	3.0%	3.0%	2.0%	2.0%
	Revised	5.0%	4.0%	3.0%	2.0%	2.0%
Gas, Electric Fuel *average	MTFS	30.0%	5.0%	5.0%	5.0%	5.0%
	Revised *	60.0%	30.0%	5.0%	5.0%	5.0%
General non-pay inflation	MTFS	2.0%	2.0%	2.0%	2.0%	2.0%
	Revised	9.0%	4.0%	2.0%	2.0%	2.0%
Unitary Charge for PFI	MTFS	2.0%	2.0%	2.0%	2.0%	2.0%
	Revised	8.3%	8.0%	2.0%	2.0%	2.0%

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.
- 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. Funding assumptions for precept and Settlement Funding Assessment have remained unchanged.
- 5.3 The following sensitivity analysis is based upon the approved MTFS paper from February 2022:

Cost Area	Change	£000s
Pay Costs	+/- 1%	260
Premises Costs (incl utilities)	+/- 1%	30
Vehicles	+/- 1%	10
Supplies and Services	+/- 1%	70
Employer Pension Contributions	+/- 1%	210
Business Rates	+/- 1%	30
Revenue Support Grant	+/- 1%	50
Precept	+/- 1%	287
Council Tax Base	+/- 1%	305

6.0 Service Transformation

- 6.1 The requirement for Service Transformation is to ensure that Staffordshire Fire and Rescue Service “is able to provide a modern, efficient and sustainable level of service to the public which does not compromise the safety of our staff or our communities.”
- 6.2 The approved MTFS included a funding gap estimated at c.£2m and was supported by the Service Transformation programme endorsed by the Commissioner. Further work in this area will now be urgently required based upon the inflationary pressures created into the medium term as the use of earmarked reserves is only ever considered as a short-term option but will be required in 2023/24 based upon this revised shortfall position now forecast at £3.2m (see paragraph 4.5 above).
- 6.3 There are a number of topics that are actively being worked upon which all connect under the banner of future transformation of the service. The work is aligned to the Safety Plan 2020-2024 (*service reform*) and the Commissioners Fire Plan 2021-2024 under the two priorities of having a *Flexible and Responsive Service* as well as a *Fire Service for Tomorrow*. The work fits into four distinct categories:
1. Corporate Reform
 2. Response and Crewing Reform
 3. Prevention and Protection Reform
 4. Estates and Shared Services Reform

Corporate Reform

The following areas are the key focus of this workstream:

➤ **Senior leadership restructure**

In order to create a more efficient, flexible pathway of management and to attract the best future leaders into the service. The corporate restructure was a key theme of the Transformation Board and it is now complete. The re-structure has provided a cost-efficient management model which will ensure that the Service is well placed to meet the challenges of the future whilst delivering an excellent level of service to our communities. The key changes have seen a removal of an Assistant Chief Fire Officer Post and two Group Managers whilst three Area Managers have been introduced into the Service.

- **Investing in our people** – This work is being completed through our review of the service's culture and creation of an insights team to improve equality, inclusivity and diversity
- **Improving the productivity of the Service** – Through a new station work routine to create capacity and performance clarity within the wholetime crews. This also includes investment and reform of all aspects of performance and assurance within the service. This work is ongoing.
- **Review of Learning and Development** - This area of work includes a more effective restructure to build capacity for outreach training and assessments.

Response and Crewing Reform

In order to ensure the most effective use of our resources the following are key areas of focus:

➤ **To introduce new appliances with enhanced rescue capabilities (ERPs)**

This will improve the services capabilities for heavy rescue incidents. This will improve the services capabilities for heavy rescue incidents and allow a more efficient crewing model to be implemented at Longton which will create significant cost savings. This work is also supported by capital programme investment for the procurement of 2 new appliances with this additional capability.

➤ **A revised operational response model**

In order to create a more effective and efficient use of available wholetime and on-call firefighters to improve fire cover and enhance the level of public safety. Work has now been completed to move to a new response model which is more aligned with the majority of other FRS's which means that minimum levels of crewing has now been accepted as four. The optimum crewing figure is still five but an accepted safe minimum of four is permitted which will reduce overtime requirements and improve fire cover and thus the level of service to the public.

➤ **Reviewing the viability of station locations**

This workstream has been developed and work is ongoing.

➤ **Reviewing of the crewing models in place across the Service**

This workstream has been developed and work is ongoing.

➤ **Review of Service standby policy**

To provide evidence to demonstrate whether our standby movements add value to our response to incidents

Prevention and Protection Reform

- This reform is aimed at creating more responsive and efficient prevention teams and aiming to improve the level of collaborations on agenda such as health outcomes and community safety. In terms of protection, continued investment is being made in our dedicated teams and the upskilling of our operational staff will ensure a greater level of capacity is achieved in order to deliver more protection work within our communities.

Estates and Shared Services Reform

- **The transformation of fire estate** – This includes the continued progress of sharing estates with Staffordshire Police which improves collaboration and brings a more efficient model to Fire and Police as part of the Commissioner’s Estate Strategy. Shared location opportunities at Stone, Uttoxeter, Kidsgrove and Chase Terrace/Burntwood are currently being evaluated.
- **Review of Shared Service performance** – this will explore the level of performance and assurance for both the Service and Staffs Police with a review of current governance and reporting arrangements

7.0 Capital

- 7.1 As part of the current MTFS refresh and budget build for 2023/24 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.
- 7.2 The capital programme for 2022/23 was approved at £8.0m including £4.4m of carry-over from 2021/22 which further increased at year end.
- 7.3 The proposals for Stafford Fire Station will no longer go ahead as planned due to a significant escalation of costs for this project. Further feasibility work for this site is now ongoing with the estates team.
- 7.4 The work scheduled for Abbots Bromley (minor refurbishment) is ongoing and should be completed in November 2022.
- 7.5 A full capital programme update and Capital Strategy will be presented to the Panel in February as part of the budget and MTFS papers.

8.0 Reserves and Balances

- 8.1 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.
- 8.2 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 2022/23 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.
- 8.3 At 1 April 2022 the Authority held £8.3m in Specific/Earmarked Reserves. This reserve is supported by the approved Reserves Strategy which will be updated for the new budget year. This reserve increased slightly at year end due to slippage in the capital programme for 2021/22.
- 8.4 The amount of earmarked reserves required to support the budget setting process for 2023/24 and timing of future transformation savings will be reviewed as part of the updated reserves strategy report and MTFS update. The utilisation of additional levels of earmarked reserves will be required to support the budget for 2023/24 based upon the upward pressures identified within this report.
- 8.5 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 £0.4m per annum based upon latest increases in borrowing rates from the Public Works Loan Board.