

**Report to Ethics, Transparency and Audit Panel meeting
10 December 2018**



Medium Term Financial Strategy Update Report 2018/19

**David Greensmith
Director of Finance, Assets and Resources
S151 Officer and Treasurer to the Staffordshire Commissioner Fire
and Rescue Authority**

Contents

1 Purpose of Report	3
2 Conclusion	3
3 The Budget Process	3
4 Funding Background	4
5 Assumptions and Sensitivity Analysis	5
6 Efficiency Plan Delivery to March 2020	5
7 Risks and Opportunities for 2019/20 and into the medium term.....	6
8 Gap:.....	7
9 Risk based review of Reserves:	8
10 Capital Funding:.....	9

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 2019/20 budgeting process and updated MTFS.
- 1.3 The MTFS for the five year period 2018/19 to 2022/23 was approved under the previous governance arrangements by the Stoke on Trent and Staffordshire Fire and Rescue Authority. This approved MTFS included a savings target of £1.3m to be achieved during the period to 2019/20 and formed part of the published efficiency plan covering the four year period 2016/17 to 2019/20.
- 1.4 This MTFS report provides an update on the savings required to 2019/20 and reviews a number of upward pressures that may result in significant additional costs for 2019/20 and into the medium term.
- 1.5 As part on the budget process for 2019/20 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 January 2019.

2 CONCLUSION:

- 2.1 The Staffordshire Commissioner for the Fire and Rescue Authority has made significant progress in a relatively short period of time in understanding many of the challenges faced by the Fire and Rescue Service today. The Governance arrangements changed on 1 August 2018 and already in just three months savings are being realised through the streamlined governance arrangements, this will be further supported through the joint work of the collaboration team with work commencing on a joint estates strategy and streamlining services.
- 2.2 The Commissioner is committed to working with the Fire and Rescue Service to support delivery of the required efficiency savings of £1.3m by 2019/20. The national funding picture is reviewed within this report as the Home Office have indicated that the Fire and Rescue Service will be subject to further funding reductions post 2020, in addition to national pay bargaining and pressure on employer contribution rates for the Firefighters 2015 pension scheme.

3 THE BUDGET PROCESS:

- 3.1 The 2019/20 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 2019/20 budget process is shown below:

<u>Budget Timetable</u>	<u>Task</u>
22 October 2018	Budget Preparation commenced
22 October for 6 weeks	Budget holder consultation
30 November	Draft Budget ready for review
21 December	Draft Settlement Funding released
December 2018 – January 2019	Budget Consultation
31 January 2019	Business Rates Budget Finalised (NNDR1)
January 2019	Police Fire and Crime Panel Budget 2019/20/MTFS Report
February 2019	Precept Notices issued

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 £4.2m of this reduction has now been applied with a further £0.6m included within the MTFS for 2019/20.
- 4.3 The Settlement Funding for 2018/19 is made up of three separate areas:

	2018/19 £m
1% share of Local Business Rates	3.691
Business Rates Top-up	5.846
Revenue Support Grant (RSG)	5.255
Total Settlement Funding	14.792

- 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 £73.53 (£1.41 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of £25.424m for 2018/19 based upon a collection tax base of 341,485 properties and a collection surplus of £0.314m.
- 4.4 The Revenue Budget for 2018/19 was approved in February 2018/19 at £40.216m, alongside the MTFS for the following four years up to 2022/23.
- 4.5 The approved and published Efficiency Plan required £4.0m of savings to be delivered during the four year period to 2019/20, of which £2.2m had been approved and delivered by March 2018.

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	2018/19 Actual	2019/20 Assumed	2020/21 Estimate	2021/22 Estimate
Pay Awards - Grey Book	2.00%	2.00%	2.00%	2.00%
Pay Awards – 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	-16%	-11%	-2%	-2%
Council Tax Base Increase	1.69%	1.30%	1.30%	1.30%
Council Tax Precept Increase	2.75%	2.75%	1.99%	1.99%

- 5.3 The Grey Book pay award has been agreed for 2018/19 at 2% which is in line with budget, in addition a further 1% provision is held as the 2017/18 pay award was only provisionally settled at 1%. 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.

6 EFFICIENCY PLAN DELIVERY TO MARCH 2020

- 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 The published Efficiency Plan included a requirement to save £4m by 2020 (Gap) and the MTFS assumed that the delivery of this saving would result in a balanced budget position by 2020 and importantly it gave the Authority certainty around the funding position and allowed sufficient time to consider a number of options for review and approval by the Fire and Rescue Authority.
- 6.4 To date £2.2m 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.

- 6.5 The balance of savings of £1.8m was reduced to £1.3m as part of the budget setting exercise for 2018/19 supported by an increase in Band D Council Tax of 2.75% which was 1% above the assumption contained within the Efficiency Plan submission. This increase in Council Tax was possible following a change in the referendum limit which allowed Fire and Rescue Authorities to increase Council tax by 3% (previously set at 2%). (An additional 1% Council Tax raises a further £0.25m, £0.5m based upon a 2.75% increase for both 2018/19 and 2019/20)
- 6.6 The following areas are currently being reviewed in order to deliver the remaining saving of £1.3m:
- A review of Prevention and Protection within the Service has now been complete, anticipated savings, c.£0.2m per annum
 - Management Reduction. This involves a review that has been undertaken with the option to reduce the number of operational management posts, saving up to £0.3m
 - A reduction in funding costs both in terms of MRP and interest payments is forecast to save, £0.3m
 - A review of community safety budgets is being undertaken currently. A more effective and targeted approach should lead to savings of £0.2m per annum.
 - 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, £0.2m per annum
 - Procurement Savings, savings are currently being captured and will be incorporated into the budget setting process, £0.1m

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

High Level Risks:

- 7.1 Pension Contributions – It has been identified by the Governments Actuarial Department (GAD) that there will be a significant increase in the required employer contribution rate into the Firefighters' Pension Scheme 2015. The 2016 Valuation results have indicated that the employer contribution rates will increase on average by 12.6% to 30.2% and is expected to apply from April 2019. The indicative results show that the 16.8% cost cap (this is the percentage of contribution of total scheme costs made by employers) has been breached by 5.2%. An average increase of 12.6% in employer contributions is estimated at around £1 million per annum of additional cost. It is not clear if the Treasury/Home Office will meet any of this additional costs for 2019/20 and beyond.
- 7.2 Fire staff pension contributions into the Local Government Pension Scheme. The next triennial review is due for 2020-23 and the current assumption is that employer contribution rates will remain unchanged at 16.7%, however there may be a requirement to continue to contribute towards any increase in the fund deficit. The contribution made for 2017-20 was £0.9m.
- 7.3 Revenue Support Grant. As at 31 March 2020 the amount of Revenue Support Grant will be reduced to £4.6m. RSG has been reduced by £4.8m since 2016/17 and cumulatively £9m since 2012. The Home Office are indicating that cuts can still be expected post 2020.
- 7.4 Emergency Service Mobile Communications Programme (ESMCP). There remains significant uncertainty around the delivery and required funding for this programme.

The FRA were required to sign up in principle to the original business case which indicated savings in comparison to the Airwave costs but we are still awaiting a new business case and therefore revised costs.

- 7.5 Funding for the capital programme will require increase levels of capital financing and debt. The capital programme has been funded entirely from savings and reserves for the previous five 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.

Opportunities:

- 7.6 To increase the level of Council Tax for 2019/20 and beyond, above the levels included within the current approved MTFS
- 7.7 Business rates Pilot – Staffordshire and Stoke on Trent have applied to take part in the pilot 75% business rates retention programme for 2019/20. If successful the Authority will receive an annual payment of £200,000. The application submitted for 2018/19 was rejected for Staffordshire.
- 7.8 The bringing together of Fire and Police governance through the Office of the Staffordshire Commissioner will enable further collaboration opportunities between Staffordshire Fire and Rescue Service and Staffordshire Police.
- 7.9 The Governance arrangements changed on 1 August and clear plans must now be developed in order to look at delivery of the savings plans included within the approved Business Case. The Business Case identified direct savings of £0.3m following the change of governance which are now being delivered within the Staffordshire Commissioner FRA.
- 7.10 Further savings around Estates Rationalisation and Enabling Services are currently being evaluated by the joint collaboration team and will be implemented across both Services' when agreement has been reached by the Strategic Governance Boards of both Police and Fire.
- 7.11 Based upon the approved business case submission The Staffordshire Commissioner has provided the following table of expected savings to be delivered by the Chief Constable and Chief Fire Officer through their joint collaboration work.

	2019/20		2020/21		2021/22	
	Governance	Enabling Services	Governance	Enabling Services	Governance	Enabling Services
Police	134	318	134	1211	134	1622
Fire	66	70	66	265	66	355
Total	201	388	201	1476	201	1977

8 GAP:

- 8.1 Based upon the assumption contained within the current MTFS the total gap by 2021/22 is £1.8m of which £1.3m is scheduled to be delivered by March 2020 (see paragraph 6.6 above).
- 8.2 The approved MTFS shows a balanced position for 2020/21 assuming that the level of saving of £1.8m is achieved.
- 8.3 The Gap includes a further reduction in Settlement Funding of 7% per year, and would reduce Revenue Support Grant to £1.8m by 2022/23.

- 8.4 The gap analysis includes the assumption that there will continue to be Council Tax flexibility based upon a 3% referendum limit.
- 8.5 The gap also incorporates the full impact of an increase in employer pension contributions into the Firefighters' Pension Scheme 2015.

Gap Analysis:

	2018/19 Budget	2019/20 Plan	2020/21 Plan	2021/22 Plan
Business Rates 1% local Share	3,691	3,765	3,840	3,917
Business Rates Top-up	5,846	5,958	6,152	6,352
Revenue Support Grant (RSG)	5,255	4,675	4,387	4,099
Council Tax (Precept) Band D	25,423	26,335	27,200	28,044
APPROVED MTFS 2018/19 to 2022/23	40,216	40,732	41,579	42,412
BASE BUDGET	40,716	42,032	43,379	44,212
BASE GAP (Savings Required)	(500)	(1,300)	(1,800)	(1,800)
a) HOME OFFICE FUNDING CUTS				
RSG Down by 7% (MTFS Model 2%)			(720)	(1,388)
b) COUNCIL TAX FLEXIBILITY				
Council Tax - Increase from 1.99% to 2.75%			203	419
Assumes increase in Referendum Limit to 3%				
c) FIREFIGHTER PENSION COST				
Required increase in employer contribution rate (Employer Rate increased to 30.2% in 2015 scheme)		(1,000)	(1,000)	(1,000)
Additional Savings Required (Cumulative)		(1,000)	(1,517)	(1,969)
REVISED GAP (Savings Required)	(500)	(2,300)	(3,317)	(3,769)
EFFICIENCY PLAN SAVINGS DELIVERY	500	1,300	1,300	1,300
REVISED GAP		(1,000)	(2,017)	(2,469)

- 8.6 The net impact by 2021/22 is a funding gap of £2.469m, assuming that the funding for additional pension contributions is all taken by the Staffordshire Commissioner FRA, and the current Efficiency Plan savings of £1.3m are delivered by March 2020.

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 9 November 2018 and will be further updated if required during the budget process. The Total Reserve held by the Authority as at 31 March 2018 was £17.2m, however only £10.2m is accessible with £1.9m held as a General Reserve and £8.3m held as an earmarked reserve. 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:

	2018/19 Budget	2019/20 Estimate	2020/21 Estimate
	£	£	£
Building & Infrastructure Works			
Refurbishment Programme	650,000		518,000
Improvement Works	552,000	211,000	300,000
Total	1,202,000	211,000	818,000
Operational Equipment	529,000	271,200	238,000
Appliances & Vehicles			
Appliances & Specialist Vehicles	2,535,526	1,494,916	250,000
Vans & Cars	165,000	165,000	150,000
Total	2,700,526	1,659,916	400,000
Information Technology			
ICT Hardware, Software Systems & Installations	640,000	350,000	190,000
Total	640,000	350,000	190,000
Other Capital Spend	7,100		
Total Capital Programme	5,078,626	2,492,116	1,646,000
Funding			
Supported Borrowing			
Unsupported Borrowing	3,231,363	1,662,158	1,446,000
Capital Grant			
Use of Specific Reserves (Abbots Bromley)	497,000		
Use of Specific Reserves	1,350,263	829,958	200,000
Total Funding	5,078,626	2,492,116	1,646,000

10.2 Capital Financing Requirement for the above approved capital programme

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2019/20 Plan
Debt Outstanding - 1 April	27,104,705	25,808,309	24,531,492	26,262,916
+ New Borrowing			5,078,626	2,492,116
TOTAL MRP CHARGEABLE	1,296,396	1,276,817	1,499,939	1,651,600
TOTAL DEBT POSITION (Post MRP)	25,808,309	24,531,492	28,110,179	27,103,431
less				
Capital Financing from Reserves			1,847,263	829,958
Total Capital Financing Requirement	25,808,309	24,531,492	26,262,916	26,273,473
In year funding				
In year repayments	500,000	500,000	1,500,000	500,000
LONG TERM FUNDED DEBT	20,050,000	19,550,000	18,050,000	17,550,000
INTERNAL FUNDING	5,758,309	4,981,492	8,212,916	8,723,473

- 10.3 As at the 31 March 2018 the total capital financing required was £24.5m (excluding PFI), of which £19.6m was financed through long term loans and £5m through the use of internal cash. The capital programme has been fully funded by savings and reserves for the last five years, reducing the capital financing requirement by £6.5m and reducing future borrowing cost requirements
- 10.4 The appliances and vehicles programme for 2018/19 and 2019/20 includes 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 due for delivery in November 2018.
- 10.5 The appliances and vehicles budget also includes £0.7m for the replacement of one Aerial Ladder Platform. The order has been placed with delivery anticipated during 2019 (timing to be confirmed).
- 10.5 In addition to the approved capital programme for 2018/19, there was a total carry-over of £3.5m 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 £2.6m). The Safe and Sound Programme is now being delivered and options for Stafford are to be reviewed with the Staffordshire Commissioner.