



Item No. 5 (i) Copy to ETAP

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
- Key investment areas
- 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 2023/24 to 2027/28 including an update on the fiscal landscape facing the Fire and Rescue Service, current year financial performance and reviews and updates future assumptions for pay and inflation and also future funding.
- 1.2 The MTFs for the five-year period 2023/24 to 2027/28 was approved by the Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 13 February 2023. The approved MTFs included an estimate gap in funding of around £1.3m by 2025/26.
- 1.3 This MTFs report provides an update on the estimated savings required beyond 2023/24 including updates on pay pressure and increasing costs due to the ongoing levels of inflation. Whilst the direction of inflation is downward many these factors are largely outside of the control of the Authority. It has been estimated that the total cost of inflation for English FRA's for 2023/24 amounts to a budget pressure of c.£141m.
- 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.
- 1.5 Following the budget and precept presentation to the Panel in February, the Commissioner approved a 4.85% increase in Council Tax equivalent to an additional £3.90 per annum, and whilst this increase was below the £5 referendum limit it was the biggest annual increase in the last fifteen years. This increased the Band D Council Tax for the Staffordshire Commissioner FRA to £84.25.
- 1.6 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.
- 1.7 A revised two year pay offer was accepted by the FBU which included a 7% pay award for 2022 and a 5% award for 2023. This updated MTFs assumes that a further increase of 5% is now predicted for 2024, which is above the original MTFs assumption of 3%. The local government pay award which covers support staff has been agreed in principle by the representative bodies but formal notification has not been received.
- 1.8 The National Fire Chiefs Council (NFCC) are currently requesting that the Home Office and Treasury consider a further £5 referendum limit for the Fire and Rescue Sector which will be given due consideration by the Commissioner and incorporated into the budget consultation process for 2024/25.
- 1.9 As part of the budget process for 2024/25 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 12 February 2024.
- 1.10 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2024/25 budgeting process and updated MTFs.

2.0 The Budget Process

- 2.1 The 2024/25 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 2024/25 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. Budget holders have been asked to develop Financial Business Continuity Plans as part of this process. This process has proved successful in previous years and ensures that the financial, acumen of all budget holders is continually being developed.
- 2.3 The headline timetable for the 2024/25 budget process is shown below:

<u>Budget Timetable</u>	<u>Task</u>
9 October 2023	Budget Preparation commenced
16 October for 6 weeks	Budget holder consultation
29 November and 7 December	Capital Review Group Meetings
30 November – 4 December 2024	Draft pay and non-pay budget ready for review process
19 December 2023	Draft Local Government Finance Settlement (expected date)
December 2023 – January 2024	Budget Consultation and budget presentations to the Strategic Governance Board (24/01/24) and Service Management Board (08/01/24)
31 January 2024	ETAP (Finance Panel Meeting)
31 January 2024	Business Rates Budget Finalised (NNDR1)
12 February 2024	Police, Fire and Crime Panel- Precept setting and Budget 2023/24 / MTFS report / capital and treasury management strategy reports
19 February 2024	All precept notices issued following Commissioner approval

3.0 Background and updated Financial Position 2023/24

- 3.1 The total revenue budget was approved by the Staffordshire Commissioner for 2023/24 at **£46.465m**, following presentation to the Panel in February 2023.
- 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 2023/24, 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 2023/24 was made up of three separate areas:

	2023/24 £m
1% share of Local Business Rates	4.070
Business Rates Top-up	6.212
Revenue Support Grant (RSG)	5.422
Total Settlement Funding	15.704

- 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 £84.25 (£1.62 per week) for the Staffordshire Commissioner Fire and Rescue Authority, resulting in collection of **£30.761m** for 2023/24 based upon a collection tax base of 360,299 properties and a collection surplus of **£0.405m**.

Financial Position – as at 30 September 2023 (half year)

- 3.5 The total revenue spend as at 30 September was £23m, showing a slightly favorable position against the budget of £23.3m
- 3.6 This includes additional costs for Business Rates following the recent revaluation by the Valuation Office Agency (VOA) at £0.3m, which has been partly mitigated year to date by other property savings. This increase in business rates is being challenged by the Authority but this is a very protracted process with the VOA.
- 3.7 Overall Pay spend at £14.8m was £0.6m (3.9%) lower than budget and with an ongoing lower trend of activity and availability from on-call stations and support staff vacancies. Positively the on-call FTE has increased by 16 in the year to 262.5 and is 5 higher than 12 months ago with a good recruitment pipeline. In addition, the new crewing trial which commenced on 1 June, allows a team of three to attend smaller incidents such as a bin fire or they can attend larger incidents providing they are supported by an engine with a full crew. This crewing trial is being evaluated with a number of focus group meetings planned to take place during November.
- 3.8 The Support staff FTE is also 21.4 below budget with a number of vacancies held during the ongoing review of Prevention and Protection departments as part of the Service transformation programme. A reduction of 3 FTE is due to a number of posts operating at below 1 FTE where staff have reduced hours of work as part of the Services commitment to staff wellbeing.

- 3.9 Non-pay costs overall are showing an early adverse trend, mainly due to the additional costs in business rates. Costs for utilities have stabilised and are favorable to budget moving into the winter period. Invoices have now been received for Airwave charges in year which reflect the increase associated with and RPI increase which was higher than budget.
- 3.10 Income is favorable from s31 grants and cash held by the authority is performing well with base interest rates delivering around 5% which is £147k better than budget.
- 3.11 The above trends for pay and non-pay have now been incorporated into an early view of the forecast for the year-end. Whilst overall the forecast is in line with budget the forecast savings with pay and additional income has allowed for a reduction in the expected use of reserves. The forecast will be updated during the budget challenge sessions with budget holders as discussed above.
- 3.12 The Capital Programme spend for the year was approved at £6.6m with £1.9m of spend reprofiled from last year. The commitment to date is £3.5m and includes orders raised for £2.7m.

MTFS Assumptions and Update

- 4.1 The Commissioner receives funding from a number of sources as included above with the majority of this being received through Settlement Funding and the Council Tax Precept. Income assumptions are currently being reviewed as part of the MTFS process ahead of the funding settlement expected to be received on 19 December 2023.
- 4.2 The Commissioner and Staffordshire Fire are reviewing current planned revenue savings, pressures, proposed priority investments and capital spend. This work being undertaken over the months of September and October and is ongoing into the budget setting process in preparation for the 2024/25 settlement and has identified a number of high-level revenue pressures and considers the potential opportunity arising from another year of council tax flexibility.
- 4.3 The current MTFS Assumptions have been updated as follows:

Pay

The MTFS assumed that following the spike in pay awards and inflation seen during 2022 and 2023, pay increases would have reduced back to 3% for 2024/25. This assumption has now been updated and pay award of c.5% are now being widely forecast across the fire sector and is reflected within the table below.

The net savings following the review of Prevention and Protection are estimated at £0.3m annum and have been incorporated into the MTFS, as part of the overall transformation programme savings.

Pensions

The new employer rate for contributions into the Firefighters Pension Scheme will be announced later this year. This will be reflective of the increase in the SCAPE rate (Superannuation Contributions Adjusted for Past Experience) used as part of the ongoing 2020 valuations of the Firefighters' Pension Scheme. The SCAPE rate has been adjusted to CPI plus 1.7%, with this higher discount rate increasing the liability of the scheme.

For 2024/25 the Home Office have committed to covering any additional cost for 1 year only, and the assumption used within the MTFS refresh is that this grant will cover at least 90% of the additional cost (as per previous experience).

The Authority also holds a specific earmarked reserve that should cover any additional costs in 2025/26 should the grant be restricted to a single year. Of course, should full pension costs be passed onto local authorities and local tax payers this would have a significant impact upon local authority finances.

Utility Costs and Insurance

The current year trends for electricity and gas costs are being closely monitored during the year and after six months of the year are showing a favorable position. This position of course does not reflect the impact of the coming winter period but a small savings has been assumed for 2024/25.

The way the Authority procures insurance is currently under review and is expected to deliver a favorable position into the medium term.

Council Tax and Referendum Limit assumptions

The National Fire Chiefs Council and the Home Office are in discussion with Ministers and Treasury regarding the referendum limit that will be included within the Local Government Finance Settlement.

This MTFS update acknowledges that a £5 (5.93%), limit may again be available for a single year for consideration by the Panel and Commissioner as part of the budget setting process for 2024/25. However, this update of the MTFS assumes the precept level will remain in line with the current MTFS at £2.52 (2.99%).

A £5 increase in Council Tax will raise an additional £0.9m of Council Tax in 2024/25 and would support the additional pay award assumption and importantly also provide some investment into the Fire and Rescue Service.

Revenue Support Grant

As detailed in paragraph 3.3 above, the Authority receives c.£5.4m in Revenue Support Grant (RSG) as part of the Settlement Funding Assessment. The Home Office have

confirmed that RSG will be increased by September 2023 CPI which will result in an increase better than the MTFS assumed, delivering an additional £0.2m per annum.

The table below shows the changes in key assumptions based upon the MTFS set in February 2023:

Category	2024/25 Plan	2025/26 Plan	2026/27 Plan	2027/28 Plan
<u>Pay Award</u>				
MTFS	3.0%	3.0%	2.0%	2.0%
REVISED	5.0%	3.0%	2.0%	2.0%
<u>Council Tax</u>				
MTFS	2.99%	1.99%	1.99%	1.99%
REVISED	2.99%	1.99%	1.99%	1.99%
<u>Revenue Support Grant</u>				
MTFS	3.0%	2.0%	2.0%	2.0%
REVISED	6.5%	2.0%	2.0%	2.0%

4.4 The table below shows the estimated impact of major assumptions based upon the current reporting position and the updated MTFS assumptions:

	2023/24 Budget	2024/25 Plan	2025/26 Plan	2026/27 Plan
<i>MTFS Position Budget 23/24</i>		(0.71)	(1.30)	(1.31)
		<u>£m</u>	<u>£m</u>	<u>£m</u>
MTFS Update - October 2023				
<u>Opportunities and savings</u>				
Utility Costs and Insurance		0.17	0.23	0.23
RSG Funding to latest CPI Estimate		0.19	0.19	0.20
Interest Receivable	0.10	0.20	0.08	
Pay Savings / Transformation workstream	0.70	0.30	0.30	0.30
Total Opportunities and Savings	0.80	0.86	0.80	0.73
<u>New Risks</u>				
Business rates - VOA increase	(0.37)	(0.37)	(0.37)	(0.37)
Pay Award 3% to 5%		(0.47)	(0.48)	(0.49)
Impact of Employer Pension Contribution Increase		(0.10)	(0.10)	(0.10)
Other and Reserves	(0.40)			
Total new risks	(0.77)	(0.94)	(0.95)	(0.97)
<i>Revised MTFS Position</i>		(0.79)	(1.45)	(1.54)

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.
- 5.3 The following sensitivity analysis is based upon the approved MTFs paper from February 2023:

Cost / Income Area	Change	£000s
Pay Costs	+/- 1%	297
Premises Costs (incl utilities)	+/- 1%	50
Vehicles	+/- 1%	10
Supplies and Services	+/- 1%	82
Employer Pension Contributions	+/- 1%	210
Business Rates	+/- 1%	40
Revenue Support Grant	+/- 1%	54
Precept	+/- 1%	303
Council Tax Base	+/- 1%	312

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 There are a number of topics that have explored 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
- 6.3 Savings options in excess of £1m were included within the approved MTFs of which £0.7m has been fully implemented. This pipeline savings is now estimated at c.£1.3m - £1.4m and incorporates savings from the Prevention and Protection review are estimated at a net £0.3m per annum recurring.
- 6.5 The progress of the transformation work is logged and monitored by the Service on an electronic live tracker utilising a programme called SharePoint. The tracker is scrutinised by the Service’s Management Board and the Commissioners Governance Board.
- 6.6 The Panel should note that as part of the most recent Spending Review, the National Fire Chiefs Council (NFCC) and the Local Government Association (LGA) proposed that across Fire and Rescue Services (FRSs) in England, the Fire and Rescue sector could create 2% of non-pay efficiencies and needs to increase productivity by 3% by 2024/25.

7.0 Investment into the Service

- 7.1 In order for the Service to continue to improve as an organisation to effectively deliver against the statutory duties as a Fire and Rescue Service, there is a requirement to identify and forecast where we need to invest over the next few years. Investment is needed in order the Service to continually improve the service to the public, in a fast-changing landscape and to meet the challenges facing every Fire and Rescue Service in the UK.
- 7.2 The Service has identified additional investment of c.£0.5m of recurring revenue per annum and c.£4.4m of additional capital spend. The revenue consequences of this additional capital spend would be c.£0.4m per annum increasing the annual revenue impact to £0.9m. These investment areas will be considered by the Commissioner as part of the budget/precept setting process for 2024/25, with overall affordability being considered during this process.
- 7.3 These investment areas are considered in more detail below:

a) Supervisory and middle managers development

The recent HMICFRS report into culture and values within the sector has demonstrated that the Service needs to invest significantly in order to provide the knowledge and understanding at managerial levels, to improve standards, improve culture, and deal with inappropriate behaviours whenever they occur. Therefore, it is of paramount importance that the Service increase the development training of all supervisory and middle managers, both current and new in order to redress the imbalance that we have within the Service. The National Fire Chiefs Council (NFCC) have developed a number of products for supervisory and middle managers, which the service can adopt and that will support our improvement journey.

b) Technology and Systems

A number of ICT systems and associated processes are outdated and the approach to improvement due to reduced resources over the last few years has meant that progress has been slow. In order to exploit the benefits of new systems the Service needs to accelerate these projects and which will require investment.

Investment areas include Office 365, Mobile Data Terminals (MDT's) for Appliances, the Service's resource management system Firewatch, Fire Control and new systems which includes the update of the existing prevent system.

c) Response

In order to provide the most up to date resources to deal with the changing risks within the County, it is imperative that the Service explores new and improved technology. Whether that be the new drone capability that the Service has recently invested in, the new ALP's, or emerging technologies to fight fires involving new risks such as lithium ION batteries, there is a significant investment requirement.

Whilst there has been investment into heavy fleet over the last ten years, the reserve fleet is aging and will need updating. The wear and tear of these appliances and the lack of available parts is impacting upon impact maintaining a fit for purpose response. Special appliances require updating to include new technologies to keep firefighters safe and allow incidents to be resolved faster, supporting the commitment to community safety. Future investment into all aspects of the fleet will ensure the Service has a flexible and innovate approach to response vehicles.

d) Shared Services

The Service is also working with the Head of Estates as part of the wider ongoing structure work being undertaken. As part of this exercise it has been identified that additional resource investment is required into the shared service in order to deliver the strategic priorities.

e) Community engagement

Successful community engagement increases public confidence levels of the service, improves recruitment and retention by becoming an employer of choice and allowing the Service to promote prevention activity and ethos of personal safety with members of the public and businesses. In order to build on and maintain this position investment in time and resources is required, enabling the largest proportion of the workforce, i.e. firefighters, to perform effective engagement activity we will need to create available time and resource particularly in our on-call areas.

f) Protection

The Service would like to enhance the capacity to deliver fire protection support, advice and auditing processes through operational crews. To competently achieve this, grant funding from the Home Office is being utilised to provide appropriate training, however recruiting and retaining highly skilled and qualified specialist Inspecting officer is very challenging. Since the publication of the Fire Safety Act and Building Safety Act, Fire Safety experts have become a sought-after skillset both within the public and private sector in a competitive market. In order for the Service to achieve its statutory duties invest in this area will be required to remain competitive and to retain qualified staff.

8.0 Capital

- 8.1 As part of the current MTFS refresh and budget build for 2024/25 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 capital programme for 2023/24 was approved at £6.6m including £1.9m of carry-over from 2022/23. The capital commitment as at 30 September was £3.5m which is c.50% of the latest programme forecast which is just over £7m.

- 8.3 The work scheduled for Abbots Bromley (minor refurbishment) has now been completed and the planned refurbishment of Brewood Fire Station is scheduled to commence in 2024 following detailed scope and design work being completed.
- 8.4 The two new Aerial Ladder Platforms (ALP's) have now been delivered into the Service, with two new appliances expected in 2024.
- 8.5 The regional contract to replace all Breathing Apparatus Equipment has now been signed by all parties with timelines for new equipment being agreed.
- 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 and Balances

- 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 2023/24 and the overall provision of £1.9m has remained unchanged for a number of years and represents 4% of the revenue budget for the year.
- 9.3 At 1 April 2023 the Authority held £7.3m in Specific/Earmarked Reserves. This reserve is supported by the approved Reserves Strategy which will be updated for the new budget year. This reserve reduced at year end following earmarked contribution to capital spend reducing long term debt.
- 9.4 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 2024/25 based upon the upward pressures identified within this report.
- 9.5 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.