NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2024/25 AND BUDGET GUIDELINES 2021/22

Joint Report of the Chief Fire Officer and the Treasurer to the Fire Authority

Date: 27 November 2020

Purpose of Report:

To present an update to the Medium Term Financial Strategy to the Fire Authority for approval.

To inform Members of the likely budget position for 2021/22 and to request that the Fire Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2021/22.

Recommendations:

It is recommended that Members:

- Approve the Medium Term Financial Strategy (MTFS) as set out in Appendix A.
- Approve the Capital Strategy and Flexible Use of Capital Receipts Strategy contained within the MTFS.
- Approve the Reserves Strategy contained within the MTFS.
- Approve the proposed minimum level of general fund reserves of £4.5m as set out in the Reserves Strategy.

- Approve the re-allocation of the Capital Earmarked Reserve as detailed in the Reserves strategy and set out in the table below:

Re-allocation of Capital Earmarked Reserve

Earmarked Reserve	**£**
Capital Reserve	(1,038,419)
Covid Recovery Reserve	600,000
Community Fire Safety Innovation Fund	24,279
Transformation and Collaboration	413,140

- Task the Finance and Resources Committee with providing guidance to the Fire Authority in February in respect of:

  - The options for Council Tax limited to either a Council Tax freeze or an increase in Council Tax within the referendum limit;

  - The options for addressing any budget deficit to enable the Fire Authority to approve a balanced budget, as required by law.

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1. BACKGROUND

1.1 The Fire Authority has a number of strategies in place to support the proper financial management and governance of the Authority.

1.2 The Medium Term Financial Strategy (MTFS) provides an overarching view of the way in which the Authority's finances will be managed and it brings together various related financial strategies in one cohesive document. It demonstrates how the Authority's resources are used to support the Authority's Strategic Plan and other key strategies and plans.

1.3 The updated MTFS builds on the strategy approved by the Fire Authority in December 2019 and covers the four-year period from 2021/22 through to 2024/25.

1.4 This MTFS has been written against a backdrop of financial, economic and national uncertainty resulting from the Covid-19 pandemic. The national economic position makes it unlikely that the public sector will receive significant increases in funding over the coming years. There is no clear direction regarding whether Local Authorities will be compensated for the anticipated deficit on Council Tax and business rate collection funds due to the pandemic and whether increased pension costs will be met by central government. For this reason, the Strategy considers several funding scenarios.

1.5 In addition to funding, there are many other areas of uncertainty inherent in budget planning and the budget requirement figures contained within this report will be estimates. Nevertheless, the Authority must consider its budgetary position going forward and provide the Finance and Resources Committee with guidance as to the parameters within which to develop a budget proposal for 2021/22 and beyond, before final budget proposals are considered by the Fire Authority in February 2021.

1.6 The Reserves Strategy, Capital Strategy and 10-year Capital Plan form part of the MTFS.

2. REPORT

FINANCIAL POSITION

2.1 The MTFS is attached in full to this covering report. It considers the current financial position of the Authority and looks at the estimated budgetary position over the next four years against a backdrop of both the national and local financial position, including the levels of reserves that the Authority holds.

2.2 When the Authority set the budget in February 2020, it was the first year for several years that general fund reserves were not required to balance the budget. The service had worked hard to identify savings so that this could happen.

2.3 The Covid-19 pandemic has caused the Authority to make many changes to the way it delivers services. Although emergency response has been maintained throughout, areas such as recruitment, training and delivering community support have been affected.

2.4 Budget monitoring for 2020/21 has identified significant underspends due to delays in wholetime recruitment, reduced travel costs and reduced activity during the pandemic. Whilst a small element of the underspends has been re-invested in the service to address current year issues, the majority is being used to protect existing earmarked reserves and increase the general reserve. This will help provide resilience against the financial uncertainties in future years.

RESERVES STRATEGY

2.5 The Local Government Act 2003 requires that Authorities maintain adequate reserves and provisions to help ensure that the medium-term policy programme is sustainable and that it can be delivered. In accordance with good accounting and financial practice, reserves and provisions will always be held in the accounts where appropriate. The Authority's Reserves Strategy is attached at Appendix 3 of the MTFS for approval by Fire Authority.

2.6 Total estimated Reserve levels as at 31 March 2021 are £11.0m, consisting of £6.2m General Reserve and £4.8m Earmarked Reserves.

2.7 The authority reviews the levels of reserves it requires annually as part of the Reserves Strategy. A minimum level of £4.5m has been proposed for 2021/22. This has increased from £3.9m in 2020/21 to reflect the increased uncertainty around the financial impact of Covid-19. The general fund reserve currently exceeds the minimal level by £1.7m.

2.8 Any unplanned expenditure or overspends may need to be met from the General Reserve or existing Earmarked Reserves.

2.9 The service has been holding a £1.038m earmarked reserve for many years to support the capital programme should major overspends occur. There has been no need to draw on this reserve as there is traditionally a level of slippage and underspends which are used to cover any additional costs. If costs were incurred there is enough capacity within borrowing limits to use borrowing as a source of financing additional expenditure.

2.10 It is proposed to reallocate the capital reserve to support the following projects:

- Increase the Transformation and Collaboration reserve to £1.8m to enable investment in the future of the service and to enable transformation to more efficient ways of working;

- To create a Covid Recovery reserve of £600k to help mitigate the long-term impacts of Covid-19;

- To increase the Community Safety Innovation Fund by £24k to ensure that there are sufficient funds to cover the 3-year secondment from the NHS of an Occupational Therapist to support the service.

EXTERNAL FUNDING

2.11 The funding for 2021/22 and beyond is very uncertain. A one-year settlement is expected late December followed by a new three-year spending review expected in 2021 to cover the years 2022/23 to 2024/25.

2.12 The September budget was cancelled due to Covid-19. There is little clear direction regarding the Local Government Settlement from the Treasury at present as it concentrates on financing the measures required to deal with Covid-19. Funding is expected to be roughly flat and this is the assumption that is being used to model budgets for 2021/22 and beyond.

COUNCILTAX

2.13 It is still too early for the Government to have produced provisional settlement information and consultation on the maximum limit for the amount Council Tax can be increased before invoking a referendum. Whilst it is probable that this limit will be set at 2% as in previous years, the Fire sector have requested the flexibility to increase council tax by £5 to enable investment in future services. This would raise an additional £1.6m compared to no increase in council tax which would remain in the base in future years.

2.14 Council Tax for the Fire Authority is currently £81.36 for a Band D property. A 1.95% increase would raise it by £1.59 to £82.95 per year which equates to £1.60 per week. A £5 increase would raise it to £86.36 or £1.66 per week.

COUNCIL TAX AND BUSINESS RATES COLLECTION FUNDS

2.15 The full financial impact of Covid-19, subsequent lockdown and the ongoing measures to contain the virus are yet to be fully understood. The resulting recession will impact on household's and business' ability to pay their Council Tax and Business Rates. To date many businesses have been taking advantage of Business Rate holidays and the government have compensated local government for the loss of income. The 2020/21 impact for the Service at this point in time is expected to be around £60k. However, this support is due to come to an end in March 2021 and there is huge uncertainty about the impact on future years.

2.16 Many Council Tax payers are also facing financial hardship due to the impact of Covid-19. Whilst the measures introduced by the government have helped ensure that households were able to continue to pay their Council Tax, there is still an expected deficit in the region of £0.5m for 2020/21. This could still vary significantly depending on the outcome of the second wave. The impact on future years is also expected to be significant. Furthermore, the budget included an expected surplus on Council Tax collection fund of £95k which will now not materialise.

2.17 Legislation requires that any under / over collection of business rates or council tax is adjusted for in the following years' collection fund. This means that the £560k shortfall identified above would normally need to be charged against 2021/22 council tax and business rates collection even though it relates to 2020/21. However, due to the unusual circumstances, emergency legislation has been approved to allow it to be written off in equal amounts over the next 3 years, 2021/22 to 2023/24. Given that there is an expected underspend in 2020/21, it is proposed to create an earmarked reserve out of underspends at year end to cover the shortfall once final figures are known. This will reduce the impact on 2021/22 to 2023/24 budgets.

REVENUE BUDGETS

2.18 Whilst detailed expenditure budgets are still being developed, where additional costs are already known, these have been included in the budget requirement. The most significant of these is the impact on collection fund discussed above.

2.19 Given the uncertainty discussed in this strategy, three scenarios have been considered – a worst case, a likely case and a best scenario.

SCENARIO 1 – WORST CASE SCENARIO

2.20 The worst-case scenario assumes that:

- Government funding (Revenue Support Grant (RSG), Business Rates top up grant and Pension grant) is cut by 5% in 2021/22 and 2022/23;
- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;
- Business Rate collection drops by 20% in 2021/22 and increases by 1% per year thereafter;
- Council Tax collection reduces by 5% in 2021/22 and increases by 2.5% for the following 2 years;
- Council Tax is increased at 1.95% for each year.

2.21 This scenario would result in a £3.8m deficit in 2021/22 and has an ongoing £4.2m deficit thereafter as detailed in the table 1 below:

Table 1 – Worst Case Scenario

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,151)	(4,894)	(4,894)	(4,894)
Business Rate (BR) Income	(3,777)	(3,022)	(3,052)	(3,083)	(3,114)
Pension Grant	(2,340)	(2,223)	(2,112)	(2,112)	(2,112)
BR Top up Grant	(7,277)	(6,913)	(6,568)	(6,568)	(6,568)
Council Tax (1.95%)	(26,074)	(25,255)	(26,392)	(27,579)	(28,496)
Earmarked Reserves	(274)	(190)	(190)	(180)	0
Budget Deficit	**0**	**3,754**	**4,263**	**4,224**	**4,245**
Deficit / (Surplus) with £5 increase in Council Tax		2,906	3,371	3,846	3,372

2.22 If a nil council tax increase is approved in 2021/22, the deficit position becomes £4.270m. If an increase of £5 were to be permitted and approved, the deficit position reduces to £2.906m. Significant ongoing savings would need to be identified in order to balance the budget if this scenario plays out.

SCENARIO 2 – MOST LIKELY SCENARIO

2.23 The most likely scenario assumes that:

- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) remains level in real terms (2% increase) for 2021/22 and flat thereafter;

- Pension Grant remains flat in cash terms at £2.34m);

- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;

- Business Rate support from Central Government will stop on 31 March 2021;

- Business Rate collection drops by 10% in 2021/22 and increases by 1% per year thereafter;

- Council Tax collection reduces by 0.7% in 2021/22 and increases by 2.5% for the following 2 years. This would reflect a collection levels anticipated in 2020/21 would continue into 2021/22 and then slowly recover of the next 2 years;

- Council Tax is increased at 1.95% for each year.

2.24 This scenario would result in a £1.2m deficit in 2021/22 which reduces to £54k by 2024/25 and return to a balanced budget position in the following years. This reflects the immediate impact of reduced collection fund receipts which would be expected to pick up in 2022/23 and 2023/24. The deficit could be managed by a mixture of one off savings and utilising general fund reserves until council tax and business rate collection levels returned to their normal levels.

Table 2 – Most Likely Case Scenario

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,530)	(5,641)	(5,754)	(5,869)
Business Rate (BR) Income	(3,777)	(3,400)	(3,434)	(3,468)	(3,503)
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
BR Top up Grant	(7,277)	(7,423)	(7,571)	(7,722)	(7,877)
Council Tax (1.95%)	(26,074)	(26,398)	(27,586)	(28,827)	(29,786)
Earmarked Reserves	(274)	(190)	(190)	(180)	0
Budget Deficit	**0**	**1,227**	**709**	**349**	**54**
Deficit / (Surplus) with £5 increase in Council Tax	0	142	(423)	(836)	(985)

2.25 This scenario could play out in several different ways. For example, the government may decide to compensate for loss of Council Tax but not increase government grant which would lead to a slightly better position in 2021/22 but leave increased deficits for following years.

2.26 If a nil council tax increase is approved in 2021/22, the deficit position in the scenario in Table 2 becomes £1.7m. If an increase of £5 were to be permitted and approved, the deficit position reduces to £142k. This would be manageable with an element of savings being required as part of the budget process.

SCENARIO 3 – BEST CASE SCENARIO

2.27 This scenario assumes that:

- Base Line funding remains level in real terms (2% increase) for all years;

- Pension grant will remain level in real terms (2% increase) from 2022/23, assuming it is merged with RSG;

- Ongoing support is in place for business rates and income remains at 2020/21 levels;

- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;

- Council Tax collection rates remain flat for 2021/22 and increase by 2% in 2022/23;

- Council Tax is increased at 1.95% for each year.

Table 3 – Best Case Scenario

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,530)	(5,641)	(5,754)	(5,869)
Business Rate (BR) Income	(3,777)	(3,777)	(3,777)	(3,777)	(3,777)
Pension Grant	(2,340)	(2,340)	(2,386)	(2,434)	(2,483)
BR Top up Grant	(7,277)	(7,423)	(7,571)	(7,722)	(7,877)
Council Tax (1.95%)	(26,074)	(26,584)	(27,645)	(28,565)	(29,515)
Collection Fund grant	(274)	(190)	(190)	(180)	0
Budget Deficit / (Surplus)	**0**	**664**	**261**	**208**	**(92)**
(Surplus) with £5 increase in Council Tax	0	(429)	(875)	(966)	(1,120)

2.28 This scenario would still see a deficit if £664k in 2021/22, but this would turn into a surplus position by 2024/25 and would be manageable by making cuts in expenditure through the budget process and a limited use of General Fund Reserves where this is not possible.

2.29 If a nil council tax increase is approved in 2021/22, the deficit position in the scenario in Table 4 becomes £1.2m. If an increase of £5 were to be permitted and approved, the deficit position would change to a surplus of £429k. This would permit investment into future services.

PROPOSED GUIDELINES

2.30 The meeting of the Finance and Resources Committee in January 2021 will be presented with the latest budgetary position. Although funding levels,

Council Tax base and business rate estimations will not have been finalised by then, the provisional settlement will have been released and the Authority should have more detailed expenditure estimates. Therefore, the Committee will have some information about the overall three-year budgetary plan to provide guidance to the Fire Authority meeting in February.

2.31 The Authority's total funding for the revenue budget comprises the external funding elements, as well as Council Tax precept. Whilst the amount of external funding cannot be directly influenced by the Fire Authority, the amount of the Council Tax precept will be set by the Fire Authority in February. It would seem appropriate therefore for the Finance and Resources Committee to focus on two areas:

a. The options for Council Tax to be recommended to the Fire Authority in February.

b. The options for eliminating any budget deficit to enable the Fire Authority to approve a balanced budget, as required by law.

2.32 The Authority has a number of options for Council Tax:

a. Reduce Council Tax;

b. Maintain Council Tax at the 2020/21 level;

c. Increase Council Tax by an amount lower than the referendum limit (section 2.13-2.14);

d. Increase Council Tax by an amount higher than the referendum limit.

2.33 The option to reduce Council Tax would present the Authority with an increased budgetary deficit to manage, as would the option to increase Council Tax by an amount higher than the referendum limit. For the latter option this is because a referendum would be triggered which would result in significantly increased costs to the Authority. In the current financial environment, the options in Paragraphs 2.32 b) and c) are considered to be the most appropriate parameters within which the Finance and Resources Committee should work.

2.34 If a budgetary position which shows a funding deficit is presented to the Finance and Resources Committee, then this will require consideration of suitable options to eliminate this deficit. The options would depend upon the size of any deficit but may include:

- Tasking the Chief Fire Officer with proposing further savings for consideration by the Fire Authority.

- Planning the use of general reserves to support the budget whilst further budgetary savings are planned and implemented.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because there are no equality implications.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The primary corporate risk is that sufficient financial resources are not available to the Authority. An early guide for the Finance and Resources Committee in terms of the development of the budget will help to manage this risk.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members:

10.1 Approve the MTFS as set out in Appendix A.

10.2 Approve the Capital Strategy and Flexible Use of Capital Receipts Strategy contained within the MTFS.

10.3 Approve the Reserves Strategy contained within the MTFS.

10.4 Approve the proposed minimum level of general fund reserves of £4.5m as set out in the Reserves Strategy.

10.5 Approve the re-allocation of the Capital Earmarked Reserve as detailed in the Reserves strategy and set out in the table below:

Re-allocation of Capital Earmarked Reserve

Earmarked Reserve	**£**
Capital Reserve	(1,038,419)
Covid Recovery Reserve	600,000
Community Fire Safety Innovation Fund	24,279
Transformation and Collaboration	413,140

10.6 Task the Finance and Resources Committee with providing guidance to the Fire Authority in February in respect of:

- The options for Council Tax limited to either a Council Tax freeze or an increase in Council Tax within the referendum limit;

- The options for addressing any budget deficit to enable the Fire Authority to approve a balanced budget, as required by law.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

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TREASURER TO THE FIRE AUTHORITY

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NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Medium Term Financial Strategy

2021/22 to 2024/25

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MEDIUM TERM FINANCIAL STRATEGY

2021/22 to 2024/25

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SECTION 1: PURPOSE AND OBJECTIVES OF THE STRATEGY

PURPOSE OF THE STRATEGY

1.1 The purpose of the Authority's financial strategy is to provide clear and understandable information on actions which are needed to ensure the long term financial sustainability of the Authority. It supports affordable, sustainable service delivery throughout the planned use of revenue budgets, capital budgets and reserves.

1.2 A medium-term financial strategy (MTFS) sets out how finances are to be managed in such a way as to manage levels of Council Tax, reserves and balances. In simple terms, it will set out how a stable and robust financial platform can be created such that developments and improvements in services set out in the Strategic Plan can both be achieved and sustained over time.

1.3 The Strategy should reflect the priorities outlined in the Strategic Plan and link together with all other strategies of the organisation such as the Capital Strategy, Treasury Management Strategy and Reserves Strategy.

1.4 The objectives of the Authority's financial strategy are as follows:

a) To provide a stable financial foundation to assist in decision making.

b) To be fully cognisant of other supporting plans and strategies such as the Strategic Plan, Workforce Plan, equalities objectives and ICT strategies to provide a cohesive framework.

c) To enable the Authority to be proactive rather than reactive in terms of financing.

d) To support the continuance of the Authority's core service strategies.

e) To support sustainable service delivery using revenue budgets and reserves.

f) To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources.

g) To hold a working balance of cash and reserves sufficient to respond to unexpected events and/or opportunities.

h) To be flexible and responsive to changes in needs and legislation.

i) To take account of the wider economic climate and local influences.

j) To ensure that the capital base of the Authority can be maintained within affordable and sustainable limits.

k) To provide forward looking indications of Council Tax levels.

1.5 A number of principles have been developed to underpin these objectives:

a) Resources will be prioritised to meet the core aims of the Service as set out in the Strategic Plan and other strategies which flow from this overarching document. This will include departmental business plans and the Corporate Risk Register.

b) Priorities will be reviewed in the light of available resources and financial performance.

c) Capital will be financed using the most advantageous method prevailing at the time finance is required within the requirements of the Prudential Code. A full options appraisal will be carried out before financing decisions are taken.

d) Investment decisions will be based on a balance of risk and return, remain biased towards low risk activity and follow the CIPFA principles of security, liquidity, and yield in that order.

e) Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by reserves unless this is part of a long-term sustainable strategy and approved by Members.

f) Charging for services will remain sensitive to the needs of communities and their expectations of the Service.

g) Sponsorship funding will not be sought to underpin front line or core service delivery unless a long-term plan for sustainability has been developed.

h) The Authority will continue to direct resources to the areas of greatest need within communities and seek to address the wider safety agenda. This will be influenced by the Fire Cover Review which will be reviewed over the coming months.

i) The Authority will actively seek to collaborate with partner organisations in both setting and delivering priorities, as set out in the Collaboration Strategy.

j) The Authority will apply any year end surpluses to general fund reserves.

k) Longer term financial planning will take account of the possible use of reserves to minimise the effect of reductions in funding as a means of transition, but not of permanent support.

FINANCIAL MANAGEMENT

1.6 The process for the preparation of revenue budget continues to develop each year to accommodate the changing financial environment. There is now positive involvement of business plan owners in the development of the budgets which have been drawn up side by side with business plans and the workforce plan.

1.7 The Finance and Resources Committee has full involvement in the process and the Chair of the Finance and Resources Committee plays an active part in

understanding the underlying detail within the budgets. The Finance and Resources Committee makes recommendations to the Fire Authority.

1.8 The External Auditors of the Authority have consistently issued unqualified audit reports and positive management letters to the Fire Authority in respect of their audit of accounts and their conclusion on the effective arrangements in place to achieve value for money.

1.9 The prevailing economic climate has caused increased financial pressures to be placed upon all public sector bodies and the Fire Service is no exception. The overall funding position remains uncertain over the next three years.

1.10 The challenge to the organisation however is not how to survive in this period of uncertainty but how to continue to both provide and develop high quality services for the communities it serves. Finance is a clear enabler in this context and sound financial management is essential to ensure that maximum value can be achieved with the resources available.

1.11 The organisation will continue to manage its financial resources to the highest professional standards and back this up with a strong governance framework which will include scrutiny by the Finance and Resources Committee (both generally and as an Audit Committee) and regular reporting to elected members and the Strategic Leadership Team. In addition, an independent Internal Audit function is maintained to give additional assurances to both Members and Senior Officers.

1.12 The post of Head of Finance is responsible for developing and maintaining the Medium Term Financial Strategy and this post reports directly to the Chief Fire Officer.

SECTION 2: ECONOMIC CONTEXT OF THE STRATEGY

2.1 The Covid-19 outbreak started to impact the UK economy in Quarter 1 of 2020, with economic growth down by 2.2%. Quarter 2 saw the largest quarterly contraction in the UK economy since Office for National Statistics quarterly records began in 1955, with an estimated decrease of 19.8%. Whilst quarter 3 has seen some strong recovery the impact of the new regional restrictions followed by the national lockdown is expected to create further downward pressure on the economy in quarter 4.

2.2 Household spending and GDP are expected to pick up in 2021 as restrictions loosen although initially the level of activity is expected to remain material lower than in the last quarter of 2019. UK trade and GDP are also likely to be affected during an initial period of adjustment, over the first half of next year, as the UK leaves the EU.

2.3 Covid-19 also impacted on interest rates with two emergency cuts in bank rate in March: the first to 0.25% and then a second cut to 0.10%. At its meeting on 4 November 2020, the MPC (Monetary Policy Committee) voted unanimously to maintain Bank Rate at 0.1% and to further increase quantitative easing. With a further downturn expected and the impact of Brexit looming there is now talk of the possibility of negative interest rates in the coming months, the impact of which is difficult to quantify.

2.4 The Government have now extended the furlough scheme until March 2021 and introduced various measures to support businesses through the duration of Covid-19 restrictions. All additional support is currently due to end by 31 March 2021. Expectations are that when the support comes to an end unemployment will rise substantially. The Bank of England expect it to peak at almost 8% in mid 2021 before starting to decline as the economy picks up once again.

2.5 The cost of the support packages will result in a huge increase in the national annual budget deficit in 2020/21 and will continue to impact on future years. The continuing uncertainty caused the Government to cancel the autumn budget and local government will now receive a one year funding settlement for 2021/22.

2.6 Consumer Price Index (CPI) inflation was just 0.5% in September reflecting the impacts of Covid-19 on the economy. It is expected to remain at this level throughout the winter before starting to increase as the effects of lower energy prices and VAT dissipate.

2.7 To summarise, the outlook for the economy remains unusually uncertain. It depends on the evolution of Covid-19, the outcome of ongoing Brexit negotiations relating to trade deals and how households and businesses respond to these developments.

2.8 All these factors will impact on the amount of government funding available to support public services, including Fire. The recovery of local businesses and household income will have a direct impact on business rate and council tax collection rates across the County.

SECTION 3: ISSUES IMPACTING ON THE BUDGET

COVID-19

3.1 Covid-19 has had a major effect on how the service delivers its services, which in turn has impacted on 2020/21 expenditure. There is currently no clear end in sight to the pandemic with the second wave looking to exceed the impact of the first wave in the Spring. The impact runs through all areas of the MTFS and causes major uncertainty in setting future years' budgets and predicting income. In particular it is very had to predict the impact on Council Tax and Business Rates collection in future years. For this reason, this MTFS identifies several scenarios to demonstrate the potential impact of the pandemic.

3.2 Budget monitoring for 2020/21 has identified significant underspends due to delays in wholetime recruitment, reduced travel costs and reduced activity during the pandemic. Whilst a small element of the underspends has been re-invested in the service to address current year issues, the majority is being used to protect existing earmarked reserves and increase the general reserve. This will help provide resilience against the financial uncertainties in future years.

3.3 The full impact of the pandemic, subsequent lockdown and ongoing measures to contain the virus are yet to be fully understood. The resulting recession will impact on household's and business' ability to pay their Council Tax and Business Rates. To date many businesses have been taking advantage of Business Rate holidays and the government have compensated local government for the loss of income. The 2020/21 impact for the Service at this point in time is expected to be around £60k. However, this support is due to come to an end in March 2021 and there is huge uncertainty about the impact on future years.

3.4 Many Council Tax payers are also facing financial hardship. Whilst the measures introduced by the government have helped ensure that households were able to continue to pay their Council Tax, there is still an expected deficit in the region of £0.5m for 2020/21. This could still vary significantly depending on the outcome of the second wave and what support measures are introduced by the government. The impact on future years is also expected to be significant. Furthermore, the budget included an expected surplus on Council Tax collection fund of £95k which will now not materialise.

3.5 Legislation requires that any under / over collection of business rates or council tax is adjusted for in the following years' collection fund. This means that the £560k shortfall identified above would normally need to be charged against 2021/22 council tax and business rates collection even though it relates to 2020/21. However, due to the unusual circumstances, emergency legislation has been approved to allow it to be written off in equal amounts over the next 3 years, 2021/22 to 2023/24. Given that there is an expected underspend in 2020/21, it is proposed to create an earmarked reserve out of underspends at year end to cover the shortfall once final figures are known. This will reduce the impact on 2021/22 budgets.

STRATEGIC PLAN

3.6 The Strategic Plan 2019 to 2022 was refreshed by the Authority in March 2020. The final year Action Plan is in the process of being agreed. The plan comes to an end in March 2022 and work is already underway to develop the next Strategic Plan to cover the years 2022 to 2025.

3.7 Both the Strategic Plan and other plans and strategies are used to drive the budget. The strategic objectives will be used to prioritise requests for additional funding. The ICT, Fleet and Estates strategies have driven the development of the Capital Programme.

3.8 The service is about to undertake a Fire Cover Review of the county which will inform the next Strategic Plan. The review will also identify where provision can be improved or undertaken in a more efficient manner. Any opportunities for efficiencies will be explored and built into future years' budgets.

HMICFRS INSPECTION

3.9 The Service was inspected by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in January 2019. The inspection report judged the service to be requiring improvement and identified 24 areas for improvement. The service is well on the way to delivering the improvement

plan approved by Fire Authority on 27 September 2019. The service underwent a Covid-19 inspection in October 2020. The results of the national inspection will become available late Autumn. The service is also expecting a second full inspection in 2021. A £1.8m earmarked reserve has been set aside for transformation work which will help address any issues raised in the inspection. Any ongoing costs will be built into future years' budgets.

3.10 The inspection process required a significant amount of data collection and additional investment in this area will also be included in the 2021/22 budget.

PENSIONS

3.11 The remedy is close to being agreed for the McCloud case, where the transition arrangements into the 2015 firefighters' pension scheme were found to be discriminatory. There are likely to be significant increase in the cost of the firefighters' pension scheme because of the case. These are expected to be largely funded by Central Government but additional costs falling to the Fire Authority cannot be ruled out. This is included to the General Fund reserves risk register.

3.12 There is a further potential impact on fire services resulting from a case identifying discriminatory conditions against part time workers. This could lead to further backdating to the Modified pension scheme which allowed on call firefighters to join the pension scheme and buy back service to 2006. When the Modified scheme was created, backdated costs were met by the Government, but as of yet there is no certainty that this will happen if the scheme is backdated further.

3.13 Both of these remedies will have a large impact on the workload of the pension administration team who will be implementing the changes required. This will require a very significant amount of additional work and costly amendments to the software used to support the pension administration function. These costs will be re-charged to the service.

3.14 The pension administration function moves to a new provider, West Yorkshire Pension Fund, from 1 December. This follows a full OJEU tendering exercise which produced savings in the region of £20k. This will be re-invested in securing appropriate advice around pensions given the increasing complexity and uncertainty in this area.

3.15 The 2016 GAD revaluation of the firefighter's pension fund resulted in a headline rate increase of 12.4% of employer pension costs, which in 2019/20 equated to £2.5m for the service. The Home Office have agreed to fund £2.3m of this pressure in 2019/20 and 2020/21. Requests have been made to the Treasury for this to be added to base budgets rather than offered as a grant to ensure financial sustainability and Fire Services ability to plan their resources. As pay costs increase, so do employers' pension costs and therefore this would also need to be reflected as the grant was paid at a flat rate in 2020/21. The pension scheme is undergoing a further revaluation, and this creates the risk of a further increase in charges.

PAY AWARD

3.16 Non-uniformed staff received a 2.75% pay award in 2020/21 against a budget of 2%. The additional £50k ongoing costs per year will be built in to future years' salary costs.

3.17 The budgets will assume a 2% pay award for both uniformed and non-uniformed staff for 2021/22 to 2024/25. Should pay awards be agreed higher than this level the additional cost will be in the region of £380k for every 1% increase in pay.

FIREFIGHTER RECRUITMENT

3.18 It is anticipated that there will be a full-time recruit intake during 2021/22 and up to 3 on-call intakes. There will be additional costs involved in training firefighters as ridership numbers will be increased while newly qualified firefighters gain their competent status. These will be reflected in the budgets presented to Fire Authority in February 2021.

INVESTMENT IN TECHNOLOGICAL CAPABILITY

3.19 The service has had to significantly change the way that it works as a consequence of the Covid-19 pandemic. Many support staff are now working from home. Most meetings are taking place virtually rather than face to face. Systems have had to be reviewed and new ways of working developed to meet the needs of the changing environment.

3.20 Much of this work has required significant technological changes and the acquisition of new software packages. Cyber security needs to be constantly reviewed with more staff now accessing systems remotely.

3.21 All of these areas are placing increased pressure on the Information & Communication Technology (ICT) Department. There have already been additional commitments into future years to secure appropriate software for revised ways of working which have to be built into base budgets going forward. It is anticipated that further investment in the team will be required in forthcoming years.

GRENFELL TOWER INQUIRY RESPONSE

3.22 The Grenfell Tower Inquiry and subsequent Hackitt review has identified that much work within the sector is needed to address the issues within the built environment. This will result in increased workload for the Service and the requirement to develop competency and capacity.

3.23 Fire protection solutions in the built environment are increasingly complex due to new and innovative construction techniques being deployed; and also major infrastructure projects like HS2.

3.24 Grenfell Infrastructure Improvement Grant of £101k was received in September 2020 to assist with the additional costs of implementing the required changes. Revenue budgets also include £50k to fund a Fire

Engineer but this post has been difficult to recruit to and the service is now offering training to existing staff.

3.25 In addition to the above there is an allocation of £275k from the Transformation and Collaboration earmarked reserve to assist with one off costs. Some of the 2020/21 underspend is also being used to buy in additional short term capacity as Covid-19 has affected the capacity of the team.

EMERGENCY SERVICES MOBILE COMMUNICATION PROGRAMME (ESMCP)

3.26 Set up by the Home Office, ESMCP will replace the current communication service provided by Airwave. The new service will be called the Emergency Services Network (ESN). ESN aims that the functionality, coverage, security and availability needs of the UK's emergency services are fully met.

3.27 A Regional Strategic Board has been established and a Regional Coordinator has been appointed to work with Service leads and to enable collaboration across the regions.

3.28 There have been significant delays to the programme and funding has been similarly been subject to delay. ESN continues to place increasing demands upon most support departments and this has resulted in many fixed term arrangements being put in place, specifically across the Procurement, Corporate and ICT functions. These costs will only be partially funded from the government and the current shortfall of £60k per year will need to be built into future year's budgets.

NATIONAL RESILIENCE

3.29 The New Dimension programme provides Fire and Rescue Services with the specialist equipment and training it needs to respond to terrorist and other major catastrophic incidents. The New Dimension assets are now coming to the end of their life and require replacement. There remains uncertainty regarding how the replacement of these assets will be funded.

FEES AND CHARGES

3.30 The Authority is permitted to make charges for the provision of a range of services to the public and to commerce. It has however been the practice of the Authority to avoid making charges for services which the public have a reasonable expectation of receiving free of charge. Revised scales for Fees and Charges are approved by Fire Authority as part of the Budget Setting report in February of each year. An example of where a charge would be made is for the containment and clearance of debris, spillages, discharges or leaks from a vehicle or storage tank where the owner can be readily identified. Charges are made on the basis of recovering costs only i.e. with no profit element and no charges are made in situations where there is a risk to life or property, nor where vulnerable persons are involved. The amount of income raised from these charges is low.

EXTERNAL FUNDING

3.31 Efforts will continue to be made to secure as much external funding as possible either from Government Grant or from sponsorship and partnerships. These are managed carefully to ensure that the sudden withdrawal of funding does not have a negative impact on revenue budget nor cause the Authority embarrassment from having to close down successful projects due to lack of external funding.

3.32 There are no plans at the present time to enter into any Private Finance Initiative (PFI) funding for capital projects unless there is a strong indication that such a vehicle might prove cost effective.

INVESTMENT INTEREST RATES

3.33 The Authority has accumulated reserves of cash both in respect of cashflow balances and reserves. These cash balances are invested to generate income from interest. The outlook for rates is still very low which means that vetting and the choice of investment counterparty is becoming more important. The reduction in rates have meant that the 2021/22 budget for interest income of £100k will need reducing to an estimated £20k. The process for managing these funds is set out in the Treasury Management Strategy document which is approved by the Fire Authority in February of each year.

TREASURY STRATEGY

3.34 The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 15 February 2019. This strategy complies fully with the Chartered Institute of Public Finance and Accountancy code of practice on Treasury Management which the Authority has adopted. The strategy relies for its success on the appointment of financial advisors who enable the Authority to lend and borrow as prudently as possible. Efforts will continue to be made to ensure a sufficient spread of investment counterparties to minimise risk exposures. The Authority's Prudential Strategy, sets out the prudential indicators approved for 2020/21.

CAPITAL STRATEGY

3.35 The Capital Strategy for each year is approved by Fire Authority alongside the MTFS. The updated Capital Strategy for 2021/22 is attached at Appendix 1 for approval. It sets out how the Authority intends to optimise the use of available capital resources to help achieve its objectives in such a way that it ensures that the programme is affordable, prudent and sustainable. It also includes the flexible use of capital receipts strategy.

3.36 The Authority has considered the sustainability of its capital plans in terms of the ICT Strategy, the Fleet Strategy and the Property Strategy and these have been mapped out over future years to assist in the revenue budget planning process.

3.37 These individual plans have been brought together to form a 10-year capital programme to assist financial planning and monitoring of debt costs. This is attached at Appendix 2. The first 4 years of this programme will be approved

alongside revenue budgets by Fire Authority on 26 February 2021. The 10-year programme includes the completion of the new headquarter provision and investment into new fire stations at Worksop and Stockhill as well as replacement of the fire appliances, technical rescue unit and water rescue boat. The programme will need to be kept under close review as it has been built on assumptions around build costs, service needs and future interest rates. If these were to change, then the programme may need to be adjusted.

3.38 The 10-year capital plan is considered to ensure long term affordability. The programme consists of longer term projects which cross over the financial year end boundaries. This means that projects may overspend or underspend within a single year, and historically the position has been one of underspending which has an impact on debt repayment costs in the revenue budget. In order to alleviate this issue, it has been accepted that there will be an element of "over programming" but that revenue to support the capital programme will take this into account.

THE PRUDENTIAL CODE

3.39 The freedoms provided by the Prudential Code for Capital Accounting are to be fully used to make the best possible investment decisions in relation to capital spending in order that meaningful choices can be made between borrowing, leasing and the use of capital receipts. Nevertheless, it is still considered important that the Authority should not expose itself to unduly high levels of debt and it is necessary for a view to be taken as to how much debt is sustainable in the longer term. The Authority has set a limit for the ratio of debt costs to revenue budget of 8%. This "credit ceiling" for affordable borrowing, which is covered within the principles of the Prudential Code, will be more closely matched to the profile of the asset base going forward. This strategy is to ensure that the credit ceiling is not reached before the requirement to undertake major capital schemes is exhausted. The 10 year capital plan in Appendix 2 shows that in 2028/29 the debt to budget ratio peaks at 8.09% before dropping below 8% again in the following years. This will be monitored going forward and the plan adjusted if necessary.

3.40 The Authority predominantly funds its capital investments through borrowing. A general policy of using fixed interest rate vehicles is included in the Treasury Management Strategy in order to minimise this risk to interest rate increases. However, in the longer term there is still an exposure from the loan charges on new capital being greater than anticipated. This may require some revision to future years' capital plans.

3.41 It is common in the Public Sector to use maturity loans as the most appropriate vehicle for capital financing. These loans do not repay any capital until maturity but interest charges only, and they therefore present a refinancing risk at the end of their term. They are currently the most cost effective way of borrowing but it is considered essential that the Authority has sufficient accumulated cash to repay principal at term. This ensures that the authority retains control of overall debt levels.

3.42 The authority will also take opportunities to make voluntary Minimum Revenue Provision (MRP) contributions as they arise.

3.43 The Authority has adopted a medium-term strategy to hold long term debt at low rates but reschedule this at a later date if rates are more advantageous. The overall strategy for borrowing is set out in the Treasury Management Strategy document and in the Prudential Code Report. This strategy needs to "follow through" in terms of eventually seeking to mirror the debt outstanding profile with the profile of asset lives. This will be possible by rescheduling debt again if shorter term interest rates fall in relation to long rates however there is no sign of this at present.

BREXIT

3.44 The UK left the European Union (EU) on 31 January 2020 but continues to follow EU rules until 31 December 2020. The transition period was put in place to allow time to negotiate a post Brexit deal which will shape the UK's future relationship with the EU. It will also affect trading relationships with countries outside the EU as the UK will no longer benefit from the trade deals they have in place with the EU. This is likely to affect the costs of any imported goods and any UK goods which uses components from abroad. Given that negotiations are still ongoing with the EU it is still unclear what the full impact will be on the service. Budgets are being set on currently available information but may need revising once the impact is fully known. The minimum level held in the general reserve has been increased to reflect this uncertainty (see Section 5).

COLLABORATIVE WORKING

3.45 The Policing and Crime Act 2017 has introduced a duty to collaborate with the three emergency services where it is in the interest of efficiency and effectiveness. To this end, a Collaboration Strategy was approved by Fire Authority on 22 September 2017. This will not preclude collaboration with other types of organisation where there are benefits to be achieved.

3.46 Collaboration is not something new to the organisation. The authority has taken advantage of many opportunities to reduce costs and increase resilience and effectiveness through joint procurement, joint use of estates and shared specialist vehicles.

3.47 The Authority remains committed to supporting joint and collaborative working with fire and other emergency service sector colleagues across the region, including on the Tri Control and Emergency Services Network projects.

SECTION 4: TRANSFORMATION AND EFFICIENCY

4.1 The Authority set a balanced budget for 2020/21 following several years where General Fund reserves were required to balance the budget:

Table 1 – Use of General Fund Reserves to Balance Budget

Year	Budgeted Use of General Fund Reserves £'000
2017/18	526
2018/19	1,444
2019//20	1,240
2020/21	0

4.2 This has been achieved through the implementation of the Savings Strategy 2016/19. In particular

- 14 posts have been removed from establishment following the realignment of operational resources to take account of a reduction in the number of Fire Appliances and reintegration of the standalone Specialist Rescue Teams. This resulted in the saving of £590k.

- The Day Shift Crewing model at Ashfield and Retford Fire Stations has been delivered. This resulted in the reduction of 28 wholetime operational posts which were partially offset by an increase in the number of On-Call units by 12. This has delivered savings in the region of £1.2m per annum.

- The Joint Control room with Derbyshire Fire and Rescue Service has been opened, with savings in the region of £200k.

4.3 The Authority approved a Transformation and Efficiency Strategy in February 2020. The strategy identifies where improvements in the service are being pursued and how resourcing will be allocated from the £1.4 transformation and collaboration reserve which was created following a review of earmarked reserves as part of the 2020/21 reserves strategy. These transformational workstreams include:

- Digital Technology - £325k
- Evaluation of Community Outcomes - £100k
- Workforce Development, Diversity and Culture £350k
- Collaboration - £250k
- Performance management - £100k
- Grenfell Tower Response - £275k

4.4 The Strategy also articulates where longer term efficiencies will be made, either through direct reduction of costs or through increased productivity. Areas being targeted are:

- Safe and Well visits
- Fire Safety Audits
- Creation of a Joint Inspection Team
- On Call availability improvements
- Collaboration outcomes
- Procurement Collaboration and Frameworks
- Technology

SECTION 5: RESERVES

5.1 The Local Government Act 2003 requires that Authorities maintain adequate reserves and provisions to help ensure that the medium-term policy programme is sustainable and that it can be delivered. In accordance with good accounting and financial practice, reserves and provisions will always be held in the accounts where appropriate. In simple terms, the difference between a reserve and a provision is that a provision is made for a known liability arising from a legal obligation whereas a reserve is created for a discretionary purpose. The Authority's Reserves Strategy is attached at Appendix 3 for approval by Fire Authority alongside the MTFS.

5.2 Total estimated Reserve levels as at 31 March 2021 are £11.0m, consisting of £6.2m General Reserve and £4.8m Earmarked Reserves.

5.3 The authority reviews the levels of reserves it requires as part of the Reserves Strategy. A minimum level of £4.5m has been proposed for 2021/22. This has increased from £3.9m in 2020/21 to reflect the increased uncertainty around the financial impact of Covid-19.

5.4 Any unplanned expenditure or overspends may need to be met from the General Reserve or existing Earmarked Reserves.

SECTION 6: UNPREDICTABILITY OF FUTURE YEARS PUBLIC FUNDING

6.1 The funding for 2021/22 and beyond is very uncertain. A one year settlement is expected late December followed by a new three-year spending review expected in 2021 to cover the years 2022/23 to 2024/25.

6.2 The September budget was cancelled due to Covid-19. There is little clear direction regarding the Local Government Settlement from the Treasury at present as it concentrates on financing the measures required to deal with Covid-19. Funding is expected to be roughly flat and this is the assumption that is being used to model budgets for 2021/22 and beyond.

6.3 The fire funding formula review, which determines the breakdown of Government funding between fire authorities, has also been delayed due to the necessity to concentrate on the implications of Covid-19. Again the status quo situation has been assumed for the purposes of the MTFS.

6.4 The firefighter pension scheme employer superannuation rates increased significantly in 2019/20 following the scheme valuation exercise. This had the impact of increasing superannuation costs for the service in excess of £2.5m. In response, the Treasury issued an additional Section 31 grant of £2.3m to part cover the costs. It is not clear whether this will continue to be paid as a Section 31 grant or included in the basic needs assessment. It has been assumed that it will continue to be paid as a Section 31 grant at flat cash level.

Business Rates

6.5 As part of the Covid-19 support packages, the government implemented a business rates holiday for the retail, hospitality and leisure sectors.

Compensation has been paid to local authorities to make up for the loss in income. This means that business rates collection has held up well during the pandemic and the shortfall is estimated to be in the region of £60k (against a total amount due of £3.7m).

6.6 The service is paid 1% of the total amount of business rates expected to be collected by local authorities in a given year. Any surplus or deficit on this amount is adjusted for in the following year. This means that the amount the service receives from business rates in 2021/22 would normally start off with an estimated £60k deficit. However, due to exceptional circumstances, emergency legislation has been approved to spread this cost over 3 years, 2021/22 to 2023/24. It is proposed to create an earmarked reserve to cover the shortfall out of underspends at the end of the year.

6.7 The business rates holiday is currently due to end at on 31 March 2021. The collection rate for 2021/22 will depend on:

- Whether the business rates holiday scheme is extended;
- What support is given to local business in the second wave to ensure that they remain viable businesses which can re-open after Covid-19;
- Whether businesses choose to change their methods of working to reduce office space and move towards home working.

6.8 This makes it very difficult to estimate Business rate collection figures for 2021/22 and beyond. It has been assumed that business rate income is likely to fall by between 10% (most likely) and 20% (worst case scenario). A 10% decrease in business rate collection will result in an approximate loss of £370k income.

6.9 Reforms to the business rates retention scheme had been consulted on prior to the pandemic, but these have now been delayed and this is not expected to take place for some time and may now encompass a higher level review of business rates. This increases the uncertainty around future funding levels.

Council Tax

6.10 It is still too early for the Government to have produced provisional settlement information and consultation on the maximum limit for the amount Council Tax can be increased before invoking a referendum. Whilst it is probable that this limit will be set at 2% as in previous years, the Fire sector have requested the flexibility to increase council tax by £5 to enable investment in future services. This would raise an additional £1.6m compared to no increase in council tax which would remain in the base in future years.

6.11 Council Tax for the Fire Authority is currently £81.36 at Band D. A 1.95% increase would raise it by £1.59 to £82.95 per year which equates to £1.60 per week. A £5 increase would raise it to £86.36 - £1.66 per week.

SECTION 7: OUTLOOK FOR 2021/22, 2022/23 AND BEYOND

7.1 In February 2020, the Authority set a balanced budget for 2020/21. For the first time in several years, the budget did not require the use General Fund reserves. The February 2020 budget paper anticipated that there would be a

£158k shortfall in 2021/22 which reduced year on year until a balanced budget was again achieved in 2023/24 (assuming a 1.95% increase in Council Tax).

7.2 Whilst detailed expenditure budgets are still being developed, there are some changes to costs that can be reasonably estimated as discussed earlier in the strategy:

Table 2 – Known Additional 2021/22 Expenditure Since February 2020

Expenditure	**£'000**	**Paragraph**
Council Tax and Business Rate 2020/21 deficit	190	3.3-3.5
C Tax Collection Fund surplus reversal	95	3.4
Investment income loss	80	3.33
Impact of non uniformed pay increase above the budget	50	3.16
ESN expenditure no longer covered by grant	60	3.28
Other miscellaneous	100	
Adjsutment to superannuation budget	(200)	
Total	**375**	

7.3 The budget requirement for future years cannot be accurately estimated at this point as the full budget is still to be determined. It has been amended for known major pressures, but figures are likely to change. More detailed figures will be provided for Finance and Resources Committee in January 2021 and Fire Authority in February 2021.

7.4 Given the uncertainty discussed in this strategy, three scenarios have been considered – a worst case, a likely case and a best scenario.

SCENARIO 1 – WORST CASE SCENARIO

2.20 The worst-case scenario assumes that:

- Government funding (Revenue Support Grant (RSG), Business Rates top up grant and Pension grant) is cut by 5% in 2021/22 and 2022/23;
- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;
- Business Rate collection drops by 20% in 2021/22 and increases by 1% per year thereafter;
- Council Tax collection reduces by 5% in 2021/22 and increases by 2.5% for the following 2 years;
- Council Tax is increased at 1.95% for each year.

2.21 This scenario would result in a £3.7m deficit in 2021/22 and has an ongoing £4.2m deficit thereafter as detailed in the table 1 below:

Table 3 – Worst Case Scenario

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,151)	(4,894)	(4,894)	(4,894)
Business Rate (BR) Income	(3,777)	(3,022)	(3,052)	(3,083)	(3,114)
Pension Grant	(2,340)	(2,223)	(2,112)	(2,112)	(2,112)
BR Top up Grant	(7,277)	(6,913)	(6,568)	(6,568)	(6,568)
Council Tax (1.95%)	(26,074)	(25,255)	(26,392)	(27,579)	(28,496)
Earmarked Reserves	(274)	(190)	(190)	(180)	0
Budget Deficit	**0**	**3,754**	**4,263**	**4,224**	**4,245**
Deficit if Council Tax increased by £5		2,906	3,371	3,846	3,372

2.22 If a nil council tax increase is approved in 2021/22, the deficit position becomes £4.270m. If an increase of £5 were to be permitted and approved, the deficit position reduces to £2.906m. Significant ongoing savings would need to be identified in order to balance the budget if this scenario plays out.

SCENARIO 2 – MOST LIKELY SCENARIO

2.23 The most likely scenario assumes that:

- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) remains level in real terms (2% increase) for 2021/22 and flat thereafter;
- Pension Grant remains flat in cash terms at £2.34m);
- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;
- Business Rate support from Central Government will stop on 31 March 2021;
- Business Rate collection drops by 10% in 2021/22 and increases by 1% per year thereafter;
- Council Tax collection reduces by 0.7% in 2021/22 and increases by 2.5% for the following 2 years. This would reflect a collection levels anticipated in 2020/21 would continue into 2021/22 and then slowly recover of the next 2 years;
- Council Tax is increased at 1.95% for each year.

2.24 This scenario would result in a £1.2m deficit in 2021/22 which reduces to £54k by 2024/25 and return to a balanced budget position in the following years. This reflects the immediate impact of reduced collection fund receipts which would be expected to pick up in 2022/23 and 2023/24. The deficit could be managed by a mixture of one off savings and utilising general fund reserves until council tax and business rate collection levels returned to their normal levels.

Table 4 – Most Likely Case Scenario

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,530)	(5,641)	(5,754)	(5,869)
Business Rate (BR) Income	(3,777)	(3,400)	(3,434)	(3,468)	(3,503)
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
BR Top up Grant	(7,277)	(7,423)	(7,571)	(7,722)	(7,877)
Council Tax (1.95%)	(26,074)	(26,398)	(27,586)	(28,827)	(29,786)
Earmarked Reserves	(274)	(190)	(190)	(180)	0
Budget Deficit	**0**	**1,227**	**709**	**349**	**54**
Deficit / (Surplus) if Council Tax increased by £5		142	(423)	(836)	(985)

2.25 This scenario could play out in several different ways. For example, the government may decide to compensate for loss of Council Tax but not increase government grant which would lead to a slightly better position in 2021/22 but leave increased deficits for following years.

2.26 If a nil council tax increase is approved in 2021/22, the deficit position in the scenario in Table 2 becomes £1.7m. If an increase of £5 were to be permitted and approved, the deficit position reduces to £142k. This would be manageable with an element of savings being required as part of the budget process.

SCENARIO 3 – BEST CASE SCENARIO

2.27 This scenario assumes that:

- Base Line funding remains level in real terms (2% increase) for all years;
- Pension grant will remain level in real terms (2% increase) from 2022/23, assuming it is merged with RSG;
- Ongoing support is in place for business rates and income remains at 2020/21 levels;

- An earmarked reserve will be created from underspends at year end to fund the 2020/21 – 2023/24 collection fund deficit;

- Council Tax collection rates remain flat for 2021/22 and increase by 2% in 2022/23;

- Council Tax is increased at 1.95% for each year.

Table 5 – Best Case Scenario

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Budget Requirement	45,165	46,508	47,471	48,640	49,429
Revenue Support Grant (RSG)	(5,422)	(5,530)	(5,641)	(5,754)	(5,869)
Business Rate (BR) Income	(3,777)	(3,777)	(3,777)	(3,777)	(3,777)
Pension Grant	(2,340)	(2,340)	(2,386)	(2,434)	(2,483)
BR Top up Grant	(7,277)	(7,423)	(7,571)	(7,722)	(7,877)
Council Tax (1.95%)	(26,074)	(26,584)	(27,645)	(28,565)	(29,515)
Collection Fund grant	(274)	(190)	(190)	(180)	0
Budget Deficit / (Surplus)	**0**	**664**	**261**	**208**	**(92)**
Deficit / (Surplus) if Council Tax increased by £5		(429)	(875)	(966)	(1,120)

2.28 This scenario would still see a deficit if £664k in 2021/22, but this would turn into a surplus position by 2024/25 and would be manageable by making cuts in expenditure through the budget process and a limited use of General Fund Reserves where this is not possible.

2.29 If a nil council tax increase is approved in 2021/22, the deficit position in the scenario in Table 4 becomes £1.2m. If an increase of £5 were to be permitted and approved, the deficit position would change to a surplus of £429k. This would permit investment into future services.

SECTION 8: SUMMARY

8.1 This MTFS has been written against a backdrop of financial, economic and national uncertainty. The national economic position makes it unlikely that the public sector will receive significant increases in funding over the coming years. There is no clear direction regarding whether Local Authorities will be compensated for the anticipated deficit on Council Tax and business rate collection funds due to the pandemic and whether increased pension costs will be met by central government.

8.2 If Council Tax levels remain at current levels with no increases from 2021/22 onwards, then the Authority will have insufficient funds to maintain expenditure levels. In the most likely scenario considered in section 7, and no Council Tax

increases, there would be a deficit of £1.2m for 2021/22. This would reduce the General Fund Reserve to its minimum level of £5.0m.

8.3 It is probable that the maximum limit for the amount Council Tax can be increased before invoking a referendum will be £2%. The Fire sector have requested the flexibility to increase council tax by £5 to enable investment to help it deal with pressures outlined in section 3 and investment in future services.

8.4 A £1.95% increase in Council Tax, whilst raising an additional £0.5m would still see a likely deficit for 2021/22 of £1.2m.

8.5 A £5 increase in Council Tax would raise an additional £1.6m which is still likely to require the use of some reserves in 2021/22 unless additional funding is received from Central Government. The increase in base, however, would help protect future spending for the Authority.

8.6 Whilst there remain clear challenges ahead, the Authority starts this journey in a relatively positive position whereby it has sufficient reserves to underpin the changes required in the coming years. With careful budgetary planning and resource maximisation it is anticipated that the Authority will be able to forge a future path that will enable it to meet priorities and balance the budget.

8.7 At its meeting on 26 February 2021 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2021/22.

APPENDIX 1

CAPITAL STRATEGY 2021/22

Date Considered by Fire Authority: November 2020

TABLE OF CONTENTS

1 INTRODUCTION AND BACKGROUND

1.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated and prioritised.

1.2 This document sets out the framework for planning and financing capital in order to ensure the broad requirements set out above can be consistently met by the Authority. The Strategy sits alongside the Medium Term Financial Strategy (MTFS) and the proposed 10-year capital programme is included in the MTFS. The strategy is supported by the Authority's estates strategy, asset management plans and the Capital Programme which, in combination, lay out how the Authority will use its assets and its capital investments in pursuit of the key goals set out in the Strategic Plan 2021/25.

1.3 There are several influences which feed into the capital investment process, the main ones being:

- Strategic Plan
- Treasury Management Strategy
- Medium Term Financial Strategy
- Property Strategy
- Corporate Asset Management Plans (buildings, vehicles and equipment)
- Procurement Strategy
- ICT Strategy
- Transport Strategy
- Community Safety Strategy
- Work Force Plan
- Learning & Development Strategy
- Risk Register

2 GOVERNANCE

2.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code.

2.2 CIPFA released an updated version of the Prudential Code in December 2017. The revised code is in a similar format to the previous 2011 edition but included a new requirement for authorities to produce a Capital Strategy with effect from 2020/21.

2.3 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable. This is achieved

through the use of a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management. These indicators are included in the Prudential Code for Capital Finance which is approved by the Fire Authority each year and monitored throughout the year by the Finance and Resources Committee. A 10-year Capital Programme is included in the MTFS which includes a projection of future year debt costs to ensure that they are affordable in the long term.

FIRE AUTHORITY

2.4 The Capital Programme is an aggregation of the approved schemes which will help ensure that the Authority can deliver on its strategic objectives. The Capital Programme approved by Fire Authority as part of the annual budget process covers a 4-year period in line with revenue budget forecasting. Estimating expenditure beyond 4 years is more difficult, although still important in determining the affordability of capital expenditure in future years. For this reason, a proposed 10-year Capital Programme is included as a separate document in the Medium Term Financial Strategy (Appendix 2) for planning and cost projection purposes.

2.5 The full revenue implications of the Capital Programme are presented to members prior to each financial year within the Revenue Budget. Fire Authority is also responsible for approving the Treasury Management Strategy and Prudential Code prior to the start of each year to ensure that the Capital Programme is affordable, prudent and sustainable.

FINANCE AND RESOURCES COMMITTEE

2.6 The Finance and Resources Committee are responsible for receiving quarterly monitoring reports on the Capital Programme and Prudential Code.

CORPORATE GOVERNANCE

2.7 Corporate Governance is ensured throughout the process through the Authority's:

- Internal Audit;
- Service Plans;
- Performance Management;
- Service Procedures;
- Financial Regulations and Procedures;
- Standing Orders.

STRATEGIC LEADERSHIP TEAM (SLT)

2.8 SLT have oversight of and make appropriate decisions relating to the revenue and capital budgets set by the Fire and Rescue Authority in order to operate within the delegated financial authority agreed by the Authority to deliver a balanced budget position.

2.9 SLT also have responsibility for managing project performance and receive regular monitoring updates, project closure reports and to ensure that any lessons learned are shared across the organisation.

TREASURER

2.10 Under section 25 of the Local Government Act 2003, the Treasurer is specifically required to report to the Authority regarding the estimates for the purposes of calculations in order that Fire Authority can make informed decisions about future years' budgets. The Treasurer also has responsibility to ensure compliance with regulatory frameworks and to report on unlawful expenditure or on an unbalanced budget.

FINANCE EMPLOYEES

2.11 The Authority ensures that the Finance team contains staff who are appropriately trained in Capital Accounting and Treasury Management. In addition, the service employs external treasury management advisors who provide specialist advice and resources.

3 THE CAPITAL PROGRAMME

3.1 The capital expenditure recommendations are determined from an assessment of the Authority's Asset Management plans for buildings, equipment and vehicles. As the impact of capital expenditure, and associated borrowing, is spread over years, it is important to consider the effects of any proposals in both the forthcoming and future financial years.

3.2 The Authority's approach to developing capital investment is to evaluate projects against criteria such as:

- Fire Authority objectives;
- Funding requirements;
- Statutory obligations;
- Reserve savings and implications;
- Any surplus assets for which a receipt will subsequently be available;
- Any special considerations;
- Affordability;
- Sustainability (by considering whole life costs);
- Evaluation of condition, suitability, and sufficiency information from the Asset Management system;
- Collaborative Opportunities.

3.3 Where there is a possibility to take a collaborative approach to purchasing or using assets it will be pursued providing that the partnership or sharing arrangements are financially viable and in the best interests of Nottinghamshire Fire & Rescue Service.

3.4 Where collaborative projects are undertaken consideration will be given to the most appropriate delivery vehicle, whether it be leasing arrangements, joint ownership or the setting up partnership arrangements such as a Limited Liability Partnership (LLP).

3.5 The purpose of the capital investment programme is to support the strategic plan which at present does not include investment in commercial activities due to the Authority not wishing to undertake undue risk.

3.6 Establishing the level and type of investment available, which is currently projected for up to ten years in advance enables the revenue implications of the capital programme to be considered in detail including repair and maintenance costs, energy efficiencies and economies for scale. The debt charges (Minimum Revenue Provision and interest charges) are built into the revenue budget and monitored to ensure that they remain affordable.

3.7 The Finance and Resources Committee recommend a draft Capital Programme to Fire Authority who approve the final programme at its budget setting meeting in February of each year. Additional approval is sought from Finance and Resources Committee before major building projects are commenced.

3.8 Projects utilise the principles of Prince 2 methodology, where appropriate, and are subject to a review following completion where clients, occupiers and consultants establish how far the project has achieved objectives and outcomes against targets (as detailed in the original investment appraisal) and evaluate areas of good practice/areas for improvement of suitability for purpose, quality, design, sufficiency and flexibility.

4 CAPITAL FINANCING

4.1 The Capital Programme is currently constrained by the availability of finance, which continues at present to be provided by traditional methods including:

- Borrowing under the Prudential Code;
- Revenue Funding;
- Capital Receipts;
- Capital Grant;
- Leasing.

4.2 Funding is expected to be limited in the medium term and the Spending Review expected in autumn 2020 will set the funding limits in 2021/22. A further Comprehensive Spending Review is planned for Autumn 2021 which will set funding limits for future years. The capital programme will be updated accordingly as part of a revised Medium Term Financial Strategy.

4.3 Surplus Assets are disposed of and all receipts are treated as a corporate resource and used to underpin and support the Capital Strategy in line with the Flexible Use of Capital Receipts Strategy which will be approved alongside the Capital Strategy (see Appendix A).

4.4 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government.

4.5 Capital financing charges now represent 5.4% (2021/22) of the Authority's revenue budget which is considered within prudent limits. On 24 October 2008, the Finance and Resources Committee set a maximum limit for this ratio of 8% in order to meet the prudential code requirements of affordability and sustainability (as part of the Sustainable Capital Plans Report). This ratio

forms one of the Prudential Indicators approved by Fire Authority as part of the Prudential Code for Capital Finance report considered in February of each year. It is not proposed to change the 8% cap on this ratio. The 10-year proposed capital programme included in the MTFS is monitored to ensure it does not exceed this limit. There is currently a risk that it will be breached in 2028/29, but this is a one year anomaly and will be monitored. The programme will be altered in future years to ensure the 8% limit is not exceeded.

5 SUMMARY

5.1 This Capital Strategy is a key corporate document that outlines how the Authority intends to optimise the use of available capital resources to help achieve its objectives. Capital expenditure is a major cost to the Authority and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated, prioritised and authorised.

5.2 Due to the long-term impact of the Capital Programme and the high levels of expenditure involved, strong and effective governance arrangements have been put in place to manage any associated risks.

5.3 The Authority continues to plan for its Capital Expenditure in such a way that ensures that it is affordable, prudent and sustainable.

APPENDIX A

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their capital receipts from the sale of fixed assets on the revenue cost of reform projects. This gives local authorities the power to treat as capital expenditure, expenditure which is incurred in generating on-going revenue savings in the delivery of public services either by way of reducing the cost of or reducing demand for services in future years. This impact of cost or demand reduction can be realised by any public-sector delivery partners but must be properly incurred by authorities for the financial years that begin on 1 April 2016, 1 April 2017 and 1 April 2018. Capital receipts used in this way must have been received in these same three years. As part of the provisional funding settlement made on 19 December 2018, this was extended to cover a further 3 years up until 2022/23.

This new power and its guidance are issued under Section 15(1) of the Local Government Act 2003, which requires local authorities to have regard to guidance that the Secretary of State may specify.

Application

The guidance specifies that authorities may not borrow to finance the revenue costs of service reform, nor may they use capital receipts accumulated from prior years. The key criteria to be used when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate on-going savings to an authority's or several authorities' and / or to another public-sector body's net service expenditure.

Accountability and Transparency

The guidance specifies that authorities must disclose the individual projects that will be funded, or part funded through capital receipts flexibility to the full Fire Authority. This requirement can be satisfied as part of the annual budget setting process or through the Medium Term Financial Strategy. It is recommended that the disclosure of projects to be funded in this way should be made prior to the start of each financial year, however if the strategy is updated part way through the year it must be approved by the Fire Authority and notified to central government. A revised strategy must also include the impact on Prudential Indicators. Both the initial strategy and any revised strategy must be made available online to the public.

The strategy must list each project to be funded through capital receipts flexibility, with details of the expected savings and service transformation. With effect from the 2017/18 strategy details must be included of projects approved in previous years and progress against achievement of the benefits outlines in the original strategy.

To date there have been no such projects funded through the use of capital receipts.

Capital Receipts Strategy for 2021/22

For the financial year 2021/22 it is not proposed to fund any reform projects through the capital receipts flexibility. There are currently sufficient funds held in reserves for this purpose and it is felt that capital receipts would be better used to finance capital expenditure. This will enable the Authority to minimise the use of borrowing which needs to be kept within the affordable limits as set out in the Prudential Code for Capital Finance.

If it is felt in the future that the use of capital receipts flexibility would be beneficial to the Authority, then a revised strategy will be reported to the Fire Authority for approval.

APPENDIX 2

PROPOSED TEN YEAR CAPITAL PLAN 2021/22 TO 2030/31

10 YEAR CAPITAL PROGRAMME	Budget 2021-22 £'000	Budget 2022-23 £'000	Budget 2023-24 £'000	Budget 2024-25 £'000	Budget 2025-26 £'000	Budget 2026-27 £'000	Budget 2027-28 £'000	Budget 2028-29 £'000	Budget 2029-30 £'000	Budget 2030/31 £'000
TRANSPORT										
Pumping Appliances	1,018	1,346	1,683	1,683	1,683	1,346			1,346	1,346
Special Appliances	150	675	175	568	90	150		105		
Light Vehicle Replacement	179	442	250	159	237	326	352	172	356	300
E1 Fleet - telematic				90						
	1,347	**2,463**	**2,108**	**2,500**	**2,010**	**1,822**	**352**	**277**	**1,702**	**1,646**
EQUIPMENT										
BA Sets		250				250				250
Lightweight Fire Coat								180		
Structual PPE							1,000			
Fire Helmets									200	
Gas Tight Suits			50							
Radios				300						300
Holmatro / RTC Equipment				800						
Gas Monitoring						35				
Airbags - replacement								70		
water rescue kit	100									
	100	**250**	**50**	**1,100**		**285**	**1,000**	**250**	**200**	**550**
ESTATES										
Worksop Fire Station	2,000	1,258	63							
Head Quarters	2,000	333	2,078							
Eastwood Fire Station		750	713	38						
Ashfield Fire Station (Refurb)			488	13						
Arnold Fire Station			25	1,750	888	63				
Stockhill Fire Station					150	2,200	1,600	50		
Bingham Fire Station										731
Mansfield Fire Station								731	19	
	4,000	**2,341**	**3,366**	**1,800**	**1,038**	**2,263**	**1,600**	**781**	**19**	**731**
I.T. & COMMUNICATIONS										
HQ Project (Enabling Works - ICT)	150	100	110	110	110	110	120	120	120	120

10 YEAR CAPITAL PROGRAMME	Budget 2021-22 £'000	Budget 2022-23 £'000	Budget 2023-24 £'000	Budget 2024-25 £'000	Budget 2025-26 £'000	Budget 2026-27 £'000	Budget 2027-28 £'000	Budget 2028-29 £'000	Budget 2029-30 £'000	Budget 2030/31 £'000
ICT Capital Programme - Replacement Equipment	50	30	30	30	20	20	20	20	20	20
Mobile Computing	100									
HQ - Link ICT Replacement	30	30	30	20	20	20	20	20	20	20
Performance Management System	20	20	20	20	20	20	20	20	20	20
HQ Core Switch Upgrade		50				50				
One off projects	100									
	450	**230**	**190**	**180**	**170**	**220**	**180**	**180**	**180**	**180**
CONTROL										
Emergency Services Mobile Communications	100	200								
Tri-Service Control & Mobilising System			1,000			300			300	
	100	**200**	**1,000**			**300**			**300**	
FINANCE										
HR Upgrade				51						
Payroll System Replacement	30		30		30		30		30	30
	30		**30**	**51**	**30**		**30**		**30**	**30**
TOTAL	**6,027**	**5,483**	**6,743**	**5,631**	**3,247**	**4,890**	**3,162**	**1,488**	**2,431**	**3,137**

To Be Financed By :										
Capital Receipts	10	1,010	10	360	260	260	10	360	10	10
New Borrowing	6,017	4,473	6,733	5,271	2,987	4,630	3,152	1,128	2,421	3,127
Total	**6,027**	**5,483**	**6,743**	**5,631**	**3,247**	**4,890**	**3,162**	**1,488**	**2,431**	**3,137**

Debt Cost Ratio	**5.43%**	**5.47%**	**5.97%**	**6.41%**	**7.20%**	**7.79%**	**7.93%**	**8.09%**	**7.93%**	**7.51%**

APPENDIX 3

NOTTINGHAMSHIRE
Fire & Rescue Service

RESERVES STRATEGY

2021/22 to 2024/25

TABLE OF CONTENTS

1 INTRODUCTION AND BACKGROUND

1.1 Sections 32 and 43 of the Local Government Finance Act 1992 require that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

1.2 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances' which was issued in July 2014.

1.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included (see Appendix C). The Reserves Strategy can form part of the Medium Term Financial Strategy (MTFS) or be a stand-alone document.

1.4 In previous years, the Reserves Strategy for this Authority has is prepared as a stand-alone document. For 2021/22 it will be included within the Authority's Medium Term Financial Strategy.

STRATEGIC CONTEXT

1.5 There are a number of reasons why a Local Government Authority might hold reserves. these include to:

- Mitigate potential future risks such as increased demand and costs;
- Help absorb the costs of future liabilities;
- Temporarily bridge a funding gap should resources be reduced suddenly;
- Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
- Spread the cost of large scale projects which span a number of years.

1.6 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

1.7 **Long-Term Sustainability** - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.

1.8 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support

the budget requirements and provide an adequate contingency for budget risks.

1.9 There are two different types of reserve, and these are:

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant on-call pay costs.

Provisions - In addition to reserves, the Authority may also hold provisions which can be defined as: A Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

2 RISK ASSESSMENT TO DETERMINE THE ADEQUACY OF THE GENERAL RESERVE

2.1 Whilst it is primarily the responsibility of the local authority and its Chief Financial Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

2.2 CIPFA does not prescribe a formula for calculating a minimum level of reserves. Local authorities, on the advice of their Chief Financial Officers, should make their own judgements on such matters considering all the relevant local circumstances, which may vary between authorities. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

2.3 The Home Office suggest a benchmark for the General Reserve of 5% of annual budget. The Authority has consistently set a minimum level of General Reserve higher than 5% (currently 11%). However, as discussed in sections 2.1 and 2.2, it is the responsibility of the Authority to set an appropriate level of reserves reflecting the individual circumstances of the Authority. The method used is a risk-based approach, in line with CIPFA guidance. The

levels of reserves set are felt to reflect the circumstances and risk appetite of the Authority.

2.4 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of external influences, such as national and local economics and Government policy has on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

2.5 At the start of 2020/21, the General Reserve was £4.989m, which represented 11% of the 2020/21 net revenue budget. The budget monitoring elsewhere on this agenda has estimated that there would be a surplus of £1.199m that will be transferred to the General Fund Reserve at year end. If this materialises, the General Fund balance will increase to £6.2m.

2.6 A risk assessment of the adequacy of the Authority's General Reserve is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment is shown in Appendix A. Where risks have been identified, control measures are in place to minimise either the likelihood or the impact of the risk and these are also shown in Appendix A.

2.7 The approach has examined each of the risk exposures and considered both the possible financial impact on the Service and the likelihood of occurrence. A risk factor has been allocated to each risk reflecting the likely frequency of occurrence of the risk based on historic experience and professional judgment. It should be noted that the underlying assumption is that not all of these risk events will occur simultaneously and, to reflect this, the potential value of each financial impact is multiplied by its risk factor.

2.8 The approach also considers the extent to which financial risks can be transferred by way of insurances or through additional government grant (through the Bellwin scheme). This creates a balance between mitigated and self-financed risk. Where insurances are in place, the risk value reflects the level of excess within the insurance policy.

2.9 Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within revenue budgets or balances. The level of acceptable residual risk equates to the "risk appetite" of the Service and the estimated minimum level of balances reflects this risk appetite.

2.10 The risk assessment review identified some changes in risks, mainly in terms of the increase or decrease in the potential costs of existing risks. The frequency of risk occurrence has also been reviewed in the light of another year of experience.

2.11 The risk assessment which determines what the minimum level of reserves is carried out using the professional judgement of the officers involved in the

process. Several managers with particular areas of expertise have been consulted as part of the exercise to determine any new risks and to identify appropriate levels of risk value and risk frequency. This detailed review of risks inevitably results in fluctuations in the resulting minimum level.

2.12 The significant changes to the risk register are detailed below:

a) **Major ongoing incident such as Pandemic (Risk 2)**. Following the Covid-19 pandemic, a new risk has been added to the value of £500k to cover any additional costs incurred not covered by grant from central government. This reflects the ongoing risk presented by Covid-19 and is likely to reduce in future years.

b) **Short term loss of income (Risk 6)** There is a significant risk that income from Council Tax and Business Rates will reduce beyond levels included in the budget following the economic downturn resulting from Covid-19. The amount included in the General Fund reserve for this risk has increased from £120k to £360k to reflect the total amount thought to be at risk and the risk factor;

2.13 There are a number of other risks where minor amendments have been made to reflect changes in either risk value or in expected likelihood or impact in the light of another year's experience.

2.14 The updated risk assessment shows that an appropriate level of general reserves has increased from £3.9m to 4.5m. This reflects the uncertain financial climate which is influenced by the:

- ongoing effects of Covid-19 pandemic on the service;
- impact of Covid-19 on both the national and local economy;
- Uncertainty about future years' funding settlements; and
- impact of Brexit;

2.15 Previous year's minimum levels of General Reserves have remained between £3.8m and £4.4m as detailed below:

Year	**Minimum General Fund Reserve level £'m**
2021/22	4.5
2020/21	3.9
2019/20	3.9
2018/19	4.3
2017/18	4.4

2.16 The Finance and Resources Committee regularly receives risk management reports, which show that corporate risks are regularly reviewed by Officers and that controls are in place to manage those risks. The review of reserves reflects changes to the corporate risk register.

2.17 The projected level of general fund reserves at 31 March 2021 is of the order of £6.2m (section 2.5). The General Fund reserve exceeds the minimum level required by £1.7m. There remains significant pressure on budgets going forward, including considerable uncertainty regarding future funding levels. The service is working towards setting a balanced budget for 2021/22 onwards, although this is dependent on levels of funding. Details of the spending review for 2021/22 will not be announced until late December and will only provide details of funding for one year.

2.18 A further spending review is expected to cover the three years 2022/23 to 2024/25 during 2021.

2.19 It is appropriate to advise Members that the level of reserves held by the Authority will be sufficient during 2021/22 to cover the risk-based liabilities which may arise, and the Treasurer will report on this as part of her duties under Section 25 of the Local Government Act 2003 when the 2021/22 budgets are set in February 2021. However, it should be noted that reserve levels assume that reserves will not be required to balance the budget in 2021/22 onwards.

3 ANNUAL REVIEW OF EARMARKED RESERVES

3.1 The Authority has a number of earmarked reserves which have been established for specific purposes; where there have been timing differences at budget setting or year-end or to address emerging risks or cost pressures.

3.2 The relevance of, and value in, each reserve is reviewed annually. During 2019/20, this review identified some surplus earmarked reserves which were used to create a £1.4m Transformation and Collaboration reserve which was approved by Fire Authority in December 2019. The purpose of the reserve is to support the Strategic Plan in line with the Transformation and Efficiency Strategy.

3.3 Almost £890k of the reserve has been allocated out to projects by the Strategic Leadership Team (SLT) to date. However, the 2020/21 expenditure on these projects will now be funded from underspends which will help sustain the earmarked reserve so that it can provide funding for transformational projects in future years.

3.4 The service is about to embark on a Fire Cover Review of the county. This will provide risk information which will inform the creation of the next Strategic Plan which will cover the years 2022/23 to 2025/26. This coincides with the 3-year spending review which will cover the same term.

3.5 The service has been holding a £1.038m capital reserve for many years to cover any capital overspends on major projects. There has been no need to draw on this reserve as there is traditionally a level of slippage and underspends which are used to cover any additional costs. If costs were incurred there is enough capacity within borrowing limits to use borrowing as a source of financing additional expenditure.

3.6 It is proposed to reallocate the capital reserve to support the following projects:

- increase the Transformation and Collaboration reserve to £1.8m to enable investment in the future of the service and to enable transformation to more efficient ways of working;
- to create a Covid Recovery reserve of £600k to help mitigate the long-term impacts of Covid-19;
- to increase the Community Safety Innovation Fund by £24k to ensure that there are sufficient funds to cover the 3-year secondment from the NHS of an Occupational Therapist to support the service.

3.7 A summary of the movement in Earmarked Reserves is shown in Table 2 below.

Table 2 – Summary of Movement in Earmarked Reserves

Earmarked Reserve Category	Balance 1April 2020 £'000	Estimated Balance 1 April 21 £'000	Forecast Spend 2021/22 £'000	Forecast Spend 2022/23 - 2024/25 £'000	Estimated Balance 31 Mar 25 £'000
Grants Unapplied:					
Resilience Crewing and Training	298	228	(80)	(148)	0
Community Safety Innovation Fund	134	142	(54)	(88)	0
On Fire Fund – Fire Safety	60	60	(4)	(12)	44
Other	93	81	(27)	(24)	30
Sub Total	**585**	**511**	**(165)**	**(272)**	**74**
General Earmarked Reserves					
Capital Reserve	1,038	0	0	0	0
ESN reserves	1,327	1,235	(100)	(300)	835
Transformation and Collaboration	1,387	1,800	(600)	(1,200)	0
Tri Service Control	178	178	(50)	(128)	0
Covid Recovery	0	600	(300)	(300)	
Covid-19 Grant	177	177	(177)	0	0
Other	69	69	(10)	(59)	0
Total	**4,761**	**4,570**	**(1,402)**	**(2,258)**	**908**

3.8 In total, earmarked reserves are expected to be in the region of £4.6m at 1 April 2021 but are expected to fall to £900k by March 2025. The remaining £900k relates to grant funding which needs to be spent in line with grant conditions. The majority of this relates to the Emergency Services Network project which has been extensively delayed. The expenditure profile for this project is very difficult to predict.

3.9 Further details of individual Earmarked Reserves and movement in reserves can be found in Appendix B.

DETAILS ON INDIVIDUAL RESERVES

3.10 **Resilience Crewing and Training** This grant is awarded from the Home Office each year to assist the Authority to undertake necessary resilience work in order that it can fulfil its obligations in major national incidents.

3.11 **Community Safety Innovation Fund** This grant enables the Authority to work very closely with partner agencies to identify and address risk with the aim of reducing fires in vulnerable groups. An example of this work is where an Environmental Health officer has been seconded to the Authority to work alongside our Fire Prevention Officers to ensure that the assistance provided is the most effective available.

3.12 **On Fire Fund – Fire Safety** - Grant used to support small community projects in hard to reach communities.

3.13 **Capital Reserve** This reserve has been set aside as a contingency against overspends on capital projects. There has been no expenditure against this reserve for several years due to high levels of slippage in the capital programme. It is being utilised to fund additional transformation work and Covid-19 recovery (see 3.6).

3.14 **Emergency Services Network (ESN) Reserves** These reserves relate to ESN grant that has been awarded but not spent due to the delays in the national project. There are also some smaller reserves created to fund expenditure funded directly by the Authority.

3.15 **Transformation and Collaboration Reserve** This is a new reserve created to support the Strategic Plan in line with the Transformation and Efficiency Strategy -see section 3.2.

3.16 **Tri Service Control** This is funding set aside to make continuing improvements to the control software installed as part of a joint project with Derbyshire and Leicestershire Fire Authorities.

3.17 **Covid Recovery Grant** This has been created from the Capital Reserve (3.6) to enable longer term recovery from Covid-19.

3.18 Covid-19 Grant This is the grant received for Covid-19 in 2019/20 which was carried forward into 2020/21. The service has received another allocation of funding in 2020/21 so it is not anticipated that the 2019/20 funding will be required until 2021/22.

4 SUMMARY

4.1 The total value of the Authority's reserves on 1 April 2021 is expected to be in the region of £10.3m.

4.2 The expected level of General Fund Reserves as at 1 April 2021 is expected to be in the region of £5.7m, which exceeds the £4.5m minimum level identified for 2021/22 by £1.2m.

4.3 Earmarked Reserves are expected to be in the region of £4.6m at 1 April 2021 and are expected to reduce to £900k by March 2025.

4.4 The capital reserve (£1.058m) is to be reallocated to:

- increase the Transformation and Collaboration reserve to £1.8m to enable investment in the future of the service and to enable transformation to more efficient ways of working;
- to create a Covid Recovery reserve of £600k to help mitigate the long term impacts of Covid-19;
- to increase the Community Safety Innovation Fund by £24k to ensure that there are sufficient funds to cover the 3-year secondment from the NHS of an Occupational Therapist to support the service.

2021/22 General Fund Risk Analysis

Appendix A

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	2021/22 Risk Value	2021/22 Risk Factor Reflecting Frequency	2021/22 Reserve Required
1	**Pension issues** - ombudsman rulings / medical appeals, accounting errors / mal-administration / McCloud	Additional costs	New administrators appointed who are leaders in Firefighter Pension Scheme administration. Monitored by Pension Board. Training of Staff. Liaison with LGA and Pensions Regulator	N	1,000,000	0.5	500,000
2	Major ongoing incident such as pandemic which affects Business Continuity Management (BCM)	Ongoing significant additional costs to ensure critical capability maintained.	BCM plans. Pandemic plan	N	1,000,000	0.5	500,000
3	Risk of significant overspend against budgets, especially following uncertainty of future funding / Covid related expenditure	Overspend against revenue budget in year which will have effect of reducing general reserves by the amount of the overspend	Have reduced budgets to reflect previous years' underspends.	N	800,000	0.5	400,000
4	Business failure of bank or investment counterparty	Loss of working capital or investment funds up to £2m	Treasury management strategy, risk analysis of investment options and counterparties	N	2,000,000	0.2	400,000
5	**Legal challenges** and discretionary compensation awards	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	1,200,000	0.3	360,000
6	Unanticipated loss of short term income i.e. from precept, business rates, eg surplus on collection fund movement	Timings of budget process may not allow sufficient time to plan for such changes	Network of Chief Financial Officers keep abreast of developments.	N	1,200,000	0.3	360,000
7	**Pay awards** agreed at higher rate than budget	Additional costs. Reserve covers 2% over rate included in budget.		N	714,000	0.5	357,000

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	2021/22 Risk Value	2021/22 Risk Factor Reflecting Frequency	2021/22 Reserve Required
8	Unforeseen price increases due to currency exchange fluctuation	Increased costs / potential for reduced competition	May not be possible to avoid through contract obligations	N	600,000	0.5	300,000
9	Impact of Brexit	Additional costs to redress any impact of Brexit			200,000	1	200,000
10	External Contracts	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	Effective monitoring of contracts		1,000,000	0.2	200,000
11	Unforeseen general change in legislation / Major Incident Reviews	Increased costs of working due to doing more or doing things differently & costs of training	Awareness	N	300,000	0.5	150,000
12	Local/national industrial dispute	Potential loss of service; risk of non-compliance with statutory duties and ensuing legal case / fines; selective industrial action may not result in sufficient underspend to cover additional costs. Potential ministerial intervention and ensuing reputational damage.	Resilience arrangements now in place which has reduced the risk of needing additional cover. Haver reduced the risk factor accordingly.	N	300,000	0.5	150,000
13	Collaboration unforeseen costs	With several collaboration projects underway there is a level of increased financial uncertainty until schemes are bedded in and full costs are known.	Effective planning and identification of costs at the outset of the project	N	400,000	0.2	80,000
14	Increase in numbers of vulnerable people due to economic climate	Loss of council tax precept income, additional cost of fire prevention activity	No controls in place	N	200,000	0.5	100,000

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	2021/22 Risk Value	2021/22 Risk Factor Reflecting Frequency	2021/22 Reserve Required
15	Redundancies due to current and on-going financial constraints, if savings cannot be found from elsewhere	One-off cost of redundancy payment and potential pension strain is too high a cost to budget for within the revenue budget	Business case and payback period	N	500,000	0.2	100,000
16	Hot or dry summers	Increased retained call-outs	None	N	220,000	0.3	66,000
17	Discovery of major property structural problem that restricts / prevents use of all or part of building(s)	Loss of use; cost of repair; impairment to operational effectiveness	Continuity plans, repair and refurbishment programme	P	600,000	0.1	60,000
18	Major vehicle / equipment defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	Mutual assistance, robust and routine fleet inspections. New contract.	N	250,000	0.2	50,000
19	Natural disasters/ multiple large incidents requiring Belwin support	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	90,000	0.5	45,000
20	Breach of data security	Loss of confidential data; Information Commission fines	Security measures	N	150,000	0.25	37,500
21	HSE Interventions	Cost of remedial measures; cost of fine; fees for HSE intervention, indirect costs of covering internal resources used to investigate the issue etc.	Operating procedures; training; written safety policy; risk assessments	N	315,000	0.1	31,500
22	Insurance Excess not included in budget	Insurance receipt may not cover costs. Excess for fraud, indemnity cover and personal damage total £35k.	Training and procedures	Y	100,000	0.3	30,000
	TOTALS				**13,139,000**		**4,477,000**

Appendix B

Earmarked Reserve Position 2020/21 to 2024/25

	Balance 01-Apr-20 £	Movement 2020/21 £	Balance 31-Mar-21 £	Required 2021/22 £	Required 2022/23 £	Required 2023/24 £	Required 2024/25 £	Balance 31-Mar-25 £
Prevention Protection and Partnership								
Safe as Houses - Smoke Alarms	18,301	-	**18,301**	6,301	- 6,000	6,000	-	0
Community Fire Safety - Innovation Fund	133,515	8,279	**141,794**	54,000	54,000	33,794	-	- 0
Thoresby Estate Charitable Trust	2,506	-	**2,506**	-	-	-	-	2,506
LPSA Reward Grant	10,000	-	**10,000**	10,000	-	-	-	-
Fire Cadets Project - Duke of Edinburgh	18,918	-	**18,918**	10,000	- 8,918	-	-	0
On Fire Fund - Fire Safety	59,713	-	**59,713**	4,000	- 4,000	4,000	4,000	43,713
Swan Project Ashfield	217	-	**217**	-	-	-	-	217
Home Safety Equipment Scheme	9,018	100	**8,918**	1,000	- 1,000	1,000	1,000	4,918
Sub Total	**252,188**	**8,179**	**260,367**	**85,301**	**73,918**	**44,794**	**5,000**	**51,354**
Resilience								
Resilience Crewing and Training	298,061	70,000	**228,061**	80,000	80,000	68,061	-	-
New Threats / MTFA	35,103	13,200	**21,903**	-	-	-	-	21,903
Sub Total	**333,163**	**83,200**	**249,963**	**80,000**	**80,000**	**68,061**	**-**	**21,903**
Capital								
Capital Reserve	1,037,419	1,037,419	**0**	-	-	-	-	0
	Balance	**Movement**	**Balance**	**Required**	**Required**	**Required**	**Required**	**Balance**

	01-Apr-20 £	2020/21 £	01-Apr-20 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	31-Mar-25 £
ICT								
PSN - Systel Security Work	266,370	-	**266,370**	-	-	-	-	266,370
ESN RAP Work	348,817	-	**348,817**	-	-	-	-	348,817
ESN Regional Balance (Grant)	255,452	78,000	**177,452**	-	-	-	-	177,452
ESN Control Room ICT	20,100	-	**20,100**	-	-	-	-	20,100
ESN Communication Development	171,753	-	**171,753**	-	-	-	-	171,753
ESN Systel Airwave Transition	173,184	-	**173,184**	-	-	-	-	173,184
ESN - Notts Local Transition Fund	14,794	14,794	**-**	-	-	-	-	-
Delivery of ESN – additional fund	77,000	-	**77,000**	-	-	-	-	77,000
ESN grant - forecast usage	-	-	**-**	100,000	100,000	100,000	100,000	400,000
ESN Sub Total	**1,327,470**	**92,794**	**1,234,676**	**100,000**	**100,000**	**100,000**	**100,000**	**834,676**
Business System Development	58,818		**58,818**	-	- 30,000	-	- 28,818	-
ICT Subtotal	**1,386,288**	**92,794**	**1,293,494**	**100,000**	**130,000**	**100,000**	**128,818**	**834,676**
Operational								
Tri Service Control Phase 2	178,083	-	**178,083**	50,000	50,000	78,083	-	-
Operational Equipment	10,000	-	**10,000**	10,000	-	-	-	-
Sub Total	**188,083**	**-**	**188,083**	**60,000**	**50,000**	**78,083**	**-**	**-**
Other								
Covid-19 2019/20 unused grant	177,173	-	**177,173**	177,173	-	-	-	-
Covid recovery reserve		600,000	**600,000**	300,000	300,000			-
Innovation								
Transformation and Collaboration	1,386,860	413,140	**1,800,000**	600,000	600,000	600,000	-	-
Total	**4,761,174**	**-** **792,094**	**4,569,080**	**-** **1,402,474**	**-** **1,233,918**	**-** **890,938**	**-** **133,818**	**907,932**

APPENDIX C

EXTRACT FROM NATIONAL FRAMEWORK REFERENCE RESERVES

Reserves

5.6 Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

5.7 Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.

5.8 Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

5.9 Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget; and
- details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

5.10 The information on each reserve should make clear how much of the funding falls into the following three categories:

a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
b. Funding for specific projects and programmes beyond the current planning period.

c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).