NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2025/26 AND BUDGET GUIDELINES 2022/23

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

Date: 17 December 2021

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 2022/23 and to request that the Fire Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2022/23.

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 Earmarked Reserve as detailed in the Reserves strategy and set out in the table below:

Re-allocation of Earmarked Reserve

	Balance 31-Mar-22 £	Required 2022/23 £	Required 2023/24 to 2025/26 £	To be Reallocated £
LPSA Reward Grant	**8,500**	0	0	(8,500)
On Fire Fund - Fire Safety	**59,713**	0	0	(59,713)
Resilience Crewing and Training	**289,801**	0	0	(289,801)
New Threats / MTFA	**51,441**	0	0	(51,441)
Mobile Data Terminals	**200,000**	100,000	0	(100,000)
Covid recovery reserve	**600,000**	0	0	(600,000)
Transformation and Collaboration	**1,438,419**	661,586	0	(776,833)
Headquarters move system improvements	**0**	0	0	50,000
Budget Pressure Support	**0**	0	0	936,287
Efficiency Programme	**0**	0	0	900,000
Total	**2,647,873**	**761,586**	**0**	**0**

- 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.

CONTACT OFFICER

Name: Becky Smeathers
Head of Finance and Treasurer

Tel: 0115 967 0880

Email: becky.smeathers@notts-fire.gov.uk

Media Enquiries Contact: Simon Cotton
(0115) 967 0880 simon.cotton@notts-fire.gov.uk

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 Community Risk Management Plan (CRMP) and other key strategies and plans.

1.3 The updated MTFS builds on the strategy approved by the Fire Authority in November 2020 and covers the four-year period from 2022/23 through to 2025/26.

1.4 This MTFS has been written against a backdrop of financial and economic uncertainty. October’s Comprehensive Spending Review provided headline figures for public expenditure but draft settlement figures for individual authorities will not be known until late December. Similarly, there remains uncertainty around inflation which in turn will impact on pay awards. 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 2022/23 and beyond, before final budget proposals are considered by the Fire Authority in February 2022.

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

2. REPORT

ISSUES IMPACTING ON THE BUDGET

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 2021, it was the first year for several years that general fund reserves were not required to balance the budget. Current budget monitoring indicates that expenditure is largely in line with the budget, with a potential for a minor overspend.

2.3 The economic climate for 2022/23 is uncertain at present. In October 21, inflation increased to 4.2% (Consumer Price Index – CPI) and is expected to reach 5% over the coming months. It is likely that this will influence 2022/23 pay awards. With income only expected to increase in the region of 2%, any pay award above this level will create a pressure on the budget. The financial cost to the service of a 1% increase in pay is approximately £330k. A 3% pay increase has been assumed in the MTFS.

2.4 Gas inflation is 28%, fuel inflation 22% and electricity 19% - these are significant budgets for the service and could increase costs by as much as £200k should inflation rates continue at this level throughout the year.

2.5 Inflation and pay increases will similarly impact on our suppliers and contractors. Some contracts are linked to inflation and additional costs in this area can be expected.

2.6 The draft Community Risk Management Plan (CRMP) is out to public consultation until 24 December 21. The CRMP, once finalised, will set the template for service improvement in the coming years. The 2022/23 proposed budget contains an element of growth to deliver the early stages of the CRMP, but funding will need to be found to finance this growth in future years.

COUNCILTAX

2.7 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, although it is considered unlikely that this will be approved.

2.8 Council Tax for the Fire Authority is currently £82.95 at Band D. A 1.95% increase would raise it by £1.62 to £84.57 per year which equates to £1.63 per week. A £5 increase would raise it to £87.95 - £1.69 per week.

RESERVES STRATEGY

2.9 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.

2.10 Total estimated Reserve levels as at 31 March 2022 are £9.5m, consisting of £5.0m General Reserve and £4.5m Earmarked Reserves.

2.11 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 2022/23, which remains the same as 2021/22, although several adjustments have been made to reflect changes in risk. The three highest areas of identified risk are detailed below (see section 2.12 of the Reserves Strategy for more information):

- Pay award above rate included in the budget;
- Pension related issues (due to McCloud, the 2020 revaluation and Matthews/O'Brien case);
- Significant budgetary overspend.

2.12 A review of the Earmarked Reserves has been undertaken in the Reserves Strategy. This has identified £1.9m of available reserves either are no longer required or have not yet been allocated to projects. It is proposed that these be used to create a £900k Efficiency Reserve to identify and evaluate areas where future efficiencies can be made, and a £936k reserve to provide budget pressure support to help with the increases in costs outlined earlier in this report. Details can be seen in the table below.

Re-allocation of Earmarked Reserve

	Balance 31-Mar-22 £	**Required 2022/23 £**	**Required 2023/24 to 2025/26 £**	**To be Reallocated £**
LPSA Reward Grant	**8,500**	0	0	(8,500)
On Fire Fund - Fire Safety	**59,713**	0	0	(59,713)
Resilience Crewing and Training	**289,801**	0	0	(289,801)
New Threats / MTFA	**51,441**	0	0	(51,441)
Mobile Data Terminals	**200,000**	100,000	0	(100,000)
Covid recovery reserve	**600,000**	0	0	(600,000)
Transformation and Collaboration	**1,438,419**	661,586	0	(776,833)
Headquarters move system improvements	**0**	0	0	50,000
Budget Pressure Support	**0**	0	0	936,287
Efficiency Programme	**0**	0	0	900,000
Total	**2,647,873**	**761,586**	**0**	**0**

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

OUTLOOK FOR 2022/23, 2023/24 AND BEYOND

2.14 Whilst detailed expenditure budgets are still being developed, where additional costs are already known, these have been included in the budget requirement.

2.15 Given the uncertainty discussed in this strategy, three scenarios have been considered – a worst case, a likely case, and a best scenario. These can be found in section 6 of the MTFS. A summary of this can be found in the table below.

Scenario	Deficit / (Surplus) Position 2022/23 £'000	Comments / Assumptions
Worst Case	2,346	• 5% pay award • 2% increase in income • Local Council Tax Support Income is not continued (£500k) • £1m temporary internal savings made • Costs increase by £200k more than currently anticipated due to inflationary pressures • 1.95% increase in Council Tax approved
Most Likely Case	806	• 3% pay award • 2% increase in income • Local Council Tax Support Income is continued (£500k) • £1m temporary internal savings made • Costs increase by £200k more than currently anticipated due to inflationary pressures • 1.95% increase in Council Tax approved
Best Case	(826)	• 2% pay award • £1m temporary internal savings made • £5 increase in Council Tax – Would require £3 increase to break even. A zero increase would create an £0.8m deficit.

2.16 All the cases considered above assume that the service makes £1m temporary savings during 2022/23 in an attempt to reduce the deficit. Some of this is reversed in 2023/24, meaning that the position worsens in future years by around £600k

2.17 The scenarios show the position should a 1.95% increase in Council Tax be approved. This increase provides additional income in the region of £500k. If Members choose to keep Council Tax at 2021/22 levels, the position shown above will worsen by this amount, with the most likely scenario having a £1.3m deficit.

SUSTAINABILITY AND EFFICIENCY

2.18 The Authority set a balanced budget for 2021/22 following several years where General Fund reserves were required to balance the budget. Even though the financial position set out in the MTFS is based on early estimates of funding and expenditure which may still change, it is clear that some efficiencies are likely to be necessary to bring the service back into a balanced budget situation.

2.19 The CRMP, once finalised, will set the template for service improvement in the coming years. The 2022/23 proposed budget contains an element of growth to deliver the early stages of the CRMP, but funding will need to be found to finance this growth in future years.

2.20 Once the funding position is known with more certainty (February 2022) and the CRMP has been revised to reflect the outcome of public consultation which ends in December 21, it will be necessary to review current services and align them to the new CRMP. This will need to be done within the current funding envelope. In order to achieve this an efficiency strategy is proposed to realign services and fund the proposed changes. This will cover both revenue budgets and the capital programme.

2.21 Within the Reserves Strategy, £900k has been identified to fund the work required to develop the Efficiency Strategy and enable any transitional period should the strategy require time to be implemented.

2.22 An Efficiency Strategy will be presented to Policy and Strategy Committee on 6 May 22.

PROPOSED GUIDELINES

2.23 The meeting of the Finance and Resources Committee in January 2022 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.

2.24 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.

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

a. Reduce Council Tax;

b. Maintain Council Tax at the 2021/22 level;

c. Increase Council Tax by an amount lower than the referendum limit (section 2.7);

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

2.26 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.

2.27 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 Earmarked Reserve as detailed in the Reserves strategy and set out in the table below:

Re-allocation of Earmarked Reserve

	Balance 31-Mar-22 £	Required 2022/23 £	Required 2023/24 to 2025/26 £	To be Reallocated £
LPSA Reward Grant	**8,500**	0	0	(8,500)
On Fire Fund - Fire Safety	**59,713**	0	0	(59,713)
Resilience Crewing and Training	**289,801**	0	0	(289,801)
New Threats / MTFA	**51,441**	0	0	(51,441)
Mobile Data Terminals	**200,000**	100,000	0	(100,000)
Covid recovery reserve	**600,000**	0	0	(600,000)
Transformation and Collaboration	**1,438,419**	661,586	0	(776,833)
Headquarters move system improvements	**0**	0	0	50,000
Budget Pressure Support	**0**	0	0	936,287
Efficiency Programme	**0**	0	0	900,000
Total	**2,647,873**	**761,586**	**0**	**0**

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.

Becky Smeathers
TREASURER TO THE FIRE AUTHORITY

John Buckley
CHIEF FIRE OFFICER

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Medium Term Financial Strategy

2022/23 to 2025/26

MEDIUM TERM FINANCIAL STRATEGY

2022/23 to 2025/26

CONTENTS

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 CRMP can both be achieved and sustained over time.

1.3 The Strategy should reflect the priorities outlined in the CRMP (Community Risk Management Plan – CRMP) 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 CRMP, 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 CRMP and other strategies which flow from the CRMP.

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

c) Priorities will be influenced by the Corporate Risk Register.

d) 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.

e) 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.

f) 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.

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

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

i) 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.

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

k) The Authority will apply any year end surpluses / deficits to general fund reserves.

l) 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 priorities outlined in the CRMP.

1.7 Budget managers are fully involved in developing revenue and capital budgets to ensure that annual budgets accurately reflect demand levels and cost pressures. Inflation is built in where necessary and not applied at a flat rate across the board.

1.8 Salary budgets reflect staffing levels outlined in the workforce plan and pay inflation is estimated at the time of setting the budget.

1.9 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.

1.10 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. At the time of writing this MTFS, the 2021/22 Statement of Accounts has not yet been audited.

1.11 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.

1.12 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.

1.13 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. The service follows the Financial Management Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.14 The post of Head of Finance and Treasurer 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 current economic climate is increasingly uncertain and may yet be influenced by the new variant of Covid-19.

2.2 In October 21, inflation increased to 4.2% (Consumer Price Index – CPI) and is expected to reach 5% over the coming months. It is likely that this will influence 2022/23 pay awards. Gas inflation is 28%, fuel inflation 22% and electricity 19% - these are significant budgets for the service and could increase costs by as much as £200k should inflation rates continue at this level throughout the year. Bank of England projections see inflation rates falling back to 2% over a 3 year period.

2.3 At its meeting on 4th November the Monetary Policy Committee (MPC) voted 7-2 to leave bank rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases. This was contrary to the expectations of the financial markets, which had built in an expectation that bank rate would be increased to 0.25%. However, this is expected to be a temporary delay and rates are expected to be raised over coming months if the economy performs as expected.

2.4 The MPC revised down expectations for 2021 growth to 7%, with the economy expected to return to its pre-pandemic level by Q1 2022. Growth expectations for 2022 were reduced from 6% to 5%, and growth is then expected to slow sharply to 1.5% in 2023 and 1% in 2024.

2.5 Over the next year the MPC will be attempting to combat high inflation whilst not dampening growth. Growth already faces challenges in the form of supply shortages, labour shortages, surging fuel prices and tax increases. However, the impact of these challenges will be at least partially offset by consumers spending at least part of the £160bn+ of excess savings accumulated during the pandemic, although it is possible that people may be content to hold onto their savings and investments and therefore not support economic recovery to the extent that the MPC may forecast.

SECTION 3: ISSUES IMPACTING ON THE BUDGET

COVID-19

3.1 Covid-19 continues to have a significant impact on the service's finances. An element of unspent grant, reduced prevention and protection activity, delays to capital projects and difficulties in procuring supplies and equipment led to a £1m underspend in 2020/21. This was transferred to Earmarked Reserves to either fund delayed expenditure or assist with the recovery from Covid-19.

3.2 Service activity has largely been back to normal levels in 2021/22 and revenue expenditure is slightly above budgeted levels. There remain shortages in some goods and services which has resulted in delayed delivery times and an increase in inflation. Inflationary pressures are of a particular concern in the areas of gas, electric and fuel.

3.3 The full impact of the pandemic is yet to be fully understood. Initial indications are that Council Tax collection levels have remained stable. However, the impact on Business Rate collection remains uncertain as the full impact of the ending of Business Rate holidays is not yet known (see Section 4). For this reason, this MTFS considers the impact of differing levels of Business Rate income.

Corporate Risk Management Plan – CRMP (formerly known as Strategic Plan)

3.4 The draft CRMP 2022-25 is out to public consultation until 24 December 21, including some consultation on budget levels. Both the CRMP and other plans and strategies are used to drive the budget. The strategic objectives set out in the CRMP will be used to prioritise requests for additional funding.

3.5 The service has also undertaken a Fire Cover Review of the county which has been used to inform the CRMP. The review also helps identify where provision can be improved or undertaken in a more efficient manner. Any opportunities for efficiencies will be explored and used to inform the Service's Efficiency Strategy (see section 7).

HMICFRS INSPECTION

3.6 The Service was inspected by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in October 2021. The outcome of the inspection will not be released until spring 2022. The report may have an impact on future years budgets if funding needs to be found for areas for improvement not already identified in the CRMP.

3.7 The service underwent a Covid-19 inspection in October 2020. HMICFRS found the service had adapted and responded to the pandemic effectively and had no difficulty in meeting its statutory duties. The report recognised how the service had provided additional support to the community during the pandemic. This was made possible through the effective use of additional grant provided by the Government.

3.8 The inspection process required a significant amount of data collection and officer time. This is an ongoing process as the service responds to the outcome of the recent inspection and prepares for the next.

PENSIONS

3.9 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 in the General Fund reserves risk register (Appendix 3).

3.10 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.

3.11 Both of these remedies will have a large impact on the workload of staff dealing with the cases and extra resources will need to be factored into the workforce over the coming years.

3.12 There will also be a significant impact on 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.

3.13 The 2016 Government Actuaries Department (GAD) revaluation of the firefighter's pension fund resulted in a headline rate increase of 12.4% of employer pension costs, which in 2020/21 equated to £2.5m for the service.

The Home Office agreed to fund £2.3m of this pressure in 2020/21. This has been rolled forward into and 2021/22 and the same is expected for 2022/23. The pension scheme is undergoing a further revaluation, and this creates the risk of a further increase in charges.

PAY AWARD

3.14 Unions representing non-uniformed staff are balloting on whether to accept a 1.75% pay award in 2021/22. This exceeds the 1.0% included in the budget and any award above this rate will create a cost pressure which will also need to be built into future years' salary costs (a 1% increase relates to approximately £50k ongoing costs).

3.15 Operational staff received a 1.5% pay award in 2021/22 against a budget of 1%. The ongoing costs of the additional award are in the region of £140k.

3.16 With inflation currently at 4.2%, it is anticipated that the 2022/23 pay award will be in excess of the 2% increase in income that the service is expecting for 2022/23. For the purposes of the MTFS, the budgets will assume a 3% pay award for both uniformed and non-uniformed staff for 2022/23, dropping back to 2% to 2025/26. Should pay awards be agreed higher than this level the additional cost will be in the region of £330k for every 1% increase in pay.

FIREFIGHTER RECRUITMENT

3.17 It is anticipated that there will be a full-time recruit intake during 2022/23 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

3.18 The service has had to significantly change the way that it works as a consequence of the Covid-19 pandemic. Many support staff worked from home during the pandemic and are now working in an agile way. Systems have had to be reviewed and new ways of working developed to meet the needs of the changing environment. Investment on fire station equipment has also been made to enable better ways of working.

3.19 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.

3.20 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 equipment and 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

3.21 The Grenfell Tower Inquiry and subsequent Hackitt review identified that much work was required within the sector 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. Grenfell Infrastructure Improvement Grant of £101k was received in September 2020 to assist with the additional costs of implementing the required changes. A further £60k grant has been provided to undertake additional Building Risk Review work.

3.22 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. The service has received one year Fire Protection Uplift grant of £165k to assist with the cost of the increased work in this area.

3.23 There remains an ongoing financial pressure if Grenfell related work is to be continued once grant payments have been exhausted.

EMERGENCY SERVICES MOBILE COMMUNICATION PROGRAMME (ESMCP)

3.24 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.

3.25 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.

3.26 There have been significant delays to the programme and funding has 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. An additional £60k has been previously built into 2021/22 budgets to help fund this work.

NATIONAL RESILIENCE

3.27 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

3.28 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

3.29 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.

3.30 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.

TREASURY STRATEGY

3.31 The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 26 February 2021. 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.

CAPITAL STRATEGY

3.32 The Capital Strategy for each year is approved by Fire Authority alongside the MTFS. The updated Capital Strategy for 2022/23 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.

3.33 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.

3.34 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 25 February 2022. The 10-year programme includes the completion of the new headquarter provision and investment into new fire stations at Worksop and Eastwood as well as replacement of the fire appliances, and Road Traffic Collision equipment. 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.

3.35 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

3.36 The Authority’s Prudential Code, sets out the prudential indicators approved for 2021/22. 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 2027/28 the debt to budget ratio peaks at 8.4% before dropping below 8% again in 2029/30. This will be reviewed once changes in service requirements are identified in future efficiency work and the capital plan will be adjusted as necessary.

3.37 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.

3.38 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.

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

3.40 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

3.41 The UK left the European Union (EU) on 31 January 2020 with the UK / EU trade deal coming into force on 1 January 2021. Both costs and availability of goods have been affected, although some of this could be put down to the impact of Covid-19. Whist it is difficult to distinguish what has let to these market changes, budgets are being set on the best information currently available. This may need revising once the impact is fully known. The impact of Brexit is identified in the general reserve and a contingency is held here to reflect the current level of uncertainty.

COLLABORATIVE WORKING

3.42 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.

3.43 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.

3.44 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: UNPREDICTABILITY OF FUTURE YEARS PUBLIC FUNDING

Government Grant

4.1 The funding for 2022/23 to 2024/25 remains uncertain. The October 21 Comprehensive Spending Review indicated that Local Government funding would increase in the region of 3%. However, with above inflationary increases identified for health, social care and education, the level of grant awarded to the fire sector is expected to be in the region of 2%.

4.2 The fire funding formula review, which determines the breakdown of Government funding between fire authorities, has been delayed due to the necessity to concentrate on the implications of Covid-19. It is anticipated that the earliest this will be implemented is 2023/24. The status quo situation has been assumed for the purposes of the MTFS.

4.3 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. This has continued to be paid each year but not increased for inflation and it has been assumed that this will continue for the duration of the MTFS. It has been assumed that it will continue to be paid as a Section 31 grant at flat cash level. Depending on the pay award, this grant is reducing in real spending terms by approximately £50k per year.

Business Rates

4.4 As part of the Covid-19 support packages, the government implemented a business rates holiday for the retail, hospitality and leisure sectors for the whole of 2020/21. In the March 21 budget, this was extended until the end of June 21 and dropped to 66% relief until March 22. In the November 21 Budget this was further extended, with 50% relief for the 2022/23 financial year. This has helped stabilise business rate income and for the purposes of this MTFS it is assumed that 2022/23 income will remain at 2021/22 anticipated levels. The service will be compensated for the drop in business rate income resulting from the above-mentioned relief by way of additional government grant.

4.5 Business Rate income for 2023/24 has also been assumed to remain at current levels. However, there is a significant amount of uncertainty for 2023/24 and beyond as there are several factors that could significantly affect income levels:

- The business rates holiday ends in April 2023 which could impact on income as firms review their working arrangements to reduce costs;

- Covid-19 has resulted in a delay to the revaluation of business properties which should have come into effect in 2021/22, but will now have effect from 2023/24. This could have a significant impact on income levels as at present the service keeps all growth that has taken place since the last valuation but following the valuation this will form part of the pot for national distribution;

- The government has consulted on undertaking a fundamental review of business rates which is due to conclude shortly. The impact this will have on individual authorities is not known at present.

- The government has abandoned plans to allow councils to retain 75% (an increase from 50%) of their business rates to help facilitate the levelling up agenda.

4.6 A 10% decrease in business rate collection will result in an approximate loss of £370k income.

Council Tax

4.7 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, although it is considered unlikely that this will be approved. This would raise an additional £1.6m compared to no increase in council tax -this would remain in the base in future years.

4.8 Council Tax for the Fire Authority is currently £82.95 at Band D. A 1.95% increase would raise it by £1.62 to £84.57 per year which equates to £1.63 per week. A £5 increase would raise it to £87.95 - £1.69 per week.

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 2022 are £9.5m, consisting of £5.0m General Reserve and £4.5m Earmarked Reserves.

5.3 The Authority reviews the levels of reserves it requires as part of the Reserves Strategy. A General Fund reserve minimum level of £4.5m has been proposed for 2022/23, which remains the same as 2021/22, although several adjustments have been made to reflect changes in risk. The three highest areas of identified risk are detailed below (see section 2.12 of the Reserves Strategy for more information):

- Pay award above rate included in the budget;
- Pension related issues (due to McCloud, the 2020 revaluation and Matthews/O'Brien case)
- Significant budgetary overspend

5.4 A review of the Earmarked Reserves has been undertaken in the Reserves Strategy. This has identified £1.9m of available reserves either are no longer required or have not yet been allocated to projects. It is proposed that these be used to create a £900k Efficiency Reserve to identify and evaluate areas where future efficiencies can be made, and a £936k reserve to provide budget pressure support.

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

SECTION 6: OUTLOOK FOR 2022/23, 2023/24 AND BEYOND

6.1 In February 2021, the Authority set a balanced budget for 2021/22 without any use of reserves. The budget paper anticipated that there would be pressure on business rate income in 2022/23 as the business rate holidays were due to end. This contributed to in a proposed deficit position of £654k (assuming a 1.95% increase in Council Tax).

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

Table 2 – Known Additional 2022/23 Expenditure Since February 2021

Expenditure	**£'000**
Estimated 3% pay award	330
Impact of above budget 2021/22 pay award	190
On Call increased activity / training	300
Pressure on contract costs	300
Inflation (gas 28%, fuel 20%, CPI 4.2%)	200
MRP – increased expenditure on ICT equipment	200
Total	**1,420**

6.3 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 2022 and Fire Authority in February 2022.

6.4 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

6.5 The worst-case scenario assumes that:

- The starting point of £654k deficit remains true - this assumes a 5% decrease in Business Rate income;
- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) increases 2% year on year;
- Pay awards for both uniformed and non uniformed are 5%;
- Additional cost increases are £200k higher than the £1.4m identified in section 6.2;
- No Local Council Tax Support Grant is received for 2022/23 (£500k).
- Council Tax is increased at 1.95% for each year.

6.6 This scenario would result in a £2.3m deficit in 2022/23 and has an ongoing £4.2m deficit thereafter as detailed in the table 1 below:

Table 3 – Worst Case Scenario

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Requirement	45,302	48,651	50,473	51,970	53,009
Revenue Support Grant (RSG)	(5,452)	(5,561)	(5,672)	(5,783)	(5,902)
Business Rate (BR) Income	(3,583)	(3,403)	(3,403)	(3,437)	(3,472)
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%)	(26,650)	(27,578)	(28,496)	(29,443)	(30,421)
Budget Deficit	**0**	**2,346**	**2,991**	**3,245**	**2,997**

6.7 If a nil council tax increase is approved in 2022/23, the deficit position becomes £2.874m. If an increase of £5 were to be permitted and approved, the deficit position reduces to £1.243m. Significant ongoing savings would need to be identified in order to balance the budget if this scenario plays out.

SCENARIO 2 – MOST LIKELY SCENARIO

6.8 The most likely scenario assumes that:

- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) increases 2% year on year;
- In year temporary savings of £1m are made in 2022/23;
- Pension Grant remains flat in cash terms at £2.34m;
- Local Council Tax Support grant continues at £500k;
- Business Rate collection remains flat in 2022/23 and 2023/24 and increases by 1% per year thereafter;
- Council Tax collection increases by 1.5% in 2022/23 and increases by 1.35% for the following 2 years;
- Council Tax is increased at 1.95% for each year.

6.9 This scenario would result in a £0.8m deficit in 2022/23 which increases to £1.4m by 2025/26. This scenario requires ongoing savings to be identified to ensure a balanced budget can be achieved without the use of reserves.

Table 4 – Most Likely Case Scenario

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Requirement	45,302	47,291	49,113	50,610	51,622
Revenue Support Grant (RSG)	(5,452)	(5,561)	(5,672)	(5,783)	(5,902)
Business Rate (BR) Income	(3,583)	(3,583)	(3,583)	(3,618)	(3,654)
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%)	(26,650)	(27,578)	(28,496)	(29,443)	(30,421)
Budget Deficit	**0**	**806**	**1,451**	**1,704**	**1,428**

6.10 If a nil council tax increase is approved in 2022/23, the deficit position in the scenario in Table 4 becomes £1.334m. If an increase of £5 were to be permitted and approved, the deficit position would become a surplus of £296k.

SCENARIO 3 – BEST CASE SCENARIO

6.11 This scenario assumes that:

- 2% pay award;
- Council Tax collection rates increase by 1.5% in 2022/23 and 1.35% thereafter;
- Local Council Tax Support Grant is received (£500k);
- Council Tax is increased by £5.00 in 2022/23 and 1.95% thereafter.

Table 5 – Best Case Scenario

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Requirement	45,302	46,760	48,583	50,080	51,085
Revenue Support Grant (RSG)	(5,452)	(5,561)	(5,672)	(5,783)	(5,902)
Business Rate (BR) Income	(3,583)	(3,583)	(3,583)	(3,618)	(3,654)
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 (£5/ 1.95%)	(26,650)	(28,680)	(29,636)	(30,622)	(31,640)
Budget Deficit / (Surplus)	**0**	**(826)**	**(219)**	**(9)**	**(332)**

6.12 This scenario reflects that if inflation (and salary increases) were to reduce to 2%, a £5 increase in Council Tax would permit investment of £826k in future services. It would require a 3% increase to break even in 2022/23. If a nil council tax increase is approved in 2022/23, the deficit position in the scenario in Table 4 becomes £0.8m.

SECTION 7: SUSTAINABILITY AND EFFICIENCY

7.1 The Authority set a balanced budget for 2021/22 following several years where General Fund reserves were required to balance the budget. Even though the financial position set out in the MTFS is based on early estimates of funding and expenditure which may still change, it is clear that some efficiencies are likely to be necessary to bring the service back into a balanced budget situation.

7.2 The CRMP, once finalised, will set the template for service improvement in the coming years. The 2022/23 proposed budget contains an element of growth to deliver the early stages of the CRMP but funding will need to be found to finance this growth in future years.

7.3 Once the funding position is known with more certainty (February 2022) and the CRMP has been revised to reflect the outcome of public consultation which ends in December 21, it will be necessary to review current services and align them to the new CRMP. This will need to be done within the current funding envelope. In order to achieve this an efficiency strategy is proposed to realign services and fund the proposed changes. This will cover both revenue budgets and the capital programme.

7.4 Within the Reserves Strategy, £900k has been identified to fund the work required to develop the Efficiency Strategy and enable any transitional period should the strategy require time to be implemented.

7.5 An Efficiency Strategy will be presented to Policy and Strategy Committee on 6 May 22.

SECTION 8: SUMMARY

8.1 This MTFS has been written against a backdrop of financial and economic uncertainty. Whilst indications are that the fire sector will receive funding increases in the region of 2% this will not be known with any certainty until the Funding Settlement figures are known in December and collection fund details are known at the end of January 22.

8.2 The most likely scenario (section 6.9), assuming a 1.95% increase in Council Tax and after considering the economic situation and expected costs, shows a 2022/23 deficit position of £806k. This rises significantly in future years to £1.7m in 2024/25. If Council Tax levels are held at 2021/22 levels, this would increase the 2022/23 deficit to £1.3m.

8.3 In the worst case scenario (section 6.6) estimates show that a 2022/23 deficit of £2.3m could be likely, even assuming a 1.95% Council Tax increase. This would rise to around £3m in future years. If there were to be no increase in Council Tax levels the 2022/23 deficit would rise to £2.9m.

8.4 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. However, this is considered unlikely to be approved as part of the final settlement from central government.

8.5 The Reserves Strategy sets out plans for creating two new reserves - £936k to provide budget pressure support and £900k to help develop an Efficiency Strategy to enable the service to realign services to its new CRMP. The use of both of these reserves is expected to be necessary to enable the service to deliver improvements set out in the CRMP and to balance future years budgets.

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 25 February 2022 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2022/23.

APPENDIX 1

CAPITAL STRATEGY 2022/23

Date Considered by Fire Authority: December 2021

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 CRMP 2022/25.

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

- CRMP
- 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 2019/20.

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 CRMP 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 Comprehensive Spending Review expected in December 2021 will set the funding limits in 2022/23 to 2024/25. The capital programme will be revised accordingly and considered as part of the budget setting process, with final approval being sought from Fire Authority in February 2022.

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 5.9% (2022/23) 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 will be reviewed as part of the Efficiency Strategy to ensure it does not exceed this limit. There is currently a risk that it will be breached between 2026/27 and 2028/29. This may change once revenue budget figures are finalised and capital costs confirmed. 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 3 financial years up until 2018/19. Capital receipts used in this way must have been received in these same three years. This was subsequently extended for a further 3 years up until 2021/22 and in February 21 the Government announced that it would again be extended until 2024/25.

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 2022/23

For the financial year 2022/23 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 2022/23 TO 2030/31

10 YEAR CAPITAL PROGRAMME	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	Budget 2031-32 £'000
TRANSPORT										
Pumping Appliances	840	2,114	1,694	1,687	1,687			480	1,346	1,346
Special Appliances	625	1,050	638	120	150		105		300	100
Light Vehicle Replacement	158	48	193	196	262	438	128	538	158	200
E1 Fleet - telematic			90							
	1,623	**3,212**	**2,615**	**2,003**	**2,099**	**438**	**233**	**1,018**	**1,804**	**1,646**
EQUIPMENT										
Lightweight Fire Coat							250			
Structural Personal Protective Equipment						1,000				
Fire Helmets							200			
Fire Gloves								150		
Replacement Duty Uniform	250								300	
Water Rescue kit (Dry Suits Thermal)								200		
Fire Hood - Contaminants		150								
Breathing Apparatus Equipment					250				250	
Coveralls - Non Fire		100								
Gas Tight Suits		70								
Radios			250							
Foam Branches	70									
Road Traffic Collision equipment (Holmatro)			1,000							
Gas Monitoring					35					
Water Recue Equipment (Reach and Rescue poles)	50									
	370	**320**	**1,250**		**285**	**1,000**	**450**	**350**	**550**	
ESTATES										
Relocation of Incident Command Training	450									
Worksop Fire Station	218	235								
Headquarters (HQ) project	827									
Eastwood Fire Station	.	1,180	70							
Ashfield Fire Station (Refurb)			488	13						
Arnold Fire Station			500	2,000	888	63				

	2022/23 £’000	2023/24 £’000	2024/25 £’000	2025/26 £’000	2026/27 £’000	2027/28 £’000	2028/29 £’000	2029/30 £’000	2030/31 £’000	2031/32 £’000
Stockhill Fire Station				500	2,200	1,600	50			
Bingham Fire Station									731	19
Mansfield Fire Station							731	19		
Edwinstowe Fire Station									50	2,000
	1,495	**1,415**	**1,058**	**2,513**	**3,088**	**1,663**	**781**	**19**	**781**	**2,019**
I.T. & COMMUNICATIONS										
HQ Project (Enabling Works - ICT)										
Replacement Equipment	200	200	200	200	200	200	200	200	200	200
Mobile Computing	30	30	30	30	30	30	30	30	30	30
HQ - Link ICT Replacement	30									
Business Process Automation	40	40	40	40	40	40	40	40	40	40
Cyber security	75			30			30			30
HQ Core Switch Upgrade	50				50					
Sharepoint	20				25				25	
Occy Health - Upgrade			25			25			25	
CFMIS (Community Fire Risk Management Information System) - quick Screens	100									
CFMIS accessibility improvement	150									
HR system upgrade			51							
Payroll And Finance Upgrade		30		30		30		30	30	
	695	**300**	**346**	**330**	**345**	**325**	**300**	**300**	**350**	**300**
CONTROL										
Airwave mobilisation system	60									
Tri Service mobilisation infrastructure	40									
Mobile Data Terminal replacement project	80									
Tri-Service Control & Mobilising System		1,000			300			300		
	180	**1,000**			**300**			**300**		
	4,363	**6,247**	**5,269**	**4,846**	**6,117**	**3,426**	**1,764**	**1,987**	**3,485**	**3,965**
To Be Financed By :										
Capital Receipts		1,310	260	10	10	260	360	10	10	10
Borrowing	4,188	4,937	5,009	4,836	6,107	3,166	1,404	1,977	3,475	3,955
Earmarked Reserves	175									
Total	**4,363**	**6,247**	**5,269**	**4,846**	**6,117**	**3,426**	**1,764**	**1,987**	**3,485**	**3,965**
Debt Cost Ratio	**5.87%**	**6.64%**	**7.37%**	**7.81%**	**8.16%**	**8.44%**	**8.37%**	**7.91%**	**7.60%**	**8.12%**

APPENDIX 3

NOTTINGHAMSHIRE
Fire & Rescue Service

RESERVES STRATEGY

2022/23 to 2025/26

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. The Reserves Strategy can form part of the Medium Term Financial Strategy (MTFS) or be a stand-alone document.

STRATEGIC CONTEXT

1.4 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.

1.5 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.

1.6 **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.

1.7 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.

1.8 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 such as a sudden increase in inflation or a pay award higher than anticipated when the budget was set.

Provisions - 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 A common benchmark used for the General Reserve is 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. This is particularly true in the current uncertain economic climate following Covid-19 and Brexit.

2.5 At the start of 2021/22, the General Reserve was £4.991m, which represented 11% of the 2021/22 net revenue budget. Current budget monitoring would indicate that the General Fund Reserve will remain close to this level at the end of the financial year.

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 three highest risks identified in the risk register are detailed below:

1) **Pay Awards**. Recent increases inflation will have an impact on pay negotiations for 2022/23. Annual inflation using the CPI measure in October 21 was 4.2% and RPI 6%. Forecasts suggests that CPI may rise to 5% in December 22. This may represent a peak with inflation falling again in 2022, but there is little certainty about this. A potential cost of £1m has been identified to cover an award of 3% above the amount included in the budget. A risk factor of 0.75 has been used to give a value of £0.75m to be included in the reserve.

2) **Pension Issues.** With ongoing uncertainty around implementation of the McCloud Immediate Detriment remedy in the Firefighters' Pension Scheme there remains a risk that the service will be required to pick up additional related costs, which the Home Office are currently indicating that they are not prepared to fund.

   There is a further legal case (McCloud / O'Brien) which will backdate the date from which on-call firefighters can join the pension scheme (from 2006 to the date of employment). The costs that the service will incur relating to this remain unclear.

   The pension scheme is also undergoing a revaluation exercise, the results of which may mean that employer superannuation rates are increased. This will come into effect in 2023/24.

   £0.5m has been included in the reserve to cover any potential costs.

3) **Significant Overspend** With the uncertainty of the current economic climate and the unknown impact of the new Omicron variant of Covid-19 there remains a risk of overspend.

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 should remain at £4.5m. This reflects the uncertain financial climate which is influenced by the:

- impact of Covid-19 on both the national and local economy;
- impact of the uncertain economic climate and its impact on both income and expenditure levels.

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

Table 1 – Minimum General Fund Reserve Levels over last 5 years

Year	Minimum General Fund Reserve level £'m
2022/23	4.5
2021/22	4.5
2020/21	3.9
2018/19	3.9
2017/18	4.3

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 2022 is of the order of £5.0m (section 2.5). The General Fund reserve exceeds the minimum level required by £0.5m.

3 ANNUAL REVIEW OF EARMARKED RESERVES

3.1 At 1 April 2021, the Authority had £5.7m 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 Any unspent government grant at the end of the financial year is transferred into earmarked reserves to enable it to be ringfenced for its original purpose. It is expected that £1.4m of earmarked reserves at 31 March 22 will relate to unspent grant. The majority of this (£1.1m) relates to the national Emergency Services Network (ESN) scheme that is running several years behind schedule.

3.3 Appendix B contains details of all Earmarked Reserves. A summary position is shown in Table 2 below.

Table 2 – Summary of Earmarked Reserves

Purpose	Balance 1 Apr 21 £'000	Expected Balance 31 March 22 £'000	Required 2022/23 to 2025/26 £'000	Estimated Unused 31 Mar 26 £'000
Prevention & Protection	429	237	169	68
Resilience	349	341	0	341
Emergency Services Network	1,072	1,072	1,072	0
Other ICT	112	112	112	0
Operational	673	520	420	100
Covid related	1,054	658	58	600
Transformation and Collaboration	1,800	1,438	662	777
Other	42	19	19	0
Reserves held on behalf of region (for ESN)	182	102	102	0
Total	**5,712**	**4,500**	**2,614**	**1,886**

3.4 The relevance of, and value in, each reserve is reviewed annually with a view to identifying any surplus reserves and realigning available funding to the service's priorities.

3.5 Given the potential deficit identified in the 2022 Medium Term Financial Strategy (MTFS), all existing earmarked reserves have been scrutinised with the purpose of creating a reserve to support the Efficiency Plan currently under development and support the revenue budget until this plan is implemented.

3.6 The £1.9m funds remaining uncommitted at 31 March 26 (see final column of Table 2) are considered available to set aside for this purpose. This mostly comprises of:

- Unallocated Transformation and Collaboration reserve (£777k) – this was set aside for transformational change and will still be required for this purpose but moved to a new reserve with an emphasis on making financial efficiencies;

- Covid-19 Recovery - £600k was put aside from 2021/22 underspends should the service need additional funds to assist its recovery from the Covid-19 pandemic. In reality, the grant received from central government was sufficient to fund all covid related activity and it the service remains in a robust position. It is proposed that this reserve would be better utilised for supporting future efficiencies as required.

- Resilience – some years ago the service was gifted some resilience vehicles that had been previously held in a national pool (such as the high volume pump that is regularly used in flooding incidents and was used at the Toddbrook Reservoir incident). A Section 31 grant was awarded to help maintain the vehicles and train staff (ie the grant was non specific with regards to its use). Additional grant is received on an adhoc basis to help respond to national incidents. This has been kept in this reserve, but all related activity was embedded into the service's normal workload sometime ago and it has not been utilised for several years now other than an occasional very small allocation and it is considered appropriate to release the remaining £341k for other purposes.

.

3.7 Appendix B contains details of all Earmarked Reserves along with proposed amounts for reallocation. Table 2 provides a summary of those reserves identified for reallocation.

Table 2 – Summary of proposed Re-allocation of Earmarked Reserves

	Balance 31-Mar-22 £	**Required 2022/23 £**	**Required 2023/24 to 2025/26 £**	**To be Reallocated £**
LPSA Reward Grant	**8,500**	0	0	8,500
On Fire Fund - Fire Safety	**59,713**	0	0	59,713
Resilience Crewing and Training	**289,801**	0	0	289,801
New Threats / MTFA	**51,441**	0	0	51,441
Mobile Data Terminals	**200,000**	100,000	0	100,000
Covid recovery reserve	**600,000**	0	0	600,000
Transformation and Collaboration	**1,438,419**	661,586	0	776,833
Total	**2,647,873**	**761,586**	**0**	**1,886,287**

3.8 The review of Earmarked Reserves has identified £1.886m for reallocation. It is proposed that this be used to create 3 new earmarked reserves:

Table 3 – Creation of New Earmarked Reserve

Reserve	**Amount £**
Headquarters Move – system improvements	50,000
Budget pressure support	936,287
Efficiency Programme	900,000
Total	**1,886,287**

4 SUMMARY

4.1 It is appropriate to advise Members that the level of reserves held by the Authority will be sufficient during 2022/23 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 2022/23 budgets are set in February 2022.

4.2 There remains significant pressure on budgets going forward. It is anticipated that the service will need to identify savings in order to balance the budget in future years. This will be achieved through the Efficiency Strategy which will be considered by Fire Authority in February 2022. It is expected that there will be a shortfall of funding in 2022/23 while the Efficiency Strategy is implemented and that reserves will be required to meet the shortfall.

4.3 The total value of the Authority's reserves on 1 April 2022 is expected to be in the region of £9.5m.

4.4 The expected level of General Fund Reserves as at 1 April 2022 is expected to be in the region of £5.0m, which exceeds the £4.5m minimum level identified for 2022/23 by £0.5m.

4.3 Earmarked Reserves are expected to be in the region of £4.5m at 1 April 2022. These are expected to be fully spent by the end of 2025/26, although additional reserves are likely to be created due to ongoing receipts of grant.

4.4 £1.9m of earmarked reserves have been identified for reallocated to:

- Headquarters system improvements - £50k;
- Budget Pressure Support - £936k;
- Efficiency Programme £900k.

2022/23 General Fund Risk Analysis

Appendix A

Risk No	Risk Description	Risk Effect	Control Measures	2022/23 Risk Value £	Risk Factor Reflecting Frequency £	2022/23 Reserve Required £
1	**Pay awards** agreed at higher rate than budget	Additional costs. Reserve covers 2% over rate included in budget.		1,000,000	0.75	750,000
2	**Pension issues** - McCloud additional costs / Matthews / Obrien /revaluation costs / ombudsman rulings / medical appeals, accounting errors / mal-administration	Additional costs may fall to Fire Authority	Working closely with LGA / Pension Scheme Administrators and other Authorities to ensure consistent approach. Taken on additional resources.	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	Regular budget monitoring which allows early identification of problems and corrective action to be undertaken.	1,000,000	0.5	500,000
4	**External Contracts**	External contractors are subject to increased inflation / pay rises which make fixed price contracts difficult to deliver. May withdraw from contract on request increase in price.	Effective monitoring of contracts	1,000,000	0.4	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	1,200,000	0.3	360,000
6	Unanticipated **loss of 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.	1,000,000	0.3	300,000

Risk No	Risk Description	Risk Effect	Control Measures	2022/23 Risk Value £'000	Risk Factor Reflecting Frequency	2022/23 Reserve Required £
7	Unforeseen **price increases** due to inflation or difficulty to obtain stock following Brexit / supply issues following Covid	Increased costs / potential for reduced competition	Keep increased stock levels	600,000	0.5	300,000
8	**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	500,000	0.5	250,000
9	**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. However, high inflation increases risk of a pay dispute so have increased the risk factor accordingly.	300,000	0.75	225,000
10	**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	1,000,000	0.2	200,000
11	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	2,000,000	0.1	200,000
12	**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	200,000	0.5	100,000
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	400,000	0.2	80,000

Risk No	Risk Description	Risk Effect	Control Measures	2022/23 Risk Value £'000	Risk Factor Reflecting Frequency	2022/23 Reserve Required £
14	**Unforeseen general change in legislation / Major Incident Reviews**	Increased costs of working due to doing more or doing things differently & costs of training	Awareness	300,000	0.2	60,000
15	**Hot or dry summers**	Increased retained call-outs	None	200,000	0.3	60,000
16	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	600,000	0.1	60,000
17	**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.	250,000	0.2	50,000
18	**Breach of data security**	Loss of confidential data; Information Commission fines	Security measures monitored and reviewed	150,000	0.25	37,500
19	**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	300,000	0.1	30,000
20	**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	100,000	0.3	30,000
21	**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	90,000	0.3	27,000
	TOTALS					**4,519,500**

Earmarked Reserve Position 2021/22 to 2025/26 Appendix B

	Balance 01-Apr-21 £	Movement 2021/22 £	Balance 31-Mar-22 £	Required 2022/23 £	Required 2023/24 £	Required 2024/25 £	Required 2025/26 £	Available to Reallocate £	Balance 31-Mar-26 £
Prevention and Protection									
Safe as Houses - Smoke Alarms	18,301	0	**18,301**	-6,301	-6,000	-6,000	0	0	0
Community Fire Safety - Innovation Fund	132,908	-81,042	**51,866**	-51,866	0	0	0	0	0
LPSA Reward Grant	10,000	-1,500	**8,500**	0	0	0	0	-8,500	0
Fire Cadets Project	18,918	0	**18,918**	-10,000	-8,918	0	0	0	0
On Fire Fund - Fire Safety	59,713	0	**59,713**	0	0	0	0	-59,713	0
Swan Project Ashfield	217	-217	**0**	0	0	0	0	0	0
Home Safety Equipment Scheme	9,018	-9,018	**0**	0	0	0	0	0	0
Building Risk Review Grant	45,747		**45,747**	-45,747	0	0	0	0	0
Protection Uplift Grant	70,104	-53,552	**16,552**	-16,552	0	0	0	0	0
Grenfell Infrastructure Fund	63,756	-46,574	**17,182**	-17,182	0	0	0	0	0
Sub Total	**428,682**	**-191,903**	**236,780**	**-147,648**	**-14,918**	**-6,000**	**0**	**-68,213**	**0**
Resilience									
Resilience Crewing and Training	297,331	-7,530	**289,801**	0	0	0	0	-289,801	0
New Threats / MTFA	51,441	0	**51,441**	0	0	0	0	-51,441	0
Sub Total	**348,771**	**-7,530**	**341,241**	**0**	**0**	**0**	**0**	**-341,241**	**0**
ICT									
PSN - Systel Security Work	266,370	0	**266,370**	0	0	0	0	0	266,370
ESN RAP Work	348,817	0	**348,817**	0	0	0	0	0	348,817
ESN Control Room ICT	20,100	0	**20,100**	0	0	0	0	0	20,100
ESN Communication Development	171,753	0	**171,753**	0	0	0	0	0	171,753
ESN Systel Airwave Transition	173,184	0	**173,184**	0	0	0	0	0	173,184
ESN - Notts Local Transition Fund	14,794	0	**14,794**	0	0	0	0	0	14,794
Delivery of ESN – additional fund	77,000	0	**77,000**	0	0	0	0	0	77,000
ESN grant - forecast usage	0	0	**0**	-100,000	-100,000	-400,000	-472,018	0	-1,072,018
ESN Sub Total	**1,072,018**	**0**	**1,072,018**	**-100,000**	**-100,000**	**-400,000**	**-472,018**		**0**

	Balance 1 Apr 21 £	Movement 2021/22 £	Balance 31 Mar 22 £	Required 2022/23 £	Required 2023/24 £	Required 2024/25 £	Required 2025/26 £	Available to Reallocate £	Balance 31 Mar 26 £
ICT Telephony Software	53,000		**53,000**	-53,000	0	0	0	0	0
Business System Development	58,818		**58,818**	0	-30,000	0	-28,818		0
ICT Subtotal (Including ESN)	**1,183,836**	**0**	**1,183,836**	**-153,000**	**-130,000**	**-400,000**	**-500,836**	**0**	**0**
Operational									
Tri Service Control Phase 2	378,083	-233,147	**144,936**	-100,000	-44,936	0	0	0	0
Command Training Suite	175,000	0	**175,000**	-175,000	0	0	0	0	0
Rescue Gloves	50,000	-50,000	**0**	0	0	0	0	0	0
Fire Cover Review	40,000	-40,000	**0**	0	0	0	0	0	0
Operational Equipment	30,000	-30,000	**0**	0	0	0	0	0	0
Mobile Data Terminals	0	200,000	**200,000**	-100,000	0	0	0	-100,000	0
Sub Total	**673,083**	**-153,147**	**519,936**	**-375,000**	**-44,936**	**0**	**0**	**-100,000**	**0**
Covid related									
Covid-19 2019/20 unused grant	453,501	-394,642	**58,859**	-58,859	0	0	0		0
Covid recovery reserve	600,000	0	**600,000**	0	0	0	0	-600,000	0
Sub Total	1,053,501	-394,642	**658,859**	-58,859	0	0	0	-600,000	**0**
Transformation and Collaboration	1,800,000	-361,581	**1,438,419**	-661,586	0	0	0	-776,833	0
					0	0	0	0	0
Other					0	0	0	0	0
Accreditation, Recognition and Prior Learning	19,099	0	**19,099**	-19,099	0	0	0	0	0
Fitness Equipment	23,000	-23,000	**0**	0	0	0	0	0	0
Sub Total	**42,099**	**-23,000**	**19,099**	**-19,099**	**0**	**0**	**0**	**0**	0
Regional Funds (ESN)	181,866	-79,685	**102,181**	-80,000	-22,181	0	0	0	0
Total	**5,711,838**	**-1,211,488**	**4,500,350**	**-1,495,192**	**-212,035**	**-406,000**	**-500,836**	**-1,886,287**	**0**

APPENDIX C

DETAILS ON INDIVIDUAL RESERVES

Details on the individual reserves in Appendix B can be found below.

Safe as Houses – Smoke Alarms.
This reserve provides funding for smoke alarms which are fitted during safe and well checks.

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.

Local Public Services Agreement (LPSA) Grant
This grant was received by the Service back in 2005 as part of an agreement around improving public services. It was not set aside for any specific purpose and will now be reallocated.

Fire Cadets Project
This reserve supports the work the service does with cadets. A joint cadet scheme with the police is in its early stages and the funding will be used to support the programme.

On Fire Fund
This reserve was originally set up to support local groups to encourage fire safety. It has not been used for a number of years and will now be reallocated.

Home Safety Equipment Scheme
When undertaking safe and well visits, staff frequently replace equipment that represents a fire hazard within the home. This grant helps cover costs that cannot be met from within current budgets.

Building Risk Review Grant / Protection Uplift Grant and Grenfell Infrastructure Fund / Accreditation, Recognition and Prior Learning
These 3 reserves hold grant received to assist the service respond to the Grenfell findings. The grant was received in 2021/22 and covers some work which has extended into 2022/23 (mostly staffing costs).

Resilience Crewing and Training / New Threats
Some years ago the service was gifted some resilience vehicles that had been previously held in a national pool (such as the high volume pump that is regularly used in flooding incidents and was used at the Toddbrook Reservoir incident). A Section 31 grant was awarded to help maintain the vehicles and train staff (ie the grant was non specific with regards to its use). Additional grant is received on an adhoc basis to help respond to national incidents. This has been kept in this reserve, but all related activity was embedded into the service’s normal workload sometime ago. It has not been utilised for several years now other than an

occasional very small allocation and it is considered appropriate to release it for other purposes.

ICT Telephony Software / Business Systems Development
These are ICT earmarked reserves created for specific development of software.

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.

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.

Command Training Suite
The command training suite is currently situated at Bestwood Lodge Headquarters. It will be necessary to move the suite to another location when HQ staff move into the new joint headquarters with the police. This funding is set aside to part fund this project.

Rescue Gloves / Operational Equipment / Fitness Equipment
These reserves were created from the underspend 2021/22. This equipment was subject to ordering and delivery delays caused by Covid-19 and had been anticipated to come out of 2021/22 budgets.

Covid Recovery
This was created to enable longer term recovery from Covid-19. The service has held up robustly to Covid-19 the government grant received has funded all additional expenditure. This will now be reallocated.

Covid-19 Grant
This is the grant received for Covid-19 in 2020/21 and 2021/22 to help the service respond to the pandemic. All of the funding has been allocated to projects although some of these are being delivered into 2022/23 – for example, the service is still catching up on safe and well visits to vulnerable members of society. which was carried forward into 2021/22.

Transformation and Collaboration Reserve
This was a reserve created to support transformation via the Community Risk Management Plan. The remaining funding will still be used for transformational work to meet the needs of the Efficiency Strategy to be considered by Fire Authority in February 2022.