NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MEDIUM TERM FINANCIAL STRATEGY 2023/24 TO 2026/27 AND BUDGET GUIDELINES 2023/24

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

Date: 16 December 2022

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 2023/24 and to request that the Fire Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2023/24.

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 2023/24 £**	**Required 2024/25 to 2026/27 £**	**To be Reallocated £**
ICT Telephony Software	**53,000**	0	0	(53,000)
Communications development	**171,753**			(171,753)
Rescue Gloves	**50,000**	(37,000)	0	(13,000)
Transformation and Collaboration	**553,495**	(103,276)	(223,155)	(123,789)
Budget Pressure Support	**936,287**	(1,000,000)	(126,076)	189,789
Tri Service Control / Mobilising System	**178,083**	(200,000)	149,836	171,753
Total				**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.

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1. BACKGROUND

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

1.2 The Medium-Term Financial Strategy (MTFS) provides an overarching view of the way in which the Authority's finances will be managed and it brings together various related financial strategies in one cohesive document. It demonstrates how the Authority's resources are used to support the Authority's 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 December 2021 and covers the four-year period from 2023/24 through to 2026/27.

1.4 This MTFS has been written against a backdrop of financial and economic uncertainty. November's Autumn Statement provided headline figures for public expenditure but draft settlement figures for individual authorities will not be known until late December. Inflation reached 11.1% in November and is forecast to drop to 7.4% in 2023/24, which adds additional pressure on the budget. Firefighter pay award negotiations are still ongoing for 2022/23 and there will be pressure for them to reflect inflation for 2023/24. 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 2023/24 and beyond, before final budget proposals are considered by the Fire Authority in February 2023.

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 In February 2022, the Authority set a balanced budget for 2022/23, although this was only achieved after making £1.6m temporary savings. The report predicted shortfalls in 2023/24 and 2024/25 of £2m and £3.2m respectively. Budget monitoring for 2022/23 is predicting that the service will be close to breaking even should a 5% firefighter pay award be approved.

2.3 In October 2022, members were presented with an update on revised estimates of future year budgets which took account of likely pay awards, revised inflation and income estimates.

2.4 Whilst there remain areas of uncertainty, budgets have been updated to reflect revised assumptions and other known changes, which include:

- 2022/23 and 2023/24 pay awards
- Inflation – particularly fuel, gas and electricity
- CRMP development
- Business Rates revised projections
- Changes in Council Tax precept levels
- Reductions in MRP due to planned delays in capital programme

Futures 25 Efficiency Strategy

2.5 The service made £1.6m of temporary savings in order to set a balanced budget for 2022/23. This included carrying vacant posts, and temporary reductions in repairs and maintenance. These savings were not sustainable in the long term and were built back into 2023/24 budgets. After one off grant was also removed it was anticipated that there would be a shortfall of £2m in 2023/24, rising to over £3m in 2024/25. On the back of these projected shortfalls, work commenced on developing an efficiency strategy.

2.6 Since the 2022/23 budget was approved there have been significant additional financial pressures on the Service (see Section 2 of the MTFS). Revised inflation and pay award assumptions during the autumn increased amount of required savings from the efficiency strategy.

2.7 The Futures 25 efficiency strategy was initially presented to Policy and Strategy Committee in May 2022 with a further report being considered by Fire Authority in September 22. In its initial phase the Workforce Review has identified £250k of savings through the disestablishment of support staff posts across several departments through the consolidation of primary management grade posts.

2.8 The Workforce Review has identified that a wider change and improvement programme is required. This will include structural redesign and business process improvement to maximise the efficiency and effectiveness of the Service. This is a significant piece of work and is expected to be completed during 2023/24.

2.9 The third strand of Futures 25 is being delivered via a Fire Cover Review which has looked at the structure and budget associated with the operational wholetime establishment. This strand is being delivered in partnership with ORH, a sector leading expert with extensive experience in advising emergency services. This work has resulted in a proposal to save £2m from operational budgets by reducing the number of appliances in the Service from 30 to 28 and reducing the ridership by 44 posts. This proposal is currently in a period of public consultation until 23 December 22. A final decision will be made at Fire Authority on 24 February 2023.

COUNCILTAX

2.10 It was announced in the Autumn Statement that the government is giving local authorities in England additional flexibility in setting council tax by increasing the referendum limit for increases in council tax to 3% (from 2%) per year from April 23. This may not be the final position with negotiations around additional flexibilities still ongoing. These will be included in the provisional local government finance settlement which will be released for consultation in late December.

2.11 A 2.95% additional increase in Council Tax will create additional funding in the region of £826k.

2.12 Council Tax for the Fire Authority is currently £84.57 at Band D. A 2.95% increase would raise it by £2.49 to £87.06 per year which equates to £1.63 per week. A £5 increase would raise it to £89.57 - £1.72 per week.

Table 1 – Council Tax Options Analysis

	Amount £	Increase £	Additional Income £'000
Current Band D Council Tax	£84.57		
1.95% increase	£86.22	1.65	547
2.95% increase	£87.06	2.49	826
£5 increase	£89.57	5.00	1,659

RESERVES STRATEGY

2.13 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 4 of the MTFS.

2.14 Total estimated Reserve levels as at 31 March 2022 are £9.3m, consisting of £5.2m General Reserve and £4.1m Earmarked Reserves.

2.15 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 2023/24, which remains the same as 2022/23, 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
- Inability to set a balanced budget due to economic climate
- Pension related issues (due to McCloud, the 2020 revaluation and Matthews/O'Brien case)

2.16 A review of the Earmarked Reserves has been undertaken in the Reserves Strategy. This has identified £362k of available reserves either are no longer required or have not yet been allocated to projects. It is proposed that these are reallocated to the following existing earmarked reserves:

- Budget Pressure Support - £190k;
- Tri Service Control / Mobilising System £172k.

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

OUTLOOK FOR 2023/24, 2024/25 AND BEYOND

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

2.19 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.

Table 2 – Worst / Most Likely / Best Case Scenarios

Scenario	Deficit / (Surplus) Position 2023/24 £'000	Comments / Assumptions
Worst Case	3.043	• 6% firefighter pay award for 2022/23 • 5% 2023/24 pay award • 5% increase in Revenue Support Grant • Services Grant remains, but reduced to reflect reduction in employer National Insurance (NI) contributions • 1.95% increase in Council Tax approved
Most Likely Case	2.145	• 5% firefighter pay award for 2022/23 • 4% 2023/24 pay award • 5% increase in Revenue Support Grant • Services Grant remains, but reduced to reflect reduction in employer NI contributions • 2.95% increase in Council Tax approved
Best Case	(38)	• 5% firefighter pay award for 2022/23 • 3% 2023/24 pay award • 5% increase in Revenue Support Grant • Services Grant remains, but reduced to reflect reduction in employer NI contributions • £5increase in Council Tax approved

2.20 The scenarios show the position considering different levels of council tax precept between 1.95% and £5. The most likely scenario indicates a deficit of £2.145m.

SUMMARY

2.21 This MTFS has been written against a backdrop of financial and economic uncertainty. Whilst indications are that the fire sector will receive some funding increases, this will not be known with any certainty until the Funding Settlement figures are known in December and collection fund details for Business Rates and Council Tax are known at the end of January 23.

2.22 The most likely scenario assumes a 2.95% increase in Council Tax and after considering the economic situation and expected costs, shows a 2023/24 deficit position of £2.1m. Future year deficits remain slightly above this level.

2.23 It is therefore likely that the service will need to identify savings in the region of £2m moving forward. These savings will be achieved through the delivery of the Futures 25 Efficiency Strategy. It may be necessary to use an element of reserves during 2023/24 to allow the service time to implement the savings identified as part of the strategy. The service currently holds £936k in a Budget Pressures Support Earmarked Reserve for this purpose, and the

Reserves Strategy has identified further resources to re-allocate to this reserve taking it to £1.126m. This should place the Authority in a good position, enabling it to balance the budget without the use of reserves in 2024/25.

2.24 In the worst case scenario estimates show that a 2023/24 deficit of £3m could be likely, even assuming a 1.95% Council Tax increase. If there were to be no increase in Council Tax levels the 2023/24 deficit would rise to £3.5m. If this were to be the case then significant savings would be required and the more difficult options identified in the Futures 25 Efficiency Strategy would need to be considered.

2.25 It is probable that the maximum limit for the amount Council Tax can be increased before invoking a referendum will be 3%. 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.

2.26 The Reserves Strategy sets out plans for re-allocating £361k of Earmarked Reserves, some of which will be transferred into the Budget Pressures Support Earmarked Reserve. This will be used to help the service transition into a balanced budget position by 2024/25.

2.27 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.

2.28 At its meeting on 24 February 2022 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2023/24.

PROPOSED GUIDELINES

2.29 The meeting of the Finance and Resources Committee in January 2023 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.

2.30 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.

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

a. Reduce Council Tax

b. Maintain Council Tax at the 2022/23 level

c. Increase Council Tax by an amount lower than the referendum limit

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

2.32 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 2.31 b) and c) are considered to be the most appropriate parameters within which the Finance and Resources Committee should work.

2.33 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

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

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

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

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

None.

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TREASURER TO THE FIRE AUTHORITY

Craig Parkin
CHIEF FIRE OFFICER

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Medium Term Financial Strategy

2023/24 to 2026/27

MEDIUM TERM FINANCIAL STRATEGY

2023/24 to 2026/27

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 and reserves. 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 (Community Risk Management Plan – CRMP) can both be achieved and sustained over time.

1.3 The Strategy should reflect the priorities outlined in the 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 latest Fire Cover Review.

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 once any allocations to earmarked reserves have been made.

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 is strongly linked to the 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 budget and precept level 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 2022/23 Statement of Accounts has not yet been audited.

1.11 The service received a rating of Good in its 2022 inspection by HMICFRS (His Majesty's Inspectorate of Constabulary and Fire & Rescue Services) in all three areas of Effectiveness, Efficiency and People.

1.12 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.

1.13 The challenge to the organisation 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.

1.14 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).

1.15 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 remains very uncertain with many external influences. The war in Ukraine has impacted fuel and food supplies across the world. The emergence of new variants of Covid has impacted on supply chains, particularly in China. Collectively, these has caused inflationary pressures across the world.

2.2 In October 22, CPI (Consumer Price Index) inflation increased to 11.1%. It was expected to peak at close to 11% in Q4 2022, but this projection may now be updated by the Bank of England given that the October figure was higher than expected. As part of its review of the Autumn Statement, the Office for Budget Responsibility (OBR) forecast that inflation will drop to 7.4% in 2023/24. It is likely that this will continue to influence both 2022/23 and 2023/24 pay awards. Gas and electricity prices have more than doubled in the last year although the service will receive some protection from the Government's price cap.

2.3 Bank rate has increased from 0.75% in April 2022 to 3.00% in October, its highest level since November 2008. There are further increases to come, and markets are currently expecting rates to peak between 4.5% and 4.75% next year.

2.4 The quarterly estimate of Gross Domestic Product (GDP) fell by 0.2% in Quarter 3 (July to September) 2022. With the drag on economic activity from high inflation having grown in recent months, GDP is at risk of contracting further through the autumn and winter. There are already signs that economic activity is losing momentum as production fell due to rising energy prices, and the Bank of England has warned that the UK could be in recession from Q4 2022 until the first half of 2024.

SECTION 3: ISSUES IMPACTING ON THE BUDGET

Community Risk Management Plan – CRMP

3.1 The 2022-2025 CRMP was approved by Fire Authority on 25 February 2022. The delivery of the CRMP is linked closely to the MTFS to ensure that resources are matched to key workstreams. The annual delivery plan, which sits behind the CRMP identifies priority areas where investment is needed. An additional £150k has been included in the 2023/24 proposed budget to support areas such as additional investment in operational training (£72k), and investment in ICT (£41k).

Futures 25 Efficiency Strategy

3.2 The service made £1.6m of temporary savings in order to set a balanced budget for 2022/23. This included carrying vacant posts, and temporary reductions in repairs and maintenance. These savings were not sustainable in the long term and were built back into 2023/24 budgets. After one off grant was also removed it was anticipated that there would be a shortfall of £2m in 2023/24, rising to over £3m in 2024/25. On the back of these projected shortfalls, work commenced on developing an efficiency strategy.

3.3 Since the 2022/23 budget was approved there have been significant additional financial pressures on the Service (see Section 2). Revised inflation and pay award assumptions during the autumn increased amount of required savings from the efficiency strategy.

3.4 The Futures 25 efficiency strategy was initially presented to Policy and Strategy Committee in May 2022 with a further report being considered by Fire Authority in September 22. In its initial phase the Workforce Review has identified £250k of savings through the disestablishment of support staff posts across several departments through the consolidation of primary management grade posts.

3.5 The Workforce Review has identified that a wider change and improvement programme is required. This will include structural redesign and business process improvement to maximise the efficiency and effectiveness of the Service. This is a significant piece of work and is expected to be completed during 2023/24.

3.6 The third strand of Futures 25 is being delivered via a Fire Cover Review which has looked at the structure and budget associated with the operational wholetime establishment. This strand is being delivered in partnership with ORH, a sector leading expert with extensive experience in advising emergency services. This work has resulted in a proposal to save £2m from operational budgets by reducing the number of appliances in the Service from 30 to 28 and reducing the ridership by 44 posts. This proposal is currently in a period of public consultation until 23 December 22. A final decision will be made at Fire Authority on 24 February 2023.

CORPORATE RISK REGISTER

3.7 The corporate risk register is reported to the Finance and Resources Committee on a 6 monthly basis and is also the subject of a separate report on this agenda. The five highest risks facing the Authority at present are:

- Employee Engagement – due to pay dispute, equality and diversity engagement and pension disputes
- Mobilising – procurement of new mobilising system
- Inability to set a balanced budget in current economic climate
- Firefighters Pension Scheme – impact of and uncertainty around ongoing national legal cases
- Workforce Sustainability.

3.8 The financial implications of these risks have been addressed in both the capital and revenue proposed budgets and in the Reserves Strategy.

HMICFRS INSPECTION

3.9 The Service received its second inspection from His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in October 2021. The inspection assessed how effectively and efficiently the Service delivers its services and how well it looks after the people who work for the service.

3.10 The outcome of the inspection was made public in July 22. In all the 3 areas of Effectiveness, Efficiency and People the Service has moved from "Requires Improvement" in its 2018/19 inspection to "Good". It judged that the Service made best use of its resources and demonstrated future affordability.

3.11 The report identified 4 areas for improvement which are currently being addressed by including them in the CRMP annual delivery plan and are being monitored through the Fire Authority Committee Structure.

PENSIONS

3.12 The remedying legislation for the McCloud case is expected to be passed in October 2023. This will address the transition arrangements into the 2015 firefighters' pension scheme were found to be discriminatory. As an interim measure, the service has implemented a Memorandum of Understanding (MoU) between the Local Government Association (LGA) and the Fire Brigades Union (FBU), although the original endorsement of this by the government has since been withdrawn. There is a risk that additional costs could be incurred as a result of implementing the MoU but this was felt to be justified given the risk and associated costs, of further court cases against the Authority. The service has a £200k earmarked reserve to mitigate against these costs. Further information on this can be found in the Firefighter Pension Scheme Immediate Detriment Review report considered by Policy and Strategy Committee on 1 April 2022.

3.13 The remedying legislation is expected to increase the overall costs of the firefighters' pension scheme. 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 4).

3.14 Another pensions case, Matthews and O'Brien, has identified discriminatory conditions against part time workers. Once rectifying legislation has been passed through Parliament, this is expected to lead to further backdating of the Modified pension scheme from 2006 to when on-call firefighters first joined the fire service. 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.

3.15 Both of these remedies ae having a large impact on the workload of staff dealing with the cases and additional resources were allocated in 2022/23 in order that this work can be undertaken.

3.16 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. The service received a £125k grant to help fund these costs which is currently being held in Earmarked Reserves.

3.17 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 equated to £2.5m for the service. The Home Office agreed to fund £2.3m of this pressure in 2019/20 but has been kept at the same cash value, leaving increases in costs due to pay inflation to be met by the service. The £2.3m grant is expected to continue into 2023/24, and discussions are ongoing for this now to be added to the baseline funding for the authority rather than being paid as a Section 31 grant. The results of the 2020 valuation are expected over the coming months and could potentially result in a similar increase in employer pension costs which would need to be built into future years budgets.

PAY AWARD

3.18 The FBU is currently balloting on whether to accept a 5% pay award for 2022/23. This exceeds the 3.0% included in the budget and any award above this level will create a cost pressure which will also need to be built into future years’ salary costs (a 1% increase relates to approximately £350k ongoing costs).

3.19 Support staff received a flat rate increase of £1,925 for 2022/23 which averages around a 4% increase. The ongoing costs of the additional award compared to what was originally included in the budget is £126k.

3.20 Overall funding levels are expected to increase by around 5.5% in 2023/24. With inflation currently at 11.1% and expected to reduce at a slow pace over the coming year to around 7% it is anticipated that the 2023/24 pay award will be in excess of the increase in income that the service is expecting. With pay accounting for 80% of the service’s costs, this will increase anticipated deficit levels.

INVESTMENT IN TECHNOLOGICAL CAPABILITY

3.21 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.

3.22 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.

3.23 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

3.24 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. The service has received numerous grants to help it deliver on the recommendations coming out of the review over the past 2 years. Fire Protection Uplift grant of £146k was received in 2022/23 and further funding is expected in 2023/24, although not confirmed at this stage.

3.25 New Burdens funding relating to the creation of a new regional Building Safety Regulator has been confirmed by the Home Office although plans are still in initial stages at present.

EMERGENCY SERVICES MOBILE COMMUNICATION PROGRAMME (ESMCP)

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

3.27 There have been significant delays to the programme and funding has similarly been subject to delay. The national project has very recently been put on hold. More information is awaited and Members will be kept informed regarding any updates.

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 MANAGEMENT STRATEGY

3.31 The Treasury Strategy for the Authority was set out in full in a report to the Fire Authority on 25 February 2022. 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 2023/24 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 considered alongside revenue budgets by Fire Authority on 24 February 2023. The programme includes the replacement mobilising system, delivery of a programme of replacement fire appliances and investment into new fire stations. There has been a purposeful 2-year delay in the estates programme to manage Minimum Revenue Provision (MRP) which are the service's debt costs. This will be reviewed once the Futures 25 efficiency strategy is complete and the impact on services is known.

3.35 The 10-year capital plan is considered to ensure long term affordability. The capital 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 was approved by Fire Authority ion 25 February 2022. It sets out the prudential indicators approved for 2022/23. 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 is covered within the principles of the Prudential Code to ensure that the credit ceiling is not reached before the requirement to undertake major capital schemes is exhausted.

3.37 The 10-year capital plan in Appendix 2 shows that in 2026/27 the debt to budget ratio exceeds 8% and remains above this limit until 2032/33. This means that if current budget projections including capital costs and interest rates prevail the programme will need amending in the longer term to ensure affordability. Investment in new fire stations has already been delayed by 2 years to help reduce capital costs in the short term. The programme will be reviewed once changes in service requirements are identified as part of the Futures 25 programme. Ongoing high levels of inflation will also have the impact of reducing the debt ratio as the budget against it is measured will also increase.

3.38 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.

3.39 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.

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

3.41 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.

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 emerging new Tri Control project.

SECTION 4: UNPREDICTABILITY OF FUTURE YEARS PUBLIC FUNDING

Government Grant

4.1 The amount of Government Grant that the service has received has reduced significantly in recent years. The House of Commons Library contains a data dashboard ([Local authority data: finances (parliament.uk)]) which provides analyses of funding settlement changes for each authority since 2015/16.

4.2 The NFRS analysis (see Appendix 3) shows that Settlement Funding has dropped in real terms by 30.5% between 2015/16 and 2022/23. If the amount of council tax that could be raised and other grants are included, the total spending power of the Authority still dropped in real terms by 6.7%, after taking account of inflation. This is against the backdrop of additional costs incurred by the authority such as increased employer pension contributions (section 4.4) and responding to the Grenfell enquiry.

4.3 The funding for 2023/24 to 2025/26 remains uncertain. The November 22 Autumn Statement indicated that Local Government funding would be increasing, there were no specific references to Fire and Rescue.

4.4 The firefighter pension scheme employer superannuation rates increased significantly in 2019/20 following the scheme valuation exercise. This had the impact of increasing superannuation costs for the service in excess of £2.5m. In response, the Treasury issued an additional Section 31 grant of £2.3m to part cover the costs. 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, although it is possible that this will be built into the service's base line funding at some point. Depending on the pay award, this grant is reducing in real spending terms by approximately £50k per year.

Business Rates

4.5 From 1 April 2023, the rateable values of all non-domestic properties in England will be updated to reflect the property market as at 1 April 2021. This has the effect of re-setting the baseline for Non Domestic Rates (NDR). Under the current system, precepting authorities retain any growth above their Baseline. NFRS has benefited from this retained growth since the last revaluation. It was initially thought that the revaluation would result in a loss of this growth, but there has been a significant amount of new industrial buildings along the county's transport networks which should result in an increase in rateable income. It remains to be seen whether the services top up grant will be reduced downwards to match the increase which will leave the service in a neutral position.

4.6 As part of the Autumn Statement on 17 November, the Chancellor announced:

- A transitional relief scheme to limit bill increases caused by changes in rateable values
- A 2023/24 Retail, Hospitality and Leisure 75% rate relief scheme
- A freezing of business rates multipliers, meaning that there will be no inflationary increases in charges to businesses
- A new Supporting Small Business relief scheme.

4.7 The Authority will be compensated for lost income from the measures outlined in section 4.6 by way of additional Section 31 Grant.

4.8 Business Rates income accounts for almost a quarter of the Authority's funding although much of this is funded from the top up grant received from the government. A 10% movement in Business Rate income from local businesses would see an increase or decrease in income in the region of £370k.

Council Tax

4.9 It was announced in the Autumn Statement that the government is giving local authorities in England additional flexibility in setting council tax by increasing the referendum limit for increases in council tax to 3% (from 2%) per year from April 23. This may not be the final position with negotiations around additional flexibilities still ongoing. These will be included in the provisional local government finance settlement which will be released for consultation in late December.

4.10 A 2.95% additional increase in Council Tax will create additional funding in the region of £826k.

4.11 Council Tax for the Fire Authority is currently £84.57 at Band D. A 2.95% increase would raise it by £2.49 to £87.06 per year which equates to £1.63 per week. A £5 increase would raise it to £89.57 - £1.72 per week.

Table 1 – Council Tax Options Analysis

	Amount £	**Increase £**	**Additional Income £'000**
Current Band D Council Tax	£84.57		
1.95% increase	£86.22	1.65	547
2.95% increase	£87.06	2.49	826
£5 increase	£89.57	5.00	1,659

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 4 for approval by Fire Authority alongside the MTFS.

5.2 Total estimated Reserve levels as at 31 March 2023 are £9.3m, consisting of £5.2m General Reserve and £4.1m 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 2023/24, which remains the same as 2022/23, 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
- Inability to set a balanced budget due to economic climate
- Pension related issues (due to McCloud, the 2020 revaluation and Matthews/O'Brien case)

5.4 A review of the Earmarked Reserves has been undertaken in the Reserves Strategy. This has identified £361k of available reserves either are no longer required or have not yet been allocated to projects. It is proposed that these are reallocated to the following existing earmarked reserves:

- Budget Pressure Support - £190k;
- Tri Service Control / Mobilising System £172k.

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

SECTION 6: OUTLOOK FOR 2023/24, 2024/25 AND BEYOND

6.1 In February 2022, the Authority set a balanced budget for 2022/23, although this was only achieved after making £1.6m temporary savings. The report predicted shortfalls in 2023/24 and 2024/25 of £2m and £3.2m respectively.

6.2 In October 2022, members were presented with an update on revised estimates of future year budgets which took account of likely pay awards, revised inflation and income estimates.

6.3 Whilst there remain areas of uncertainty, budgets have been updated to reflect revised assumptions and other known changes, which include:

- 2022/23 and 2023/24 pay awards (sections 3.18 - 3.20)
- Inflation – particularly fuel, gas and electricity
- CRMP development (£150k – section 3.1)
- Business Rates revised projections (sections 4.5 – 4.8)
- Changes in Council Tax precept levels (section 4.11)
- Reductions in MRP due to planned delays in capital programme (section 3.34)

6.4 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 as detailed above, but figures are likely to change. More detailed figures will be provided for Finance and Resources Committee in January 2023 and Fire Authority in February 2023.

6.5 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

6.6 The worst-case scenario assumes that:

- The 2022/23 firefighter pay award is settled at 6%
- The 2023/24 pay award is settled at 5% for all staff
- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) increases 5% for 2023/24 and 2% thereafter
- Pension Grant remains flat in cash terms at £2.34m
- Services Grant remains, although reduced to reflect reduction in National Insurance (NI) Costs (£650k)
- Business Rate collection remains flat in 2023/24 due to revaluation exercise. Increases of 1% are assumed for 2024/25 and future years
- Council Tax collection increases by 1.35% in 2023/24 and future years
- Council Tax is increased at 1.95% for each year.

6.7 This scenario would result in a £3.0m deficit in 2023/24 and has an ongoing deficit in excess of £4m as detailed in the table 2 below:

Table 2 – Worst Case Scenario

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Budget Requirement	46,006	50,391	52,855	54,312	55,698
Revenue Support Grant (RSG)	(5,619)	(5,900)	(6,018)	(6,138)	(6,261)
Business Rate (BR) Income	(2,925)	(3,217)	(3,282)	(3,314)	(3,347)
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
BR Top up Grant	(7,277)	(7,277)	(7,641)	(7,794)	(7,950)
Council Tax (1.95%)	(27,692)	(28,614)	(29,565)	(30,547)	(31,564)
Budget Deficit	**153**	**3,043**	**4,009**	**4,179**	**4,236**

6.8 If a nil council tax increase is approved in 2023/24, the deficit position would become £3.592m. Significant ongoing savings will need to be identified in order to balance the budget if this scenario plays out.

SCENARIO 2 – MOST LIKELY SCENARIO

6.9 The most likely scenario assumes that:

- The 2022/23 firefighter pay award is settled at 5%

- The 2023/24 pay award is settled at 4% for all staff

- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) increases 5% for 2023/24 and 2% thereafter

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

- Services Grant remains, although reduced to reflect reduction in National Insurance (NI) Costs (£650k)

- Business Rate collection remains flat in 2023/24 due to revaluation exercise. Increases of 1% are assumed for 2024/25 and future years

- Council Tax collection increases by 1.35% in 2023/24 and future years

- Council Tax is increased at 2.95% for each year.

6.10 This scenario would result in a £2.1m deficit in 2023/24 which increases to £1.4m by 2024/25. This scenario is likely to need both the use of reserves and savings to be made.

Table 3 – Most Likely Case Scenario

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Budget Requirement	46,006	49,771	52,155	53,598	54,970
Revenue Support Grant (RSG)	(5,619)	(5,900)	(6,018)	(6,138)	(6,261)
Business Rate (BR) Income	(2,925)	(3,217)	(3,282)	(3,314)	(3,347)
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
BR Top up Grant	(7,277)	(7,277)	(7,641)	(7,794)	(7,950)
Council Tax (1.95%)	(27,692)	(28,892)	(30,147)	(31,454)	(32,818)
Budget Deficit	**153**	**2,145**	**2,727**	**2,558**	**2,254**

6.11 If a nil council tax increase is approved in 2023/24, the deficit position in the scenario in Table 4 becomes £2.972m. A 1.95% or £5 increase would result in deficit figures of £2.424m or £1.312m respectively.

6.12 It is therefore likely that the service will need to identify savings in the region of £2m moving forward. These savings will be achieved through the delivery of the Futures 25 Efficiency Strategy. It may be necessary to use an element of reserves during 2023/24 to allow the service time to implement the savings identified as part of the strategy. The service currently holds £936k in a Budget Pressures Support Earmarked Reserve for this purpose, and the Reserves Strategy has identified further resources to re-allocate to this reserve taking it to £1.126m. This should place the Authority in a good position, enabling it to balance the budget without the use of reserves in 2024/25.

SCENARIO 3 – BEST CASE SCENARIO

6.13 This scenario assumes that:

- The 2022/23 firefighter pay award is settled at 5%
- The 2023/24 pay award is settled at 3% for all staff
- Government funding (Revenue Support Grant (RSG) and Business Rates top up grant) increases 5% for 2023/24 and 2% thereafter
- Pension Grant remains flat in cash terms at £2.34m
- Services Grant is not reduced to reflect NI reductions (£650k)
- Business Rate collection remains flat in 2023/24 due to revaluation exercise. Increases of 1% are assumed for 2024/25 and future years
- Council Tax collection increases by 1.35% in 2023/24 and future years
- Council Tax is increased by £5 in 2023/24 and 2.95% thereafter.

Table 4 – Best Case Scenario

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Budget Requirement	46,006	48,421	51,654	53,088	54,450
Revenue Support Grant (RSG)	(5,619)	(5,900)	(6,018)	(6,138)	(6,261)
Business Rate (BR) Income	(2,925)	(3,217)	(3,282)	(3,314)	(3,347)
Pension Grant	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
BR Top up Grant	(7,277)	(7,277)	(7,641)	(7,794)	(7,950)
Council Tax (1.95%)	(27,692)	(29,725)	(31,015)	(32,360)	(33,765)
Budget Deficit / (Surplus)	**153**	**(38)**	**(1,358)**	**(1,142)**	**(787)**

6.14 This scenario reflects that if inflation reduces more quickly than anticipated allowing a 3% pay award to be agreed for 2024/25 along with a £5 increase in Council Tax then it would be possible to set a balanced budget for 2023/24. Members should note that this would be the best case scenario if all variables were to be favourable – this may yet prove unlikely.

SECTION 8: SUMMARY

7.1 This MTFS has been written against a backdrop of financial and economic uncertainty. Whilst indications are that the fire sector will receive some funding increases, this will not be known with any certainty until the Funding Settlement figures are known in December and collection fund details for Business Rates and Council Tax are known at the end of January 23.

7.2 The most likely scenario (section 6.10), assumes a 2.95% increase in Council Tax and after considering the economic situation and expected costs, shows a 2023/24 deficit position of £2.1m. Future year deficits remain slightly above this level.

7.3 It is therefore likely that the service will need to identify savings in the region of £2m moving forward. These savings will be achieved through the delivery of the Futures 25 Efficiency Strategy. It may be necessary to use an element of reserves during 2023/24 to allow the service time to implement the savings identified as part of the strategy. The service currently holds £936k in a Budget Pressures Support Earmarked Reserve for this purpose, and the Reserves Strategy has identified further resources to re-allocate to this reserve taking it to £1.126m. This should place the Authority in a good position, enabling it to balance the budget without the use of reserves in 2024/25.

7.4 In the worst case scenario (section 6.7) estimates show that a 2023/24 deficit of £3m could be likely, even assuming a 1.95% Council Tax increase. If there were to be no increase in Council Tax levels the 2023/24 deficit would rise to £3.5m. If this were to be the case then significant savings would be required and the more difficult options identified in the Futures 25 Efficiency Strategy would need to be considered.

7.5 It is probable that the maximum limit for the amount Council Tax can be increased before invoking a referendum will be 3%. 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.

7.6 The Reserves Strategy sets out plans for re-allocating £361k of Earmarked Reserves, some of which will be transferred into the Budget Pressures Support Earmarked Reserve. This will be used to help the service transition into a balanced budget position by 2024/25.

7.7 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.

7.8 At its meeting on 24 February 2023 the Fire Authority will consider the budget report with the objective of setting Council Tax levels for 2023/24.

APPENDIX 1

CAPITAL STRATEGY 2023/24

Date Reviewed by Fire Authority: December 2022

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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.

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 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

2.3 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.

2.4 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

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

CORPORATE GOVERNANCE

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

- Internal Audit
- Service plans and procedures
- Performance management
- Financial Regulations and procedures
- Standing Orders.

STRATEGIC LEADERSHIP TEAM (SLT)

2.7 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.

2.8 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

2.9 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

2.10 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 availability
- 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 2022 will set the funding limits in 2023/24 to 2025/26. 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 2023.

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 are expected to represent 5.6% of the Authority's revenue budget by the end of 2022/23 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 is indicative at this stage and will need to be reviewed as the needs of the Authority change and to reflect changes in interest rates. There is currently a risk that it will be breached beyond 2026/27. This may change once revenue budget figures are finalised, capital costs confirmed and interest rates become more predictable. 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

Statutory Guidance relating to the flexible use of capital receipts (updated August 2022) permits 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 by the end of 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.

Qualifying Expenditure

Examples of projects that may be generate qualifying expenditure include setting up alternative delivery models to deliver services more efficiently. However, the qualifying expenditure for these projects is limited to set up and implementation costs. The ongoing revenue costs of new processes or arrangements cannot be classified as qualifying expenditure. Furthermore, with respect to redundancy payments, qualifying expenditure is limited to statutory payments - the guidance explicitly excludes non statutory payments and pension strain costs, which would still need to be met from the Authority's revenue funding.

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.

Capital Receipts Strategy for 2023/24

For the financial year 2023/24 it is not proposed to fund any reform projects through the capital receipts flexibility. This is largely due to the limited nature of qualifying costs that can be funded this way. There are currently sufficient funds held in reserves to cover costs of transformational projects 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.

PROPOSED TEN YEAR CAPITAL PLAN 2023/24 TO 2032/33 — APPENDIX 2

10 YEAR CAPITAL PROGRAMME	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	Budget 2032-33 £'000
TRANSPORT										
Pumping Appliances	2,114	1,694	1,687	1,687			1,350	1,350	1,350	1,677
Special Appliances	600	1,665	400	150				300		
Light Vehicle Replacement	186	48	120	376	528	175	726	48	364	140
Rural Unit	100									
	3,000	**3,407**	**2,207**	**2,213**	**528**	**175**	**2,076**	**1,698**	**1,714**	**1,817**
EQUIPMENT										
Lightweight Fire Coat						250				
Rescue Gloves						30				
Structural PPE					1,200					
Fire Helmets						200				
Fire Gloves							175			
Replacement Duty Rig	100	100	50						300	
Water Rescue kit							250			
Operational Surcoats								40		
Fire Hood - Contaminants		150								175
	100	**250**	**50**		**1,200**	**480**	**425**	**40**	**300**	**175**
BA Sets				250				250		
Gas Tight Suits	50									
Radios		300								
Foam Branches										
RTC Equipment			900							
Gas Monitoring				35						
	50	**300**	**900**	**285**				**250**		
ESTATES										
Access and Inclusion	500	250								
Training Development Centre	500									
New wholetime station	.					30	1,000	3,875	125	

10 YEAR CAPITAL PROGRAMME	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	Budget 2032-33 £'000
New on call Station								10	500	2,000
WDS Fire Station										50
Electric Vehicle charging points	25	100								
Estate energy reduction decarbonisation	50	250								
	1,075	**600**				**30**	**1,000**	**3,885**	**625**	**2,050**
I.T. & COMMUNICATIONS										
ICT Replacement Equipment	220	230	180	200	200	200	200	200	200	200
Mobile Computing	-	90			90			90		
HQ Core Switch Upgrade				50						
System Upgrades	30	51	30		30		30	30		
	250	**371**	**210**	**250**	**320**	**200**	**230**	**320**	**200**	**200**
MDT Replacement Project	15									
Tri-Service Control & mobilisation		2,000		300			300			
	15	**2,000**		**300**			**300**			
	4,490	**6,928**	**3,367**	**3,048**	**2,048**	**885**	**4,031**	**6,193**	**2,839**	**4,242**
To be Financed By:	**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**	**Budget 2032-33 £'000**
Capital Receipts	3,310	10	10	10	10	10	270	10	10	10
Borrowing	1,180	6,918	3,357	3,038	2,038	875	3,761	6,183	2,829	4,232
Revenue / Earmarked Reserves										
Total	**4,490**	**6,928**	**3,367**	**3,048**	**2,048**	**885**	**4,031**	**6,193**	**2,839**	**4,242**
Debt Cost Ratio	**5.46%**	**6.51%**	**7.81%**	**8.32%**	**8.88%**	**8.76%**	**8.56%**	**8.76%**	**9.16%**	**8.97%**

Select a local authority - use 🔎 to search

Nottinghamshire Fire

Authority type

Fire authority

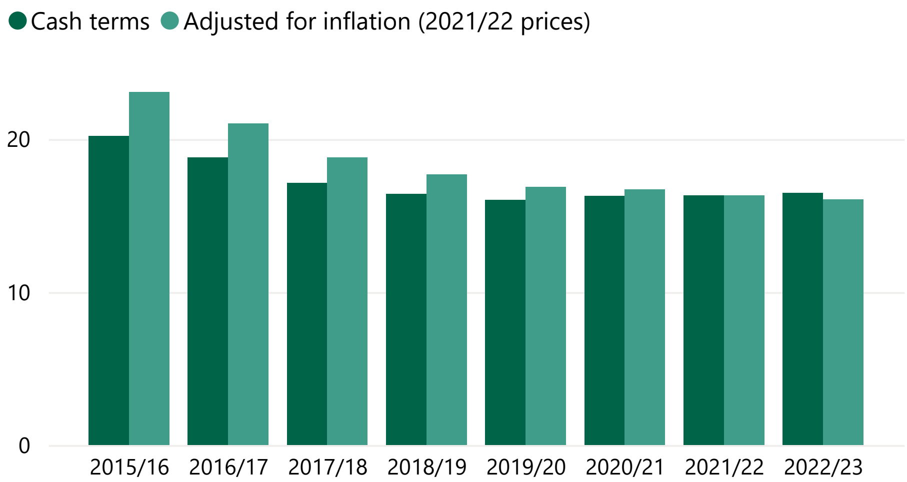
Latest funding settlement

Net spending

Local Government Finance Settlement 2022/23

Nottinghamshire Fire received a settlement funding allocation of £16.5 million in the 2022/23 Local Government Finance Settlement. Its estimated core spending power was £338.2 million.

Settlement funding, £ millions

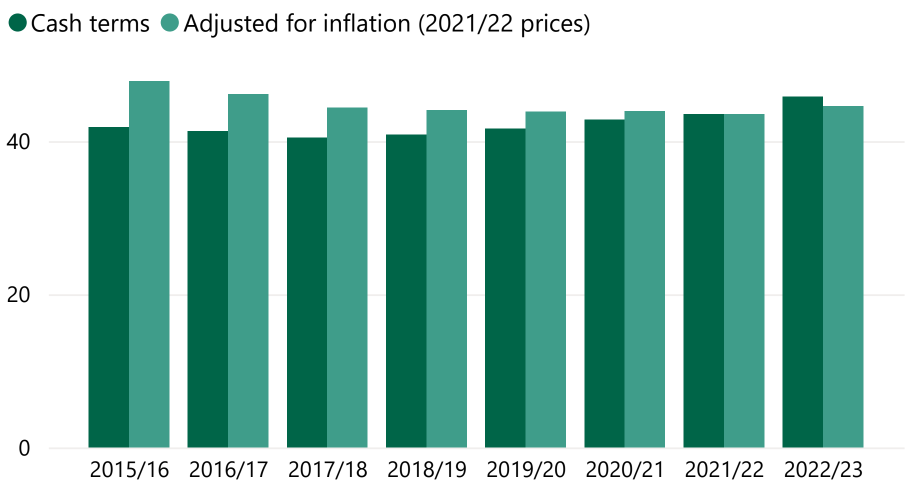


Settlement funding, £ millions

Year	Cash terms	Real terms
2015/16	20.19	23.06
2016/17	18.79	21.00
2017/18	17.11	18.79
2018/19	16.39	17.67
2019/20	16.01	16.85
2020/21	16.27	16.69
2021/22	16.30	16.30
2022/23	16.47	16.03

Settlement funding does not include council tax raised by local authorities. It can therefore be more useful to look at **core spending power**, an estimate of the amount of money that councils have to take decisions - this includes an estimate of the amount of council tax they could raise, as well as some other grants that are not part of settlement funding. It doesn't include grants that are passed straight through to recipients such as the Dedicated Schools Grant.

Core spending power, £ millions



Core spending power, £ millions

Year	Cash terms	Real terms
2015/16	41.85	47.81
2016/17	41.29	46.13
2017/18	40.43	44.40
2018/19	40.87	44.04
2019/20	41.65	43.84
2020/21	42.78	43.90
2021/22	43.51	43.51
2022/23	45.80	44.59

-30.5%

Settlement funding, real terms, 15/16 to 22/23

-6.7%

Spending power, real terms, 15/16 to 22/23

APPENDIX 4

NOTTINGHAMSHIRE
Fire & Rescue Service

RESERVES STRATEGY

2023/24 to 2026/27

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 reserves and in addition to these, provisions can be held for more certain commitments:

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 9%). 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 and uncertainty around future funding streams, inflation and pay awards.

2.5 At the start of 2022/23, the General Reserve was £5.191m, which represented 11% of the 2022/23 net revenue budget of £46m. 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 review included an assessment of the financial implications of risks included in the corporate risk register. There were several changes to reflect current levels of uncertainty and risks associated with the changing economic environment. 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 value risks identified in the risk register are detailed below:

1) **Pay Awards**. Recent increases inflation will have an impact on pay negotiations for 2023/24. Annual inflation using the CPI measure in October 22 was 11.1%. Forecasts suggests that CPI will remain at relatively high levels in 2023/24 (7.4%) before dropping back to 2% in 2024/25, although inflation is currently proving to be very difficult to predict. A potential cost of £1m has been identified to cover an award of 2% above the amount included in the 2023/24budget (4%) and also an element should there be a higher settlement agreed in 2022/23 pay negotiations. A risk factor of 0.75 has been used to give a value of £0.75m to be included in the reserve.

   Inability to set a balanced budget. This is a significant risk identified in the Corporate Risk Register. Setting a balanced budget is dependent on the delivery of the Futures 25 Efficiency Strategy, some of which is currently out to consultation. If proposed measures are not approved, there may be the need to make temporary cuts during 2023/24 and the use of additional reserves may be required. £0.5m has been included in the reserve to cover this risk.

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 2024/25.

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

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 uncertainty around future years' funding, both national and local;
- issues around identifying potential savings from 2023/24 onwards;
- impact of the inflation and other cost pressures on expenditure.

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
2023/24	4.5
2022/23	4.5
2021/22	4.5
2020/21	3.9
2019/20	3.9

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 £5.2m (section 2.5). The General Fund reserve exceeds the minimum level required by £0.7m. There will be an opportunity to review General Fund reserves at year end once more information is known about the funding settlement, delivery of the Futures 25 efficiency strategy and the 2022/23 pay award negotiations.

3 ANNUAL REVIEW OF EARMARKED RESERVES

3.1 At 1 April 2022, the Authority had £4.9m 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 £1.2m of earmarked reserves at 31 March 23 will relate to unspent grant. The majority of this (£1.0m) relates to the national Emergency Services Network (ESN) scheme that has now been put on hold by the Home Office.

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 22 £'000	Expected Balance 31 March 23 £'000	Required 2023/24 to 2026/27 £'000	Estimated Unused 31 Mar 26 £'000
Prevention & Protection	261	171	171	0
Emergency Services Network	1,012	998	0	998
Other ICT	290	59	20	39
Operational	444	460	460	0
Transformation & Collaboration	554	223	223	0
Pensions	325	325	325	0
Budget Pressure Support	936	1,126	1,126	0
Futures 25 Efficiency Strategy	900	700	700	0
Other	128	36	36	0
Total	**4,851**	**4,097**	**3,061**	**1,037**

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 2023/24 Medium Term Financial Strategy (MTFS), all existing earmarked reserves have been scrutinised with the purpose of identifying surplus resources that can be used to support know pressures for 2023/24 and beyond. This review has identified £361k for re-distribution.

3.6 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 Earmarked Reserves Identified for Re-allocation

	Balance 1 Apr-22 £	Required 2022/23 £	Required 2023/24 to 2026/27 £	To be Reallocated £
ICT Telephony Software	53,000	0	0	(53,000)
Communications Development	171,753	0	0	(171,753)
Rescue Gloves	50,000	37,000	0	(13,000)
Transformation and Collaboration	553,495	103,276	223,155	(123,789)
Total	**827,248**	**140,276**	**223,155**	**361,452**

3.7 The review of Earmarked Reserves has identified £361k for reallocation. It is proposed that this be transferred to the following earmarked reserves:

Table 3 – Proposed re-allocation of Earmarked Reserves

Reserve	**Amount £**
Budget pressure support	189,789
Tri Service Control / Mobilising system	171,753
Total	**361,452**

4 SUMMARY

4.1 It is appropriate to advise Members that the level of reserves held by the Authority will be sufficient during 2023/24 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 2023/24 budgets are set in February 2023.

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 Futures 25 Efficiency Strategy which will present proposals for decisions by Fire Authority in February 2023. It is expected that there will be a shortfall of funding in 2023/24 while the Efficiency Strategy is implemented and that reserves will be required to meet this shortfall.

4.3 The total value of the Authority's reserves on 1 April 2023 is expected to be in the region of £9.3m.

4.4 The expected level of General Fund Reserves as at 1 April 2023 is expected to be in the region of £5.2m, which exceeds the £4.5m minimum level identified for 2023/24 by £0.7m.

4.5 Earmarked Reserves are expected to be in the region of £4.1m at 1 April 2023. These are expected to be fully spent by the end of 2026/27 with the exception of ESN project related reserves due to the national project being put on hold. It is likely that additional reserves will be created during this period due to ongoing receipts of grant.

4.6 £361k of earmarked reserves have been identified for reallocated to:

- Budget Pressure Support - £190k;
- Tri Service Control / Mobilising System £172k.

2023/24 General Fund Risk Analysis

Appendix A

Risk No	Risk Description	Risk Effect	Control Measures	2023/24 Risk Value £	2023/24 Risk Factor Reflecting Frequency	2023/24 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	**Inability to set a balanced budget**	Budget set by Fire Authority is not in balance and reserves required to fund expenditure.	Futures 25 programme of savings. Adequate reserves held for short term funding if required	1,000,000	0.5	500,000
3	Risk of **significant overspend** against budgets due to price increases, undeliverable savings, supply chain issues, fixed price external contracts failing to deliver and potential requirement for market supplement to recruit staff.	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	**Pension issues** - McCloud / Matthews / cost cap judicial review / scheme valuation	Additional costs may fall to Fire Authority. Difficulty in recruiting sufficiently skilled resources.	Working closely with LGA / Pension Scheme Administrators and other Authorities to ensure consistent approach.	1,000,000	0.5	500,000
5	Unanticipated **loss of income** eg from withdrawal of one-off grants / impact of one year settlement	Timings of budget process may not allow sufficient time to plan for such changes	Network of Chief Financial Officers keep abreast of developments. Futures 25 efficiency programme identifying a range of potential savings.	1000000	0.5	500,000

Risk No	Risk Description	Risk Effect	Control Measures	2023/24 Risk Value £	2023/24 Risk Factor Reflecting Frequency	2023/24 Reserve Required £
6	**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. £900k included in Earmarked Reserves for Efficiency Related programme but this may not be sufficient.	500000	0.5	250,000
7	**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
8	**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 in place which has reduced the risk of needing additional cover. High inflation increases risk of pay dispute.	300,000	0.75	225,000
9	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
10	**Collaboration** unforeseen costs	With several collaboration projects being undertaken there is a potential pressure to increase costs to reflect inflationary pressures / increased capital costs / change in needs	Effective planning and identification of costs at the outset of the project	400,000	0.4	160,000
11	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	0.2	120,000

Risk No	Risk Description	Risk Effect	Control Measures	2023/24 Risk Value £	2023/24 Risk Factor Reflecting Frequency	2023/24 Reserve Required £
12	**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. Potential additional government grant. Reduced activity elsewhere across the service may result in savings which can be redirected.	500,000	0.2	100,000
13	**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	0.4	100,000
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	**Breach of data security**	Loss of confidential data; Information Commission fines	Security measures monitored and reviewed	150,000	0.25	37,500
17	**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
18	**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
19	**Natural disasters/ multiple large incidents requiring Belwin support**	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	90,000	0.3	27,000
	TOTALS			**9,890,000**		**4,509,500**

Earmarked Reserve Position 2022/23 to 2026/27 Appendix B

	Balance 01-Apr-22 £	Required 2022/23 £	Reallocated 22/23 £	Estimated Balance 31-Mar-23 £	Required 2023/24 £	Required 2024/25 £	Required 2025/26 £	Balance 31-Mar-26 £
Prevention Protection and Partnership								
Safe as Houses	18,301	-12,000		**6,301**	-6,301			0
Community Safety - Innovation Fund	45,319	-3,190		**42,129**	-22,129	-20,000		0
Building Risk Review Grant	30,556	-30,557		**-0**				0
Grenfell Infrastructure Fund	16,582	-16,582		**0**				0
Fire Protection Funding / Uplift grant	27,790	-27,790		**0**				0
Fire Cadets Project - Duke of Edinburg	18,918	0		**18,918**	-9,000	-9,918		0
Accreditation, Recognition & Prior Learning	19,099	0		**19,099**	-19,099			0
Children’s Home Safety Equipment Scheme	84,725	0		**84,725**	-84,725			0
Sub Total	**261,291**	**-90,118**	**0**	**171,172**	**-141,254**	**-29,918**	**0**	**0**
Resilience								
New Threats / MTFA	36,108			**35,536**	-35,536			0
Sub Total	**36,108**	**0**	**0**	**35,536**	**-35,536**	**0**	**0**	**0**
ICT								
Systel Security PSN Work (NFRS)	266,370	0		**266,370**				266,370
ESN (Regional)	114,103	-13,486		**100,617**				100,617
ESN RAP Work (NFRS)	348,817	0		**348,817**				348,817
ESN Control Room ICT	20,100	0		**20,100**				20,100
Systel Airwave ESN Transition (NFRS)	173,184	0		**173,184**				173,184
ESN - Notts Local Transition Fund (NFRS)	12,368	0		**12,368**				12,368
Delivery of ESN – Additional funding (NFRS)	77,000	0		**77,000**				77,000
ESN Sub Total	**1,011,941**	-13,486		**998,455**				**998,455**
		0		**0**				
ICT Telephony Software	53,000	0	-53,000	**0**				0

	Balance 01-Apr-22 £	Required 2022/23 £	Reallocated 22/23 £	Estimated Balance 31-Mar-23 £	Required 2023/24 £	Required 2024/25 £	Required 2025/26 £	Balance 31-Mar-26 £
WIFI Enhancement - Local Resilience Forum	6,667	-6,667		**0**				0
Communications Development	171,753	0	-171,753	**0**				0
Business System Development	58,818	0		**58,818**	-20,000			38,818
ICT Subtotal	**1,302,180**	**-20,153**	**-224,753**	**1,057,273**	**-20,000**	**0**	**0**	**1,037,273**
Operational								
Operational Equipment	30,000	-30,000		**-0**				0
Tri Service Control / Mobilising System	178,083	0	171,753	**349,836**	-200,000	-149,836		0
Tri Service Control - Mobile Data Terminals	100,000	0		**100,000**		-100,000		0
Fire Cover Review	10,000	0		**10,000**	-10,000			0
Rescue Glove	50,000	-37,000	-13,000	**0**				0
Command Training Suite	76,298	-76,298		**0**				0
Sub Total	**444,381**	**-143,299**	**158,753**	**459,836**	**-210,000**	**-249,836**	**0**	**0**
Estates								
Headquarters Move	50,000	-50,000		**0**				0
Sub Total	**50,000**	**-50,000**	**0**	**0**	**0**	**0**	**0**	**0**
Pensions								
Fire Pension Admin Grant	124,765	0		**124,765**	-60,000	-64,765		0
McCloud Pension Remedy	200,000	0		**200,000**		-200,000		0
Sub Total	**324,765**	**0**	**0**	**324,765**	**-60,000**	**-264,765**	**0**	**0**
Other								
Covid-19 2019/20 unused grant	29,792	-29,792		**-0**				0
Redmond Review Grant	12,325	-12,325		**0**				0
Budget Pressures Support	936,287	0	189,789	**1,126,076**	-1,000,000	-126,076		0
Efficiency Programme	900,000	-200,000		**700,000**	-700,000			0
ICT Subtotal	**1,878,404**	**-242,117**	**189,789**	**1,826,075**	**-1,700,000**	**-126,076**	**0**	**0**

	Balance 01-Apr-22 £	Required 2022/23 £	Reallocated 22/23 £	Estimated Balance 31-Mar-23 £	Required 2023/24 £	Required 2024/25 £	Required 2025/26 £	Balance 31-Mar-26 £
Innovation								
Transformation and Collaboration	553,495	-206,551	-123,789	**223,155**	-77,000	-38,320	-107,835	-0
Sub Total	**553,495**	**-206,551**	**-123,789**	**223,155**	**-77,000**	**-38,320**	**-107,835**	**-0**
								0
Total	**4,850,622**	**-752,238**	**0**	**4,097,812**	**-2,243,790**	**-708,915**	**-107,835**	**1,037,274**

APPENDIX C

DETAILS ON INDIVIDUAL RESERVES

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

Safe as Houses
This reserve provides funding for equipment to help deliver 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.

Building Risk Review Grant / Fire Protection Funding / Grenfell Infrastructure Fund / Accreditation, Recognition and Prior Learning
These grants have been provided to help the service address the recommendations coming out of the Grenfell Tower Inquiry and subsequent Hackitt review.

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.

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.

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. The ESN project has now been put on hold by the government and further spending is not expected until the project recommences.

ICT Telephony Software
This was set aside for telephony software development which has now been completed - the remaining budget can be released for reallocation.

Communications Development
This reserve was originally set aside for ESN work prior to receiving the ESN grant. It has not been used due to the slow progress of the ESN project and is now unlikely to be used. It is proposed to add this to the Tri Service Control project.

Business Systems Development
This reserve has been set aside for iTrent and Agresso software development. This will be needed to update both systems to improve electronic workflows, thus reducing on the manual input required.

Operational Equipment / Rescue Gloves
These reserves were created during Covid due to procurement delays. These are due to be spent in the current year.

Tri Service Control / Regional Mobilising System
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. With the contract now coming up for renewal, these improvements are unlikely to take place and the funding will be used towards the project costs of identifying the needs of the new system.

Mobile Data Terminals
This reserve was created to help address the MDT issues raised in the first inspection report. The funding is expected to be needed to fund capital expenditure in 2023/24.

Fire Cover Review
This reserve has been set aside to cover costs related to delivering the Futures 25 Efficiency Strategy in 2023/24.

Command Training Suite
This project is now complete.

Transformation and Collaboration Reserve
This was a reserve created to support transformation via the Community Risk Management Plan. There have been underspends on the projects which can now be reallocated.

Head Quarter Move
This reserve was set aside to cover unforeseen costs relating to the HQ move. There may be some of this reserve available for re-allocation at year end.

Covid-19 2019/20 unused grant
There is a small element of covid grant left which related to ongoing employee costs used to catch up on the backlog of work following the various lockdowns. This is expected to be utilised by the end of the year.

Redmond Review Grant
This was new burdens grant received to help mitigate the increasing costs of external audit. This will be used this financial year.

Budget Pressures Support
This reserve was created to protect the service from significant budget deficits during 2023/24 due to funding not being expected to match pay and inflation increases in costs. Underspends from other earmarked reserves will be used to top this up to £1m.

Efficiency Programme
This reserve has been created to fund work required to deliver the Futures 25 Efficiency programme.