Report of the Chief Finance Officer of the PFCC to the Police, Fire and Crime Commissioner (PFCC) for North Yorkshire

23rd February 2021

Status: For Decision

Medium Term Financial Plan (MTFP) 2021/22 to 2024/25 and Capital Plans 2021/22 to 2024/25 - North Yorkshire Fire.

1. Executive Summary

1.1 Purpose of the Report

1.2 The Home Secretary announced on the 13th June 2018 that the elected Police and Crime Commissioner for North Yorkshire, now the PFCC, would take on the governance of North Yorkshire Fire and Rescue Service. The legislation to enable this to come into effect was passed on the 15th November 2018.

1.3 The financial position of the Fire Authority, at the time of the announcement and at the point of subsequent transfer of Governance, was set out in a report to the Fire Authority dated the 27th June 2018.

1.4 In Summary the position was as follows:

1.5 The Authority agreed the 2018/19 Budget and the Medium Term Financial Plan which took the Authority up to and including 2022/23 at its meeting on 16 February 2018. The MTFP identified a shortfall of £2,810k on a recurring basis over the period. The Plan set out to use reserves for 2018/19 to 2020/21 in order to bridge the funding shortfall during that period.

- The June 2018 report then set out the review that this MTFP underwent, how savings opportunities were identified (£920k), assumptions were revisited (£300k) and additional costs of £985k identified. This resulted in the PFCC inheriting a MTFP that required £1.2m from reserves to balance the budget in 2018/19 and plans that lead to an imbalance that would rise to nearly £2.6m by 2022/23 **AND** no firm plans to address this imbalance beyond the use of reserves to provide some time to develop savings.

1.6 Since the Transfer of Governance a significant amount of work has been undertaken on the finances of the Fire Authority with a balanced Medium Term Financial Plan set out in February 2020, in addition to this an assessment of the Transfer of Governance business case was undertaken. From a financial perspective the savings outlined within the Transfer of Governance business case were assessed as part of the 'One-Year On' report which highlighted that the financial savings were expected to have exceeded those set out within the business case.

1.7 This report asks the PFCC to agree the third Budget and MTFP proposals under the new Governance arrangements. This report sets out the new challenges that the finances of the organisation now face as a result of the impact of the pandemic, what action has been taken to maintain the recurring balanced financial position over the medium term, how the plan sets the foundations, financially, for the 'Ambition 2025' journey and what the risks and assumptions are to delivery of this financial plan.

1.8 The report sets out the detailed Budget for 2021/22 and the Medium Term Financial Plan (MTFP) for 2021/22 – 2024/25 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PFCC to agree the funding for the Capital Programme for 2021/22 and the indicative allocations for the period 2022/23 to 2024/25.

2. Recommendations

2.1 The PFCC is requested to approve the Revenue Budget as set out within this report and in doing so the delegation of an expenditure budget to the Chief Fire Officer of £36,278k in line with the plans set out within this report.

2.2 The PFCC is asked to note that the Budget for 2021/22 is being balanced through the use of £342k from reserves.

2.3 The PFCC is asked to approve the Reserves Strategy that is attached at Appendix B.

2.4 The PFCC is asked to note that the 2021/22 budget is based on the approved 1.99%, or £1.45, increase in the level of Band D precept for 2021/22.

2.5 The PFCC is asked to note the Robustness of Estimates and Adequacy of Financial Reserves Advice from the PFCCs CFO that is included within this report.

2.6 The PFCC is asked to approve that additional External Borrowing of £3,891k can be taken out during the year, if required, to fund the Capital Programme.

2.7 The PFCC is asked to approve that the Capital Programme is initially set at £4,776k, as set out at Appendix A, for 2021/22 and within that programme approve that:

- Indicative approval of the 2022/23 Capital Programme budgets, as set out in Appendix A, and delegation of approval of any requests to pre-order against the 2022/23 budgets to the Commissioners Chief Finance Officer, up to 25% of each indicative budget. The 2022/23 Capital Programme will be submitted for formal approval at this time next year.

- Delegation to the Commissioners Chief Finance Officer to approve, where needed and appropriate, for the carry forward of any slippage from the approved 2020/21 Capital Programme into 2021/22.

3. Planning and Funding Assumptions

3.1 Local Government Finance Settlement 2021/22

3.2 On 17 December 2020, the Secretary of State for Housing, Communities and Local Government Robert Jenrick MP, set out the Provisional Local Government Finance Settlement for 2021-22 in the form of a Ministerial Statement in the House of Commons. Alongside the statement, details of the provisional settlement have been published on the Gov.uk website.

3.3 Headlines

3.4 Due to the timing and detail of local government finance announcements at the 2020 Spending Review (which was published much later in the year than previous SRs), the majority of the settlement was already known. The headlines below build upon headlines from SR2020:

- Pensions Grant – Cash Flat.
- Confirmation that Core Spending Power (CSP) increases by an average of 4.5% (£2.2bn) – a significant proportion of this is additional council tax flexibilities for social care Local Authority's and police.
- Standalone FRAs see their CSP increase by 2.7%.
- Precept – 1.99% basic referendum limit for FRAs.
- Rural Services Delivery Grant increased from £81m to £85m.
- Further details on the Income Guarantee Scheme (75% of irrecoverable losses) published.
- Allocations of £670m LCTS to be applicable to Fire.
- Underspend in New Homes Bonus. This has been allocated as follows:
    - £261m for the lower tier fund and half of the additional social care grant.
    - £13m to fund the increase is SFA
    - £4m Rural Service Delivery Grant uplift

3.5 Council Tax Precepts

3.6 The Provisional Settlement sets council tax referendum thresholds for FRAs at 1.99% for 2021-22. As set out in SR2020, there is an additional 3% flexibility for the Adult Social Care authorities, a 1.99% or £5 (whichever is higher) principle for shire districts and a £15 Band D increase limit for police. As previously, there are no council tax referendum principles for Mayoral Combined Authorities or parishes.

3.7 Core Spending Power

3.8 The core settlement is made up of Baseline Funding Levels and Revenue Support Grant (RSG). RSG has increased in real terms (September 2020 CPI = 0.55%). Baseline funding levels (BFL) which are funded through Business Rates, are flat in cash terms as the government has announced that the Business Rate multiplier will be frozen next year. The real terms (0.55%) increase in the Baseline Funding Levels will arrive via a Section 31 grant as per previous indexation compensation grants.

3.9 Council Tax Base Assumptions

3.10 Council tax bases have been assumed to increase by an average of the annual growth between 2016-17 and 2020-21. This means the MHCLG are not using the OBR's -0.2% forecast for tax base growth. The Core Spending Power Explanatory Note also explains that they are assuming all authorities maximise their precept in 2021-22.

3.11 Council Tax and Business Rates income guarantee scheme

3.12 The government has published a consultative policy paper on Covid-19 funding for local government in 2021-22. The government has said that it is setting out how losses in scope of the guarantee will be measured. For council tax, this is broadly a comparison of each authority's council tax requirement and an adjusted Net Collectable Debit. For business rates, this is broadly a comparison of income as calculated in the National Non-Domestic Rates ('NNDR') statistical collection forms 1 and 3.

3.13 SR2020 stated that the government forecasted the guarantee scheme to total £762m but there have been concerns that this will be insufficient. It is expected that the promise is for 75% of irrecoverable losses, (rather than capped at £762m) so this funding is anticipated to increase as required to meet the 75% guarantee.

3.14 What Impact does this Funding Settlement have on Fire Services Funding in North Yorkshire?

3.15 Based on the information produced by the Government and received to date, then the Government calculate that the Core Spending Power for North Yorkshire Fire is projected to increase by circa 2.7%, between 2020/21 and 2021/22 as set out in the table below:

	2020/21	**2021/22**
Core Spending Power Breakdown	£000s	£000s
Settlement Funding	8,694	8,708
Under Indexing	247	321
Council Tax Requirement	22,081	22,815
Rural Services Grant	515	540
Core Spending Power	**31,537**	**32,385**
Year on Year change in Core Spending Power	2.4%	2.7%

3.16 This however assumes an increase in Council Tax Requirement of 3.32% which includes an assumed 1.99% increase in the overall Band D level.

3.17 The Government has therefore assumed that the Council Tax Base in North Yorkshire (so the overall number of Band D equivalent properties) will increase by 1.33%, in calculating this 3.32% increase, from the level reported in 2020/21.

3.18 This assumption is significantly different to the real level of increases being report by the Council's within North Yorkshire, where the overall level of Tax Base has seen a reduction of 0.2%. The impact of this is that the real increase in Core Spending Power will only be 1.4% as shown in the table below. This also does not taken into account the deficit on the Council Tax Collection Fund

	2020/21	2021/22
Core Spending Power Breakdown	£000s	£000s
Settlement Funding	8,631	8,660
Under Indexing	247	321
Council Tax Requirement	22,081	22,477
Rural Services Grant	515	540
Core Spending Power	**31,474**	**31,997**
Year on Year change in Core Spending Power	2.5%	1.7%

3.19 The income at this level is £388k lower than assumed by the Government in their announcement that Standalone Fire and Rescue Authority's would see an increase of 2.7% in their Core Spending Power.

3.20 Some of this lower income will be offset by an additional Local Council Tax Support Grant of £315k.

3.21 How does this compare to what we planned for when the MTFP was approved in February 2020?

3.22 In overall terms the funding for 2021/22 is almost exactly the same as that forecast a year ago. This results from the lower Council Tax income being offset by the one-off Council Tax Support Grant and higher levels of other income than forecast a year ago.

3.23 Given that assumptions of pay inflation have been revised downwards, from forecast increases of 2.5% per annum, to the following:

- 2021/22 - Pay Freeze
- 2022/23 – 1% increase
- 2023/24 – 1.5% increase
- 2024/25 – 2% increase

3.24 Then the Service has been able to broadly absorb the pressures within the budget, however it is expected to use some reserves to balance the budget in 2021/22.

3.25 The settlement does not however provide any significant capacity for investment and this will therefore need to be self-funded and delivered through a save to invest approach.

3.26 It is important to recognise that a number of these figures are estimates at this stage and should be finalised during February. It is unlikely however that any will change significantly.

3.27 Pensions Grant

3.28 In early September 2018 HM Treasury announced changes to the discount rate for unfunded public-sector pensions including fire. This, combined with the earlier announcement at Budget 2016, has resulted in a reduction to the discount rate from 3% to 2.4% and has the effect of increasing the employer contributions (to include ill-health costs) from 17.6% to 30.2% from April 2019. The Government Actuary's Department estimated that the additional cost to fire as a result will be around £108.5m per annum.

3.47 HM Treasury indicated that additional funding would be provided to public sector bodies in 2019-20 to mitigate most of this increase, with the sector "paying only the additional costs announced at Budget 2016" (a reduction in the discount rate from 3% to 2.8%). This means that fire will pay £10m of the additional costs in 2020/21, with the remaining £98.5m being provided via a grant under section 31 of the Local Government Act 2003. Although FRAs have some cost to bear they have come out relatively well when compared to the Police.

3.48 No assurances have been given that this Grant, which for North Yorkshire Fire now totals £1,711k, will continue beyond 2021/22 however the current financial plans assume this will happen. Clearly if this grant ends then there will be a significant impact on the current MTFP.

3.49 Rural Services Delivery Grant (RSDG)

3.50 North Yorkshire Fire now receives £540k in terms of Rural Services Delivery Grant, this has increased by £25k since 2020/21 and therefore in real terms this grant has increased. This is a welcome development and one that is hoped continues into future years to reflect the additional unavoidable costs that are incurred in delivering a Fire Service across a large geographical area.

3.51 **Funding for 2022/23 and beyond**

3.52 The funding position for 2022/23 will be set out and determined as part of the Spending Review that will be undertaken in 2021.

3.53 Given the expected financial challenges that are likely to result from the costs incurred during the pandemic then the assumptions within the revised MTFP is that Core Government funding will be frozen for the next 3 years.

3.54 Given the lack of specific information to inform the future funding position then for planning purposes certain assumptions have had to be made. These are as follows:

- Pay Awards: Pay Freeze in 2021/22, followed by a 1% increase in 21/22, a 1.5% increase in 22/23 and then 2% increases thereafter
- Precept: Increases of 1.99% per annum
- Tax Base increases 1.5% per annum for the next 2 years and then 1.2% in 2024/25 before returning to 1% increases,
- Government Grants: Are frozen for the next 3 years.
- Pensions Grant continued to be paid at £1,711k per annum.
- Nil impact from any Fair Funding/Funding Formula review

- Nil impact from Business Rates Retention
- Rural Service Delivery Grant continues at £540k per annum.
- Inflation: 1.5% for most non-pay areas

3.55 It is important to recognise that these are assumptions and as such could easily change. These will be kept under close scrutiny/review as the year progresses and updates provided as/when more information becomes available.

3.56 Precept

Over 70% of the Net Budget Requirement for the North Yorkshire Fire and Rescue Service is now funded by the local precept and therefore this generally provides more financial resilience than in most Fire Service areas, as decisions around the Government Grant have less of an impact than in those areas that are funded by a higher proportion by Government Grants.

3.57 However in these very unusual times, where council tax bases have reduced and significant deficits on Council Tax Collection Funds have materialised then this provides an added financial challenge.

3.58 Some areas receive only 45% of their funding from the Precept with the average nationally, across Fire and Rescue Services, about 60%.

3.59 The precept is projected to increase to around 73% of the Net Budget Requirement by the end of the planning period covered by this MTFP, which is higher than previous forecast given the revised assumptions around Government Funding that are included within our forecasts.

3.60 In publishing the final council tax referendum principles for 2021/22 the Department for Communities and Local Government provided Fire Authorities with the scope to increase Precept by up to 2% before triggering a local referendum. This is the same as last year however lower than the 2 years prior to that. Representations continue to be made to have scope for an increase of £5 on a Band D property however this did not materialise.

3.61 Consultation was undertaken within North Yorkshire and the results published as part of the supporting information for the PFCC's decision to propose a 1.99% (or £1.45) increase in the Band D precept for 2021/22. This proposal was supported by the Police, Fire and Crime Panel and therefore this budget incorporates a Band D 'Fire' precept for 2021/22 for North Yorkshire of £74.14.

3.62 **Results from Public Consultation**

3.63 To further inform the decision around the proposed precept for 2021/22 consultation has been undertaken with the public to ascertain their feedback and thoughts on this subject.

3.64 The consultation was conducted via an online survey and by telephone, to ensure a representative sample of North Yorkshire and the City of York residents by age, gender and geography.

3.65 The public were asked the following question:

3.66 Last year, the precept rise was in line with inflation to maintain current service delivery but did not allow for investment.

3.67 If funding from this year's precept exceeds inflation, we can reduce the annual budget shortfall of £500k and start to make much needed investment in the estate and fleet to improve service delivery and ensure facilities are appropriate for a diverse workforce.

3.68 The Government has capped the fire and rescue precept at 1.99% which is a maximum increase of £1.45 for an average Band D property.

3.69 The following options are based on an average Band D property currently paying £72.69 each year for fire and rescue services. How much more would you be prepared to pay per year, through your council tax for fire and rescue services?

- No more than I pay now – a precept freeze
  This would mean a cut to the fire and rescue budget due to inflation and current service delivery could not be maintained

- Up to £1.45, an increase of 1.99%
  This would raise £432k, keeping up with inflation to maintain current service delivery but no investment in its services

- Up to £5, an increase of 6.9%
  This would raise £1.5 million, exceeds inflation, would help reduce the financial shortfall and allow investment in the areas mentioned

- Up to £10, an increase of 13.8%
  This would raise £3 million, exceeds inflation, would help reduce the financial shortfall and allow significant investment in the areas mentioned

3.70 In total 2,121 responses were received via the open online survey and a further 1,000 interviews over the telephone. The open survey was published on the PFCC website and promoted widely via social media.

3.71 A summary of the overall results is shown in the table below:

	Total (n=3085)	Telephone (n=974)	Online (n=2111)
No more than I pay now – a precept freeze	**28%**	29%	28%
Up to £1.45, an increase of 1.99%	**28%**	24%	31%
Up to £5, an increase of 6.9%	**26%**	29%	24%
Up to £10, an increase of 13.8%	**18%**	19%	17%
TOTAL who support an increase of at least 1.99%	***72%***	*71%*	*72%*

*figures may not add to 100% due to rounding

3.72 Combined results (online and telephone) from the consultation show a clear majority (72%) support an increase of up to £1.45 in the fire and rescue precept

3.73 For the purposes of planning, the MTFP that is set out within this paper assumes that Precept increases of 1.99% per annum are possible and occur.

3.74 During the period 2014/15 to 2017/18 the overall Tax Base (based on the number of Band D equivalent properties) grew by an average of 1.77%.

3.75 However in the 3 years that followed this, the tax base growth slowed significantly to an average of 1.1% including growth of just 0.93% in 2020/21.

3.76 The Tax Base

The eight local Councils have notified the PFCC of their tax bases for 2021/22 as set out in the table below:

Tax Base		
	2021/22	**2020/21**
	Net Tax Base	Net Tax Base
Craven District Council	22,363	22,617
Hambleton District Council	37,343	37,256
Harrogate Borough Council	63,985	63,428
Richmondshire District Council	19,704	19,981
Ryedale District Council	21,801	22,062
Scarborough Borough Council	38,401	38,627
Selby District Council	32,065	31,989
York City Council	67,512	67,813
Total	**303,174**	**303,774**
Annual Increase/(Decrease)	**(600)**	
Percentage Increase/(Decrease)	**-0.20%**	

3.77 The tax base is expressed in terms of Band D equivalent properties. Actual properties are converted to Band D equivalent by allowing for the relevant value of their tax bands as set down in legislation (ranging from 2/3rds for Band A to double for Band H; discounts for single person occupation, vacant properties, people with disabilities etc;) and a percentage is deducted for non-collection. Allowance is also made for anticipated changes in the number of properties.

3.78 As can be seen from the table above the number of Band D equivalent properties across North Yorkshire has <u>decreased in 2021-22</u>, in comparison to 2020-21, by 600 – this equates to a <u>decrease of 0.2%</u>.

3.79 A reduction in the overall tax base is highly unusual and was completely unexpected. This has therefore has an impact on the finances of the organisation. A 0.2% reduction, versus an expected 1% increase, equates to an overall reduction in precept income of around £270k. This impact has however been compensated for by a Local Council Tax Support Grant of £315k from the Government.

3.80 This funding is expected to be a one-off grant as it is hoped/assumed that the Tax Base will recover over the next 2/3 years. The financial plans assume quicker tax base growth of 1.5% in each of the next 2 years. This will however be dependent on many factors which are clearly outside of the control of the organisation.

3.81 <u>Council Tax Collection Fund</u>

3.82 As referred to in the financial updates throughout 2020/21 the biggest financial challenge, resulting from COVID-19, for the organisation was likely to materialise in 2021/22 with a likely recurring, but smaller impact in the years thereafter. The impact was expected to result from less Council Tax than planned being collected during 2020/21 and a further impact on the overall tax base in future years in comparison to previous plans.

3.83 The Government recognised this challenge and have provided the flexibility to all billing and major precepting authorities (including police and fire authorities) to phase the deficit over a fixed period of three years.

- The phased amount will be the entire collection fund deficit for 2020-21 as estimated on the 15 January 2021 for council tax and in the 2021-22 NNDR1 for business rates.
- The deficit will be phased in three equal and fixed amounts across the financial years 2021-22, 2022-23 and 2023-24.
- The amounts to be paid off during 2021-22 will therefore be only 1/3rd of each authority’s share of the estimated 2020-21 deficit.

3.84 The Councils have indicated an overall deficit on their collection funds, of which £248k relates to Fire.

3.85 Of this overall deficit of £248k, there is a £29k surplus that relates to years prior to 2020/21 and is therefore treated normally. Of the £277k deficit that relates purely to 2020/21 this will be phased across 3 years in line with the changed legislation. The will result in a £92k charge in each of the next 3 years.

3.86 Business Rates

3.87 While the Fire Authority's income is heavily reliant on income from Council Tax payers there is also another element of the income that is generated from local taxation and this is from Business Rates.

3.88 The Fire Authority receives 1% of the Business Rates collected within North Yorkshire which equates to around £3.1m and similarly to Council Tax this is collected by the local councils and paid to the Fire Authority.

3.89 There was been significant financial support provided to many businesses as a result of the pandemic, one of these elements of support has been a business rates holiday for retail, hospitality and leisure businesses, covering the following areas:

- shop
- restaurant, café, bar or pub
- cinema or live music venue
- assembly or leisure property - for example, a sports club, a gym or a spa
- hospitality property - for example, a hotel, a guest house or self-catering accommodation

3.90 It is estimated that this support will equate to around £160-170m more than originally planned at the start of 2020/21 across North Yorkshire, which means that this level of Business Rates bills are not currently being paid/collected. Of this, 1% was expected to have been paid, and has been paid, from the Local Councils to the Fire Authority.

3.91 As a result of paying across the proportion of Business Rates due to the Fire Authority, as required, but not being able to collect this from businesses then there is a significant deficit on the Business Rates Collection Funds across all Council areas relating to the Fire Authority.

3.92 This deficit, currently calculated to be £1,665k, will need to be re-paid to the Councils during 2021/22 from the Fire Authority.

3.93 It is expected that as these deficits arose as a result of 'reliefs' given by the Government that the Fire Authority will be compensated for this via an additional Grant, in the same way as the Authority is currently compensated for other 'reliefs' that the Government provide to businesses.

3.94 This MTFP assumes that there is an overall nil impact for this, however this will need to be monitored over the coming year.

3.95 Beyond this immediate challenge there is little to determine the longer term impact on Business Rates receipts given the challenging economic situation. Clearly the less businesses that survive this period the less that will be paying Business Rates in the future. These lower tax receipts will ultimately feed through into the overall funding available for Public services either locally or nationally.

3.96 The assumptions for both Council Tax and Business Rates will all be kept under review as details for future years become available and projections amended accordingly.

3.97 Specific Grants, Pensions Grant and General Income
Given the short term additional grants that are expected to be received in 2021/22, to support the challenges around both Council Tax and Business Rates that was referred to above, then there is a significant forecast increase in this area of income, in 2021/22, of £2.0m.

3.98 Thereafter these sources of income and funding are forecast to provide between £4.0m and £4.1m across the life of the plan, although this will depend on the future recover of the economy.

3.99 Pensions Grant

3.100 In early September 2018 HM Treasury announced changes to the discount rate for unfunded public-sector pensions including fire. This, combined with the earlier announcement at Budget 2016, has resulted in a reduction to the discount rate from 3% to 2.4% and has the effect of increasing the employer contributions (to include ill-health costs) from 17.6% to 30.2% from April 2019. The Government Actuary's Department estimated that the additional cost to fire as a result will be around £108.5m per annum.

3.101 HM Treasury indicated that additional funding would be provided to public sector bodies in 2019-20 to mitigate most of this increase, with the sector "paying only the additional costs announced at Budget 2016" (a reduction in the discount rate from 3% to 2.8%). This means that fire will pay £10m of the additional costs in 2020/21, with the remaining £98.5m being provided via a grant under section 31 of the Local Government Act 2003. Although FRAs have some cost to bear they have come out relatively well when compared to the Police.

3.102 No assurances have been given that this Grant, which for North Yorkshire Fire now totals £1,711k, will continue beyond 2021/22 however the current financial plans assume this will happen. Clearly if this grant ends then there will be a significant impact on the current MTFP.

3.103 To provide for one of the biggest risks within the MTFP, a Pensions Reserve was established with £1,711k in the reserve and therefore should the PFCC receive notification that this Grant will not continue in 2022/23 then this reserve will provide 1 years capacity to draw up and deliver alternative plans to meet what would be a very significant and additional gap within the financial plans.

3.104 Specific Grants

3.105 In addition to the Pensions Grant the other significant grants in this area include:

- PFI Grant - £649k – this Grant will continue, at the same level, until the PFI contract comes to an end.
- Business Rates Grant - £685k – these are 'normal' reliefs and indexation adjustments outside of the exceptional reliefs provided in relation to the pandemic.

3.106 These grants, by their nature, fund specific work/expenditure, and should the grants reduce/stop then the work will also need to be reviewed and stopped and/or funding from alternative sources found if possible. These areas will be closely monitored across the financial year.

3.107 The entire funding therefore expected to be available to the PFCC for the next 4 years, in comparison to 2020/21, is as follows:

	Actual Budget 2020/2021 £'000	Forecast Budget 2021/2022 £'000	Forecasts 2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Funding					
Total Settlement Funding	(8,631)	(8,660)	(8,660)	(8,660)	(8,660)
Rural Services Grant	(515)	(540)	(540)	(540)	(540)
Council Tax Precept	(22,081)	(22,477)	(23,272)	(24,093)	(24,944)
Council Surplus/Deficit	(100)	63	(8)	(8)	(100)
NNDR Surplus/Deficit	6	1,665	27	27	6
Funding for the Net Budget Requirement	**(31,322)**	**(29,949)**	**(32,452)**	**(33,274)**	**(34,238)**
%age change in Net Budget Requirement	0.0%	-4.4%	8.4%	2.5%	2.9%
S31 NDR Grants and Specific Grants	(1,682)	(3,657)	(1,644)	(1,687)	(1,732)
Pensions Mitigation Grant	(1,711)	(1,711)	(1,711)	(1,711)	(1,711)
General Income	(547)	(620)	(611)	(619)	(632)
TOTAL FUNDING	**(35,261)**	**(35,936)**	**(36,418)**	**(37,290)**	**(38,313)**
%age change in Total Funding		1.9%	1.3%	2.4%	2.7%

3.108 As can be seen from the projected percentage changes to the Total Funding, then providing expenditure inflation (both Pay and Non-Pay) can be contained within current forecasts, which is likely to very dependent on pay settlements, then the Fire Service would have a chance of maintaining current service levels.

3.109 However as referred to previously there are a number of areas within the Service that require investment, some of which are currently being profiled to match future savings plans, or unfortunately have been delayed until they can be afforded. The current financial settlements and projections don't therefore provide any real scope for investment.

4 Expenditure Plans

4.1 Significant action was taken in the first 2 financial years after the Transfer of Governance to mitigate the projected £2.5m imbalance in the Medium Term Financial plan that was forecast to materialise by 2022/23.

4.2 This resulted in a Medium Term Financial Plan that was approved in February 2020 that required the use of £282k of Reserves in 2020/21 to balance the financial plan and no requirement for the use of reserves thereafter. This was summarised in the table below:

Approved MTFP - February 2020	**2020/21**	**2021/2022**	**2022/2023**	**2023/2024**
	£'000	**£'000**	**£'000**	**£'000**
Total Funding	(35,261)	(36,024)	(36,906)	(37,810)
Total Expenditure	35,544	36,024	36,906	37,810
(Surplus)/Deficit before Reserves	282	0	0	0
Planned Transfers to/(from) Earmarked Reserves	(282)			
(Surplus)/Deficit before Reserves	**0**	**0**	**0**	**0**

4.3 One of the areas of savings that was set out within the 2020/21 budget and precept proposal to achieve the future balanced financial plan was from a Supervisory review at Day-Crewed and Wholetime Shift 'one pump/engine' stations.

4.4 The review was to show that a reduction in the amount of Watch Managers (WMs) was possible in these stations through a trial at Day-Crewed Stations prior to further implementation. This could be achieved by utilising a single WM across two watches rather than one per watch under the current model. It would balance fluctuations in crewing levels whilst achieving significant recurring financial savings. If implemented in full, savings of approximately £500k per year could be achieved.

4.5 By adopting a revised supervisory manager structure, there would be no change to the current level of operational fire cover or to response times to incidents because fire engines will deploy in exactly the same way as they do now.

4.6 This review concluded during 2020/21 and it has been decided at this time not to implement this proposal. The expected savings and the forecast reductions in Watch Managers has therefore been added back into the financial plans.

4.7 The search for savings and efficiencies however continues to receive a lot of focus and a further £500k of savings/reductions have been factored into the 2021/22 MTFP, these are summarised within the table below:

Savings included in 2021/22 MTFP	£k
ICT Contract savings	98
Equipment and PPE Savings	54
Hire and Contract savings	70
Pensions	80
Other Staff, Travel and Subsistence Savings	97
PFI Contract Savings and Capital Charges	67
Inflation and other savings	34
Total Savings	**500**

4.8 These have helped mitigate increased costs to maintain a building estate that is increasingly in need of significant investment, to meet higher than previously expected pay awards that occurred during 2020 and the need to remove the savings that were expected to be delivered from the Watch Manager review that was referred to above.

4.9 <u>What does this mean for the overall Financial Position in 2021/22?</u>

4.10 The impact of the financial settlement, the proposed precept, the savings plans, the changes in assumptions and the impact of other pressures within the Fire and Rescue Service has culminated in the following impact on the MTFP before the use of reserves:

Draft MTFP - February 2021	2020/21	2021/2022	2022/2023	2023/2024	2024/25
	£'000	£'000	£'000	£'000	£'000
Total Funding	(35,261)	(35,936)	(36,418)	(37,290)	(38,313)
Total Expenditure	35,544	36,278	36,809	37,406	38,313
(Surplus)/Deficit before Reserves	**282**	**342**	**390**	**116**	**(0)**

4.11 The proposed plans will require the use of reserves across the next 3 years, based on current assumptions. Most of this is expected to be funded for the COVID funding that was received during 2020/21 that is not all currently expected to be used. This will help mitigate some of the impact of the lower than expected income from a Council Tax perspective over the next few years, in comparison to previous plans.

4.12 This may be subject to some slight changes as the final plans are confirmed especially in relation to Business Rates, but also the extent to which the deficits on both the Council Tax and Business Rates Collections Funds are subject to Grants that are payable to the Fire Authority.

4.13 The impact of the assumptions set out for the MTFP, as per paragraph 3.54, combined with a return to normal council tax levels over the life of the plan and the impact of the full year effect of the identified savings are forecast to result in a recurring balanced budget from 2023/24. The summary of this is set out below:

5 Overall Revenue Budget Summary

5.1 Sections 3 and 4 of this report set out the details of the Income and Expenditure for both the coming financial year and the assumptions about future years. This results in the following summary revenue budget and MTFP.

	Actual Budget 2020/2021 £'000	Forecast Budget 2021/2022 £'000	Forecasts 2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Funding					
Total Settlement Funding	(8,631)	(8,660)	(8,660)	(8,660)	(8,660)
Rural Services Grant	(515)	(540)	(540)	(540)	(540)
Council Tax Precept	(22,081)	(22,477)	(23,272)	(24,093)	(24,944)
Council Surplus/Deficit	(100)	63	(8)	(8)	(100)
NNDR Surplus/Deficit	6	1,665	27	27	6
Funding for the Net Budget Requirement	**(31,322)**	**(29,949)**	**(32,452)**	**(33,274)**	**(34,238)**
%age change in Net Budget Requirement	0.0%	-4.4%	8.4%	2.5%	2.9%
S31 NDR Grants and Specific Grants	(1,682)	(3,657)	(1,644)	(1,687)	(1,732)
Pensions Mitigation Grant	(1,711)	(1,711)	(1,711)	(1,711)	(1,711)
General Income	(547)	(620)	(611)	(619)	(632)
TOTAL FUNDING	**(35,261)**	**(35,936)**	**(36,418)**	**(37,290)**	**(38,313)**
%age change in Total Funding	0.0%	1.9%	1.3%	2.4%	2.7%
Expenditure					
Wholetime Firefighters	16,721	17,139	17,241	17,478	17,766
On Call Firefighters	3,325	3,342	3,368	3,414	3,478
Administrative & Clerical	3,319	3,423	3,425	3,528	3,599
Control Room Staff	765	789	795	822	837
Direct Staff Costs	**24,130**	**24,694**	**24,828**	**25,241**	**25,679**
Indirect Staff Costs	440	453	450	456	462
PFCC Staff Costs	74	76	78	80	82
Premises	2,111	2,090	2,122	2,153	2,186
Transport	792	794	804	828	846
Supplies and Services	3,472	3,362	3,181	3,199	3,273
Operating Leases	75	51	41	46	14
External Service Agreements	196	212	215	219	222
PFI (inc. capital element)	1,461	1,480	1,507	1,534	1,562
Total Indirect Staff and Non Staff Costs	**8,620**	**8,518**	**8,398**	**8,515**	**8,646**
PENSIONS	912	819	855	891	908
TOTAL EXPENDITURE BEFORE CAPITAL CHARGES	**33,662**	**34,031**	**34,081**	**34,647**	**35,233**
Provision for Debt Repayment	991	1,132	1,242	1,359	1,416
External Interest	550	530	582	597	612
Revenue Contribution to Capital	340	585	904	801	1,052
Total Capital Charges	**1,882**	**2,248**	**2,728**	**2,758**	**3,079**
TOTAL EXPENDITURE BUDGET	**35,544**	**36,278**	**36,809**	**37,406**	**38,313**
(Surplus)/Deficit before Reserves	282	342	390	116	0
Planned Transfers to/(from) Earmarked Reserves	(282)	(342)	(390)	(116)	0
Planned Transfers to/(from) General Fund	0	0	0	0	0
(Surplus)/Deficit After Reserves	**0**	**0**	**0**	**0**	**0**

5.2 As can be seen from the above summary revenue budget the overall financial problems of the Fire and Rescue Service have now worsened slightly over the last year. This is in part to do with the impact of the pandemic in the short term however over the medium term the removal of the expected savings from the Watch Manager review has a recurring impact which has required more use of reserves to balance than was previously expected.

5.3 The main assumptions that underpin the plan are as follows:

Employee Numbers (Budgeted as at 31st March)	FTEs	FTEs	FTEs	FTEs	FTEs
Wholetime Firefighters	306.0	308.0	304.0	304.0	304.0
Retained Duty System Firefighters	342.0	342.0	342.0	342.0	342.0
Support Staff	84.8	87.1	86.1	86.1	86.1
Control Staff	17.2	17.5	17.5	17.5	17.5
Assumptions					
Staff Pay Increase	2.0%	0.0%	1.0%	1.5%	2.0%
Non Pay Inflation	2.0%	1.5%	1.5%	1.5%	1.5%
Precept Increase	2.0%	2.0%	2.0%	2.0%	2.0%
Council Tax Base Increase	1.0%	-0.2%	1.5%	1.5%	1.5%

5.4 While the use of reserves is not ideal the bigger challenge is that despite the delivery of £500k of savings/reductions in year these savings have not been able to contribute towards the future plans that the Service will need to implement. The Save to Invest requirement has been a Save to Balance requirement for 2021/22.

5.5 Further focus will be required going forward to deliver against the Ambition 2025 plan and some of the key projects and work streams that are being developed within the organisation to help deliver the improvements and ambitions that the Service now aspire to deliver.

6 **Ambition 2025**

6.1 Beyond business as usual and the focus on balancing the budget, in the short term, it is also important to key an eye on where the Service is trying to move towards and this is set out within its Ambition.

6.2 What is the Ambition for North Yorkshire Fire and Rescue Service

6.3 We're a flexible, agile, effective and financially stable service delivering value for money to the public we exist to serve. We deliver the vision and priorities in the Fire & Rescue Plan, through a Risk and Resource model that's based on risk, demand, availability and affordability. We help everyone in York and North Yorkshire Feel Safe and Be Safe.

6.4 The public know what to expect from us and we can demonstrate the causal effect of our work on their performance, their safety. We currently adopt public performance as our own, for example the number of fires or rescues and the associated deaths and injuries. In the future we'll be able to say what effect our work and interventions had on this public performance, the demand they create. We will have stated aims for service delivery, about how we'll prevent, protect, respond and create community resilience.

6.5 Our resources are matched to risk, demand and the availability of staff. Our vehicles, equipment, Personal Protective Equipment and training are modern and suitable. We care about our impact on the environment and are committed to minimising it. We have financial stability and sustainability and are beginning to invest in modernising our buildings.

6.6 We keep people and places safe by integrating and balancing the use of Prevention, Protection, Response and Community Resilience activities, both in our communities and in our own workplaces.

6.7 *Our staff are fulfilled. They are held accountable but are empowered to make decisions, be creative and make the most of partnership working. They know what they come to work to do and they're properly paid and contracted to do it. We operate as a single team, everyone knowing their contribution to the safety of people and places, regardless of their role in the organisation. Especially talented people are identified and developed for future roles, everyone is continuously developed in their existing roles*.

6.8 We work strongly in collaboration and partnership to deliver our services in the best interests of the public we exist to serve. Enable is fully embedded, providing an appropriate level of service, in a timely manner, to our frontline teams. Multi-agency teams are co-located in single buildings to share ideas and work together. This will better join up public service delivery, reduce the overall public estate and free up funding for frontline services.

6.9 **What opportunities do we need to pursue to reach the ambition?**

6.10 The transformation programme is designed around three categories of opportunity, each one with numerous interdependent projects:

- On-call availability
- Maximising service delivery capacity
- Saving to invest to modernise

6.11 These ambitions will need to be underpinned by robust corporate and financial planning and this will be the focus of the Service over the coming years. Just to oversee this change and transformation programme will require funding and resources – this plan assumes that this will be funded from the New Developments earmarked reserve which currently has a balance of £200k.

6.12 Proposals and business cases will however need to be developed before this funding is released to support these.

6.13 As previously mentioned there is a need for some significant investment within the Estate from which the Fire Service operates. Some of this requires immediate attention to ensure that the buildings are more accessible to both the public and a more diverse workforce, and just under £1m has been set aside, within the Capital Programme, to address these areas over the next 2 years.

6.14 Beyond this timeframe there is a need to assess entire buildings and determine whether they are suitable for the delivery of modern day services. While affordability will remain a key challenge, plans to refresh the estate are being developed and based on current financial projections it is hoped that options may be available towards the end of the life of this financial plan to begin this investment. The current plans assume that 3 Fire Stations will be rebuilt between 2023/24 and 2028/29.

6.15 **<u>Enable</u>**

6.16 The process to Simplify, Standardise and Share enabling services with the Police Service as part of the Enable Collaboration agreement will continue to be one of the key areas of development over the coming financial years. The expectation being that the move to 'Enable' is expected to offer the opportunity to both improve services and deliver increased value for money.

6.17 It is important to recognise however that, in line with many other areas of the Fire Service, such as the Estates, that there are parts of service delivery that now sit within Enable that do not have the capacity and/or capability, due to a lack of previous investment, to be able to fully support what the Service needs to do to meet its Ambitions.

6.18 This will need to be considered as part of future areas of investment and spend.

6.19 There have been no assumptions, in terms of either the timing and/or level of future savings and/or costs that may result from this collaboration, factored into this MTFP and therefore updates on both the progress and impact of this collaboration will be included in future financial updates.

6.20 **Risk and Resource Model**

6.21 The Fire and Rescue Service (FRS) currently has in place a Community Safety plan, which is effectively the Integrated Risk Management Plan (IRMP), this was produced after the Fire Cover Review in 2015 and now runs through to 2021/22.

6.22 This Community Safety Plan sets out how the FRS will continue to protect the people and communities of North Yorkshire and the City of York and how we intend to develop so that we can continue to provide an excellent professional service, whilst delivering value for money.

6.23 This plan is then the basis for setting out the way that the service will be delivered and also the basis on which the organisation needs to budget to deliver this plan.

6.24 Work is underway on a new Risk and Resource Model to ensure that the service can continue to manage its service delivery risks in an affordable way. This will be another key area for development of the organisation over the medium term to ensure that the service can live within the finances it has available and deliver against the Ambitions that the Service has.

6.25 Updates on this will be provided as the work develops and incorporated into the overall financial plans as decisions are made.

6.26 **Capital Financing and Expenditure**

6.27 The capital programme has changed significantly from the one inherited from the former Fire Authority. It is now one that is based on affordability combined with need but also with a recognition that continuing to borrow for short terms assets, such as ICT and cars is not sustainable. To enable this to happen we are contributing almost £3.3m across the next 4 years from the Revenue Budget into the Capital Programme.

6.28 The longer term Building replacement plans have been reflected upon and phased into the plans to coincide with the end of the PFI scheme. This is expected to provide the capacity within the Revenue budget to pay for the additional interest and debt repayment costs that will result from increasing investment and borrowing.

6.29 The Capital Programme included within this MTFP and summarised below, is based on a programme of expenditure of just under £18m across the next 4 years with projected borrowing of £13.8m.

	Forecast 2020/21 £000	Estimated 2021/22 £000	Estimated 2022/23 £000	Estimated 2023/24 £000	Estimated 2024/25 £000
Capital Reserves brought forward		**135**	**199**	**465**	**88**
FUNDING	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue Contribution to Capital - Cars	244	81	340	211	
Revenue Contribution to Capital - Other	302	504	564	590	1,052
Capital Receipts		365	160	47	323
Internal Borrowing	775				
External Borrowing		3,891	3,102	2,457	4,396
TOTAL FUNDING	**1,321**	**4,841**	**4,166**	**3,305**	**5,772**
EXPENDITURE:					
TRANSPORT	685	3,240	2,770	1,852	1,954
LOGISTICS		116		500	
ESTATES	334	1,043	832	863	2,518
INFORMATION TECHNOLOGY	130	377	299	467	898
TLT DELEGATION	36				
TOTAL	**1,185**	**4,776**	**3,901**	**3,682**	**5,369**
Capital Reserves carried forward	**135**	**199**	**465**	**88**	**491**

6.30 The amount now expected to be set aside for Debt and Interest Payments has also continue to be managed and is still around £1m per year lower than the plans that were inherited by the PFCC.

6.31 While this is still a substantial programme of investment there is an acknowledgement that there are significant areas of the Fire Estate and the equipment used within the service that require updating.

6.32 With this in mind a more sustainable way to fund the Capital investment is continuing to be developed through the establishment of providing revenue contributions to the capital programme to support the expenditure of shorter life assets, such as ICT.

6.33 The CIPFA Prudential Code of Practice is a key element in the system of capital finance. Under this system individual PFCC's are responsible for deciding the level of their affordable borrowing having regard to the prudential code. The associated paper 'Treasury Mgmt Strategy 21-22' will provide the PFCC with reasonable assurance that the proposed Capital Plan and its financing are within prudential limits.

7. Reserves

7.1 The level of usable reserves of fire and rescue authorities is of particular interest at a national level and it is recognised that there is a need for greater transparency around reserves. The updated Fire & Rescue National Framework makes reference that the general fund balance of a FRA should be around 5% of the total revenue budget.

7.2 There is a requirement for a Reserves Strategy to be developed to provide transparency around all of the reserves that a PFCC has, why they are needed and how they are expected to be used. This Strategy is appended to this report for approval at Appendix B.

8. Risks

8.1 The major risks and unknowns surrounding the figures presented here are set out below and have been discussed in the above report:

- Pay Awards are higher than the assumptions within the plan
- Any differences between the future years' actual Government Grant settlements, and the estimated figures.
- The outcome of the next Comprehensive Spending Review
- Business Rates Retention and Fair Funding Review
- Variations in future years between the estimated tax base used and the actual declared tax base.
- That the public does not support the precept increases that are factored into the current plans.
- Increasing costs of the employers Pension Contribution into the Fire Pension Fund.
- Sensitivity of assumptions, including inflation and borrowing costs.
- The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.
- Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.

9 **Robustness Advice**

9.1 The Local Government Act 2003 introduced a formal requirement on authorities to consider the advice of the Treasurer/s151 Officer on the robustness of the budget proposals, including the level of reserves. If the PFCC ignores this advice the Act also requires them to record this position. This latter provision is designed to recognise the statutory responsibilities of Treasurers/Chief Finance Officers.

9.2 For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2021/22 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2021/22 to deliver the proposed budget. The likely risk from a financial perspective, however, in terms of revenue spending in 2021/22 is likely to be in relation to the levels of pay awards agreed during the year.

9.3 It will be vital to continue to closely monitor the financial position throughout 2021/22 to ensure that the savings plans that are required to balance the plan in future years are developed and the transformation work that is required is undertaken.

9.4 The reliance on borrowing to fund the Capital plans of the organisation is an area of on-going concern and something that will need to be considered especially given what appears to be a need for significant investment in the asset base of the Fire Service.

9.5 The plans are however robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those schemes.

9.6 A review has been undertaken of Fire's reserves and general balances. The general balances and reserves are an important part of the PFCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PFCC would have adequate levels of financial reserves and general balances through 2021/22 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

APPENDIX A

	Forecast 2020/21 £000	Estimated 2021/22 £000	Estimated 2022/23 £000	Estimated 2023/24 £000	Estimated 2024/25 £000
Capital Reserves brought forward		**135**	**199**	**465**	**88**
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EXPENDITURE:					
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LOGISTICS		116		500	
ESTATES	334	1,043	832	863	2,518
INFORMATION TECHNOLOGY	130	377	299	467	898
TLT DELEGATION	36				
TOTAL	**1,185**	**4,776**	**3,901**	**3,682**	**5,369**
Capital Reserves carried forward	**135**	**199**	**465**	**88**	**491**

APPENDIX B

North Yorkshire Police Fire and Crime Commissioner Fire and Rescue Authority

Reserves Strategy

The level of usable reserves of fire and rescue authorities is of particular interest at a national level and it is recognised that there is a need for greater transparency around reserves. The updated Fire & Rescue National Framework makes reference that the general fund balance of a FRA should be around 5% of the total revenue budget.

The National Framework
The National Framework which was published in May 2018 includes a section on reserves, the main components of which are:

- General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. These should be established as part of the medium term financial planning process.

- Each fire and rescue authority should publish their reserves strategy on their website. The strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should provide information for at least two years ahead.

- Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority's Medium Term Financial Plan (MTFP).

- Information should be set out in a way that is clear and understandable for members of the public and should include:

    - How the level of general reserve has been set.
    - Justification for holding a general reserve larger than five percent of budget.
    - Whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is committed and,
    - A summary of what activities or items will be funded by each earmarked reserve and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

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

- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).
- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.

- Funding for specific projects and programmes beyond the current planning period.

  There is not a recognised formula for determining the level of reserves that a fire authority should maintain. It is up to each authority to consider the local circumstances and the potential issues/risks that may occur across the medium term. In determining the level of reserves for the Authority the risks and issues that need to be taken into account will include the following:

- The possibility of savings not being delivered; as austerity levels of funding continue, the need for annual reductions in spending is expected to increase in magnitude. This is likely to mean the identification of savings proposals carry a potentially greater risk of not being delivered.

- To provide cover for extraordinary or unforeseen events occurring: given the purpose of the fire and rescue service is to respond to emergency situations, there is always the potential for additional, unexpected and unbudgeted expenditure to occur.

- The commitments falling on future years as a result of capital plans and proposals to improve the asset base. Having reserves mitigates the impact on the revenue budget of borrowing and/or revenue contributions to capital and would support projects/programmes that will support revenue efficiencies.

- The risk on inflation, especially pay. There remains continued pressure on pay inflation to be in excess of the 0% provided for in the MTFP.

Reserves Policy

The PFCC considers Reserves annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

Reserves are maintained to:-

(a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.

(b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.

The level of reserves is taken into account when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

The reserves must be reported to the PFCC on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium Term Financial Plan to be up-dated.

The actual level of reserves, earmarking and utilisation are considered when up-dating the MTFP and as part of its on-going review.

General Reserve

In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the PFCC. The level of the General Reserve is reviewed by the Police and Crime Commissioner on the advice of the PFCC's Chief Finance Officer having regard to these matters.

Key Principles are:-

(a) The General Reserve will not be used to meet on-going revenue items.

(b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.

(c) The PFCC will aim to maintain the level of General Reserves at not less than 3% of the net revenue budget.

(d) The level of the General Reserve is re-assessed annually as part of the annual budget-setting process.

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current long term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves, circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent, new reserves are likely to be needed to manage future risks.

	Balance at 31 March 2020 £000	Transfers In 2020/21 £000	Transfers Out 2020/21 £000	Balance at 31 March 2021 £000	Transfers In 2021/22 £000	Transfers Out 2021/22 £000	Balance at 31 March 2022 £000	Transfers In/Out 2022/23 £000	Balance at 31 March 2023 £000	Transfers In/Out 2023/24 £000	Balance at 31 March 2024 £000
Pay & Price Reserve	721			721			721		721		721
Pensions Reserve	1,711			1,711			1,711		1,711		1,711
Recruitment Reserve	211			211			211		211		211
New Developments Reserve	344		-145	200			200		200		200
Medium Term Funding shortfall Reserve	244	849	-244	849	-342		507	-390	117	-117	0
Insurance Reserve	80			80			80		80		80
Hydrants Reserve	388	-171		217			217		217		217
COVID19 Reserve	0	51		51		-51	0		0		0
Collection Fund	202	-202		0			0		0		0
IHR Employer Contributions	0	90		90			90		90		90
Total Earmarked Reserves	**3,901**	**617**	**-389**	**4,130**	**-342**	**-51**	**3,737**	**-390**	**3,347**	**-117**	**3,230**
Earmarked Capital Reserve	**0**	**135**	**0**	**135**	**546**	**-480**	**201**	**266**	**467**	**-377**	**90**
General Reserves	**995**	**645**	**-645**	**995**	**0**	**0**	**995**	**0**	**995**	**0**	**995**
% of Net Budget Requirement	3.1%			3.1%			3.1%		3.0%		0
Total Usable Reserves	**4,896**	**1,397**	**-1,034**	**5,260**	**204**	**-531**	**4,933**	**-124**	**4,809**	**-494**	**4,315**
				5,260			4,933		4,809		4,315
Capital Receipts Reserve	**54**	**0**	**-54**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Why have these Reserves been established and what will they be used for?

General Contingency Reserves:

Pay & Price Reserve
This reserve has been built up over previous years' through the transfer of any underspends arising on staff budgets. In the short term this reserve will be used to fund pay awards that are higher than estimated in the MTFP. The proposed level is based upon a pay award being 1% higher than budgeted for in 2021/22 (0%) and 2022/23 (1%).

Pensions Reserve
This reserve has been built up over previous years' through the transfer of any underspends arising on the cost of Firefighters' pensions charged to the Revenue Account. The proposed level is based upon:

a) one year's estimated funding from the Home Office in mitigation of the increase in Employers Firefighters Pensions contributions arising from the Pensions 2016 Valuation which at present has only been confirmed for 2021/22.

New Developments/Revenue Initiatives Reserve
This reserve was established in 2010/11 to meet the forecast costs of some on-going revenue initiatives or future change programmes to help transform the organisation to enable one off schemes/expenditure to be funded. For example, non-recurring staff costs to enable a project or initiative to be delivered. The proposed level provides for project management costs for the replacement of the Asset Management system in 2019/20, and also the one-off costs to be incurred in respect of the HQ move from Thurston Road to Alverton Court, and project management costs for the Core Hardware Infrastructure Replacement Programme (CHIRP), which will be released once expenditure plans are firmed up.

Recruitment Reserve
This reserve has been established to fund the costs of Trainee Firefighters while in training and therefore unavailable for service delivery. This will help ensure that gaps in service are not required while training takes place.

Hydrant Reserve
While the work to repair, maintain and replace Fire Hydrants is the responsibility of Yorkshire Water the costs are the responsibility of the Fire Service. This leaves little control over the amount of work done, the timing of the work and the visibility and timeliness of charging. This reserve has therefore been established to deal with the variable nature of this area of cost.

Insurance Reserve (General Contingency Reserve)
The Police, Fire and Crime Commissioner operate on a self-insurance basis determined by the level of excess on the cover provided by external policies. This reserve is ring-fenced for insurance requirements only and cannot be used for other purposes. This reserve was established following the approval of the 2019/20 Budget and MTFP, the level being calculated on the basis of historic budget impact of past claims.

Funding for Planned Expenditure over MTFP Reserves:

Medium Term Funding Shortfall Reserve
This reserve was established following the approval of the 2019/20 Budget and MTFP to bridge the estimated funding shortfall over the period 2018/19 to 2020/21. Further funding has been added during 2020/21 to recognise that the current situation has created additional challenges that will require longer than expected use of reserves

Capital Reserve
The service has recognised the significant level of investment that it needs to make in terms of Estates, Equipment and Fleet, however constantly borrowing to do so is not sustainable and therefore a Capital Reserve has been established to help support the vital investment that is needed in these areas, and in shorter term Information Technology assets, while helping to manage borrowing and the costs associated with borrowing.