North Yorkshire Police, Fire & Crime Commissioner

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

28th February 2023

Status: For Decision

Medium Term Financial Plan (MTFP) 2023/24 to 2026/27 and Capital Plans 2023/24 to 2026/27 - North Yorkshire Fire.

1. Executive Summary

1.1 Purpose of the Report

1.2 The report sets out the detailed Budget for 2023/24 and the Medium Term Financial Plan (MTFP) for 2023/24 – 2026/27 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 2023/24 and the indicative allocations for the period 2024/25 to 2026/27.

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 £41,130k in line with the plans set out within this report.

2.2 The PFCC is asked to note that the Budget for 2023/24 is being supported through the release of £1,206k from reserves although it is important to recognise that the release of these reserves are directly matched to non-recurring expenditure and are not being used to balance the budget.

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 2023/24 budget is based on the approved £5, or 6.6%, increase in the level of Band D precept for 2023/24.

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 £9,077k 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 £8,368k, as set out at Appendix A, for 2023/24 and within that programme approve that:

- Indicative approval of the 2024/25 Capital Programme budgets, as set out in Appendix A, and delegation of approval of any requests to pre-order against the 2024/25 budgets to the Commissioners Chief Finance Officer, up to 25% of each indicative budget. The 2024/25 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 2022/23 Capital Programme into 2023/24.

2.8 The PFCC is asked to note that the Capital Programme contains £2,113k to begin the Estates Replacement Programme during 2023/24. This is **not** included within the requested £8,368k Capital Programme as any approval of these schemes will need to be subject to a separate business case and/or decision of the PFCC before this money is made available to spend.

3. Planning and Funding Assumptions

3.1 Local Government Finance Settlement 2023/24

3.2 The final 2023-24 local government finance settlement was announced by the Secretary of State for Levelling Up, Housing and Communities, Michael Gove MP, in a written ministerial statement on the 6th February 2023.

3.3 This followed from the consultation of the Provisional settlement that was announced in December 2022.

3.4 The main headline changes in this Final Settlement that impact on Fire, compared to the Provisional Settlement were

- Services Grant £19.1m higher than reported at Provisional Settlement. This is a result of held back funding being returned and the 3% minimum funding guarantee being recalculated.
- Rural Services Delivery Grant increasing by £10m (11.8%), bringing the total to £95m – in "recognition of specific cost pressures in rural areas".

3.5 Headlines at Final Settlement

3.6 In early December, civil servants from the Department for Levelling Up, Housing and Communities, shared a "policy statement" which contained some indications of what the announcement would include. The Settlement went on to confirm much of the policy statement and provided the following headlines:

- Core Spending Power (CSP) increases by an average of 9.4% (£5.1bn).
- Stand-alone Fire and Rescue Authorities to increase precept by £5, in 2023-24 only.
- Standalone FRAs to see CSP increase by approximately 7.9%.
- Increased Rural Services Delivery Grant from £85m at provisional settlement to £95m at final settlement. Allocations simply scaled up by 11.8%.

- 3% Funding Guarantee recalculated following other changes.
- Referendum Thresholds for Local Authorities: 2.99% for core, and 2% for Adult and Social Care Precept in 2023-24 and 2024-25.
- Fire Pensions Grant have been confirmed at Flat Cash again.
- Spring Budget on 15 March 2023.

3.4 The Policy Statement indicated that in 2024-25 (year 2) Core Grants and RSG will continue to increase in line with baseline funding levels, i.e., September 2023 CPI inflation.

3.5 Business Rates

3.6 As announced at the Autumn Statement, the small business rate multiplier is frozen at 49.9p in the pound; rather than increasing by 6% to 52.9p.

3.7 2023 is also a revaluation year and Government have confirmed that Local Authority's will be compensated "as if there was no revaluation" – in other words as if business rates had gone up by September CPI (10.1%) and not the 6% increase in the small business rates multiplier

3.8 What Impact does the Final Funding Settlement have on Fire Services Funding in North Yorkshire?

3.9 Based on the final settlement information produced by the Government, then the Government calculate that the Core Spending Power for North Yorkshire Fire is projected to increase by circa 7.7%, between 2022/23 and 2023/24.

3.10 The projected 7.7% increase is now only slightly below the average increase expected for Standalone Fire and Rescue Authority's at 7.9%. Based on the analysis produced by the Government, North Yorkshire Fire is forecast to receive the 14th lowest increase in the country (out of 44). Although this is significantly better than last year where the funding increase was the 3rd lowest.

3.11 The Government figures are based on estimates in relation to local Tax Base movements. **Once we factor in actual movements in Tax Base for North Yorkshire then the overall increase in Core Spending Power is 8.1%**, as per the below calculation:

Local and Government Funding				
	2023/24	**2022//23**	**(Increase)/Reduction**	**Year on Year Change**
	£000s	£000s	£000s	%age
Government Funding				
Total Settlement Funding	(9,284)	(8,787)	(497)	5.7%
Rural Services Grant	(604)	(540)	(64)	11.8%
Services Grant/Funding Guarantee	(249)	(424)	175	-41.3%
Compensation for Underindexing of Business Rates	(1,088)	(629)	(459)	72.9%
Total Government Funding	**(11,224)**	**(10,380)**	**(844)**	8.1%
Impact of a £5 (6.6%) increase in Band D Precept				
Net Surplus on Collection Funds	(129)	(87)	(42)	
Council Tax Requirement	(25,123)	(23,285)	(1,838)	
Total Local Funding	**(25,253)**	**(23,372)**	**(1,881)**	**8.0%**
Total Government + Local Funding	**(36,477)**	**(33,752)**	**(2,725)**	**8.1%**

3.12 It is worth recognising at this stage that North Yorkshire have an agreement in place to retain 50% of business rates locally. As a result the Total Settlement figures provided above by the Government do not match those reported elsewhere. This is presentational and due to the fact that some elements of the retained business rates are ultimately paid by the government as separate grants because the Government has provided relief on Business Rates to businesses.

3.13 Funding beyond Core Spending Power

3.14 Pensions Grant

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, had resulted in a reduction to the discount rate from 3% to 2.4% and had 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 would be around £108.5m per annum.

3.15 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.

3.16 This Grant seems to be now embedded within the financial settlements and whilst it hasn't been included within the Core Spending Power and Government Grant funding, it is expected that the grant will continue at the same cash level over the life of the spending review period. The plans therefore include this grant at £1,711k each year.

3.17 The Grant has remained at the same cash level for 5 years now and therefore has decreased in real terms which adds additional pressures for each year that this policy is continued.

3.18 Firelink Grant

3.19 The Home Office had previously written to Fire Authorities during 2022/23 indicating that this grant will be phased out by 2026/27. Therefore the £230k that was received by North Yorkshire in 2021/22 will reduce by £45k per year. The grant is not included within the Core Spending Power analysis.

Funding for 2024/25 and beyond

3.20 2024/25 is the final year of the current Spending Review period and the Government have indicated within their Policy Statement that in 2024-25 (year 2) Core Grants and RSG will continue to increase in line with baseline funding levels, i.e., September 2023 CPI inflation. The current plan has assumed that this will be 5%, before reverting to 2% increases thereafter.

3.21 While the Policy Statement did not indicate the maximum level of precept increase that will be applicable to Fire Authority's in 2024/25, it did indicate that 'For council tax, the government is giving local authorities in England additional flexibility in setting council tax by:

- Protecting local taxpayers from excessive increases in council tax, by setting the referendum threshold at 3% per year from April 2023 for shire counties, unitary authorities, London boroughs, and the Greater London Authority, without a local referendum

3.22 The current plan therefore assumes that Fire Authorities will be afforded, at least, the same opportunity to consider a precept increase of up to 3% per year, and therefore this plan assumes a 2.99% increase each year.

3.23 MTFP Assumptions

A review of the assumptions within the MTFP has been undertaken, these will remain under review and are updated with the best information available, the current assumptions incorporated into the MTFP for 2023/24 and beyond are as follows:

- Pay Awards: Pay Increase of 5% in 2023/24, followed by 2% increases thereafter
- Precept: Increases of 2.99% per annum
- Tax Base increases 1.2% in 2023/24, 1.2% in 2024/25 before returning to 1% increases,
- Government Grants: 2024/25 – CPI increase of 5% followed by 2% per year thereafter
- 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 £604k per annum.
- One-off Services Grant is added into the overall funding baseline.
- Inflation: 2% for most non-pay areas from 24/25 onwards.

3.24 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.

3.25 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 when this area is constrained to below inflationary increases this causes greater challenges in North Yorkshire than most other Fire Services.

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

3.58 In publishing the final council tax referendum principles for 2023/24 the Government provided Fire Authorities with the scope to increase Precept by up to £5 for a Band property before triggering a local referendum.

3.59 Consultation was undertaken within North Yorkshire and the results published as part of the supporting information for the PFCC's decision to propose a £5 (or 6.6%) increase in the Band D precept for 2023/24. This proposal was supported by the Police, Fire and Crime Panel and therefore this budget incorporates a Band D 'Fire' precept for 2023/24 for North Yorkshire of £80.61.

3.60 **Results from Public Consultation**

3.61 To further inform the decision around the proposed precept for 2023/24 consultation has been undertaken with the public to ascertain their feedback and thoughts on this subject.

3.62 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.

3.63 The public were asked the following:

3.64 North Yorkshire Fire and Rescue Service has a budget of £37 million – the majority of that, over 60 per cent, comes from the precept on your council tax.

3.65 To provide a similar level of service to now, they think they will need around an extra £1.5m – £2m due to salary increases and the rising cost of fuel, utilities and interest on loans.

3.66 The Government are expected to say that Commissioner Zoë can raise the fire precept by 3% per cent from April – that would be an extra £2.26 per year or 4 pence per week for an average Band D property. Even this would only raise £700k of that extra demand.

3.67 The following options are based on an average Band D property currently paying £75.61 each year for Fire and Rescue. 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 significant cut to the fire and rescue budget due to inflation and current service delivery could not be maintained.

- Up to £2.26 a year more (19 pence per month), an increase of 2.99%
  This would raise around £700k, however is significantly below inflation and would likely lead to reductions in current levels of service delivery.

- Up to £5 a year more (42 pence per month), an increase of 6.6%
  This would raise around £1.5m, is broadly in line with the organisation's inflationary pressures and would lead to no reductions in planned levels of service delivery.

- Up to £7.50 a year more (63 pence per month), an increase of 9.9%
  This would raise around £2.3m, is likely to be higher than the organisation's inflationary pressures and would allow some additional investment into fire and rescue service delivery.

3.68 In total 1,339 responses were received via the open online survey and a further 999 interviews over the telephone. The open survey was published on the PFCC website and promoted widely via social media. The results of the consultation are detailed at Appendix 4.

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

	Total (n=2,338)	Telephone (n=999)	Online (n=1,339)
No more than I pay now a precept freeze	**30%**	31%	29%
Up to £2.26 a year more (19 pence per month), an increase of 2.99%	**18%**	20%	17%
Up to £5 a year more (42 pence per month), an increase of 6.6%	**25%**	25%	26%
Up to £7.50 a year more (63 pence per month), an increase of 9.9%	**27%**	24%	29%
TOTAL who support an increase of at least £5	**52%**	49%	55%

3.70 Combined results (online and telephone) from the consultation show a majority (52%) support an increase of up to £5 in the fire and rescue precept, which is the level proposed within this report.

3.71 The Tax Base

The two local Councils have notified the PFCC of their tax bases for 2023/24 as set out in the table below:

Tax Base		
	2023/24	**2022/23**
	Net Tax Base	Net Tax Base
North Yorkshire County Council	243,034	239,742
York City Council	68,633	68,220
Total	**311,667**	**307,963**
Annual Increase/(Decrease)	**3,704**	
Percentage Increase/(Decrease)	**1.20%**	

3.72 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.

3.73 The tax base calculated by the billing authorities differ from the figures used by the Government (which assumes 100% collection) in calculating Grant Formula entitlements.

3.74 As can be seen from the table above the number of Band D equivalent properties across North Yorkshire has increased in 2023-24, in comparison to 2022-23, by 3,704 – this equates to an increase of 1.20%

3.75 The 2023/24 tax base is therefore 311,666.69 Band D Equivalent properties

3.76 Setting the Council Tax

3.77 During 2021/22 the Councils indicated an overall deficit on their Council Tax collection funds, of which £277k related to Fire.

3.78 The Government recognised the challenge of absorbing these deficits in one year and therefore 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 deficit is therefore being phased in three equal and fixed amounts across the financial years 2021-22, 2022-23 and 2023-24.

3.79 2023-24 is the final of these 3 years and therefore a £92k charge is factored into the overall collection fund position to produce an overall surplus of £129k.

3.80 Business Rates

3.81 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.

3.82 The Fire Authority receives 1% of the Business Rates collected within North Yorkshire which usually equates to in excess of £3m per annum, and similar to Council Tax this is collected by the local councils and paid to the Fire Authority.

3.83 Last year there was significant financial support provided to many businesses as a result of the pandemic, one of these elements of support was 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

3.84 Many of these changes have now returned to normal which has seen a significant reduction on the deficit on the Business Rates collection fund from £806k in 2022/23 to £56k in 2023/24.

3.85 As expected the deficits that arose in 2022/23 as a result of 'reliefs' given by the Government saw the Fire Authority 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.

3.86 The impact of these 'reliefs' no longer being required can be seen in a reduction in the S31 NDR Grants and Specific Grants line on the revenue budget.

3.87 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.

3.88 S31 NDR Grants and Specific Grants
As mentioned above a number of short term additional grants that were received in 2022/23 are no longer needed in 2023/24.

3.89 As a result these sources of income and funding have returned to a more normal pre-pandemic level of circa £4.8m across the life of the plan.

3.90 The main areas within this area of the budget are:

- Pensions Grant - £1,711k
- PFI Grant - £649k – this Grant will continue, at the same level, until the PFI contract comes to an end during 2026/27.
- Business Rates Grant - £1,937k – these are 'normal' reliefs and under-indexation adjustments.
- Services Grant - £249k

3.91 General Income

3.92 This area reflects income from secondments, fees and service income, recharges and interest receivable. This area is forecast to generate around £150k more income in 2023/24 than 2022/23 predominantly as a result of higher interest rates leading to higher interest receivable being generated on the cash balances that we hold.

3.93 The entire funding therefore expected to be available to the PFCCFRA for the next 4 years, in comparison to 2022/23, is as follows:

	Actual Budget 2022/23 £'000	Forecast Budget 2023/24 £'000	Forecasts 2024/25 £'000	Forecasts 2025/26 £'000	Forecasts 2026/27 £'000
Funding					
Total Settlement Funding	(8,272)	(8,918)	(9,364)	(9,551)	(9,742)
Rural Services Grant	(540)	(604)	(604)	(604)	(604)
Council Tax Precept 1.99%	(23,285)	(25,123)	(26,188)	(27,243)	(28,341)
Council Surplus/Deficit	(87)	(129)	(100)	(100)	(100)
NNDR Surplus/Deficit	806	56	0	0	0
Funding for the Net Budget Requirement	**(31,379)**	**(34,719)**	**(36,255)**	**(37,498)**	**(38,787)**
%age change in Net Budget Requirement		10.6%	4.4%	3.4%	3.4%
S31 NDR Grants and Specific Grants	(5,399)	(4,833)	(4,888)	(4,881)	(4,440)
General Income	(567)	(718)	(649)	(581)	(586)
TOTAL FUNDING	**(37,345)**	**(40,269)**	**(41,791)**	**(42,959)**	**(43,812)**
%age change in Total Funding		7.8%	3.8%	2.8%	2.0%

3.94 Once all funding sources have been factored in then we currently forecast that Total Funding will increase by **just under £3.0m**, or 7.8% in 2023/24

4 Expenditure Plans

4.1 **<u>Pay Increases and Inflation Pressures</u>**

4.2 While the overall increases in Total Funding seem reasonable across the life of the plan, and very good in 2023/24, it is important to reflect on the additional costs that need to be funded from these increases.

4.3 The 2022/23 pay budgets had forecast that pay awards would be 3% during 2022/23. However, given the significant increases in inflation that have occurred since the budget was set, both pay awards are now expected to be significantly higher than this.

4.4 For Staff an increase of £1,925 per FTE was agreed with effect from the 1st April 2022, which equated to an increase of 6.5% across those roles within Fire, and is forecast to cost the Service £128k more in 2022/23, rising to £145k by the end of the current MTFP period.

4.5 The current offer for Fire Fighters is for an increase of 7%, with effect from the 1st July 2022, this offer is being put to a ballot of union members. This MTFP incorporates this offer.

4.6 A 7% pay award is 4% above the budget that was previously assumed within the MTFP. The 7% offer adds the following costs to the MTFP:

- 2023/24 - £920k
- 2024/25 - £940k
- 2025/26 - £960k

4.7 If the 7% is not agreed then each additional 1% above the 7% current offer would cost around £170k more in 22/23 and £230k more in 2023/24 and beyond.

4.8 In addition to the 2022/23 position on pay the MTFP now forecasts that the pay award for all employees will be 5% for 2023/24. This reflects that in addition to the 7% pay award from July 2022 that Firefighters were also offered a 5% pay increase from July 2023.

4.9 The impact of these assumptions are additional costs of over £2.1m in 2023/24, in comparison to the 2022/23 position.

<u>Forecast additional Pay Costs</u>	**2023/24**	**2024/25**	**2025/26**
	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Impact of 22/23 £1,925 Support Staff Pay Award	135	140	145
Assume 7% FF Pay Award in 22/23	920	940	960
Assume 5% Support Staff Pay Award in Apr-23	190	195	200
Assume 5% FF Pay Award from Jul-23	900	1,225	1,250
Total Forecast Additional Pay Costs	**2,145**	**2,500**	**2,555**

4.10 The pay assumptions alone take up over 70% of the £3m increase in funding that is forecast between 2022/23 and 2023/24.

4.11 In addition to pay pressures, there are a significant number of non-pay pressures in 2023/24 arising mostly from inflation.

Impact of Inflation and Pressures/Growth on Non-pay Budgets:			
	2023/24	**2024/25**	**2025/26**
	£000s	£000s	£000s
Premises	290	335	380
Transport	180	200	215
Supplies and Services	450	330	435
External Agreements	70	75	80
PFI	180	225	270
Capital Financing	290	810	840
Pensions	60	90	105
Total Forecast Additional Non-Pay Costs	**1,520**	**2,065**	**2,325**

4.12 The areas of significant increase are as follows:

4.13 **Premises Costs** are forecast to increase by £290k (14%) as result of higher Gas, Electricity and Cleaning costs.

4.14 **Transport Costs** are forecast to increase by £180k (21%) as result of higher fuel prices, higher costs of vehicle maintenance and repairs, and higher insurance costs.

4.15 **Supplies and Services Costs** are forecast to increase by £450k (11%) as a result of higher license costs, insurances, equipment, furniture and materials costs and general inflationary pressures across most aspects of the budget.

4.16 **PFI Costs** are forecast to increase by £180k (11%) as the contract price is linked to RPI increases.

4.17 **Capital Financing Costs** are forecast to increase by £290k in 2023/24. This relates to plans to increase the revenue contribution into the Capital Programme by £140k to try to reduce the need to borrow more in future years, and higher interest rates that are feeding into borrowing costs that are forecast to be £155k higher than 2022/23.

4.18 Putting together all of the cost increases results in potential additional costs and pressures of:

Forecast additional Pay Costs	**2023/24**	**2024/25**	**2025/26**
	£000s	£000s	£000s
Impact of 22/23 £1,925 Support Staff Pay Award	135	140	145
Assume 7% FF Pay Award in 22/23	920	940	960
Assume 5% Support Staff Pay Award in Apr-23	190	195	200
Assume 5% FF Pay Award from Jul-23	900	1,225	1,250
Total Forecast Additional Pay Costs	**2,145**	**2,500**	**2,555**
Impact of Inflation and Pressures/Growth on Non-pay Budgets:	**2023/24**	**2024/25**	**2025/26**
	£000s	£000s	£000s
Premises	290	335	380
Transport	180	200	215
Supplies and Services	450	330	435
External Agreements	70	75	80
PFI	180	225	270
Capital Financing	290	810	840
Pensions	60	90	105
Total Forecast Additional Non-Pay Costs	**1,520**	**2,065**	**2,325**
Potential Additional Costs and Pressures	**3,665**	**4,565**	**4,880**

4.19 As set out above the vast majority of these increases are unavoidable costs. Even setting aside the £140k increase in the contribution to capital, **the unavoidable cost increases total over £3.5m in 2023/24 alone.**

4.20 This is around £0.5m more than all of the forecast increase in income in 2023/24.

4.21 Projected increases in income in future years are expected to be absorbed by increases in both Pay and Non-Pay inflation. This will therefore require the Service to become either more efficient and/or change its future operating model to be able to invest further in the future beyond the currently agreed RRM proposals.

4.22 **'Normal' Savings Plans**

4.23 The search for savings and efficiencies continues to receive a lot of focus and a further **£450k of non-pay savings/reductions** (equivalent to around 5% of our Indirect staff and non-staff costs) have been factored into the 2023/24 MTFP, these are summarised below:

- Supplies and Services - £345k
- Operating Leases - £35k
- PFI - £20k
- Other Employee Expenses - £40k
- Other - £10k

4.24 **<u>Savings from Employers Pensions Contribution Rates</u>**

4.25 During 2022/23 the North Yorkshire Pension Fund underwent its 3-yearly actuarial valuation, with the result communicated to the Fire Authority during November 2022.

4.26 The North Yorkshire Pension Fund is the Pension Fund that Staff, not Firefighters, have the option to access as part of their terms and conditions of employment.

4.27 The valuation sets out the Employers Contribution rates for the next 3 years, and for Fire these will be:

- 2023/24 - A reduction from 16.8% to 13.4% - **Saving £135k**
- 2024/25 – A reduction from 13.4% to 10% - **Saving a further £135k**
- 2025/26 – A reduction from 10% to 6.6% - **Saving a further £135k**

4.28 These changes are therefore expected to save £405k per year by 2025/26.

4.29 The final element of 'saving' relates to the Government decision to reverse the National Insurance increase. The reversal of this 1.25% reduces our costs by around £200k per year

4.30 **<u>Combining all of these elements allows the Service to set and demonstrate a balanced budget for both 2023/24 and beyond.</u>**

4.31 By balancing the budget at this level the Service can then concentrate on the following areas that are vital in developing, transforming and improving the Service.

4.32 **Risk and Resource Model**

4.33 On the 27th September 2022 the Commissioner approved the new North Yorkshire Fire and Rescue Service Risk and Resource Model 2022-25, subject to stipulations placed on some proposals.

4.34 The changes that have the most impact in terms of cashable efficiencies are as follows:

- That the proposal to change Huntington to an On-call fire station be approved.
- That the proposal to replace the Tactical Response fire engine at Harrogate with an Emergency Rescue fire engine which will be crewed only during peak demand hours be approved.
- That the proposal to replace the Tactical Response fire engine at Scarborough with an Emergency Rescue fire engine which will be crewed only during peak demand hours be approved, subject to certain stipulations.

4.35 The financial plans for 2023/24 and beyond assume that all of the proposals set out within this decision are implemented.

4.36 In terms of the cashable efficiencies, from the RRM, the financial plans assume that these will be implemented as follows:

RRM Efficiencies	2023/24		2024/25		2025/26		2026/27	
	£k	FTE	£k	FTE	£k	FTE	£k	FTE
Huntington	(845)	(16)	(1,280)	(24)	(1,310)	(24)	(1,335)	(24)
Harrogate			(205)	(4)	(210)	(4)	(215)	(4)
Scarborough					(210)	(4)	(215)	(4)
OSR					(370)	(7)	(375)	(7)
RRM non-pay and Capital costs	100		15		15		15	
Total	**(745)**	**(16)**	**(1,470)**	**(28)**	**(2,085)**	**(39)**	**(2,125)**	**(39)**

4.37 The timing of the actual delivery of these changes will be tracked through the year to inform financial forecasts and to ensure future plans align with their delivery.

4.38 **Transformation and Investment**

4.39 As well as the above efficiencies the new RRM approved a number of investments as part of the transformation of the service.

4.40 Those investments covered the following areas:

- That the proposal to enhance prevention and protection services and increase resources with additional firefighter and non-firefighter roles be approved and adopted
- That the introduction of a swift water rescue capability at Skipton be expedited
- That plans to reform, improve and enhance the On-call service in North Yorkshire be progressed to full business case.

4.41 A number of the plans in this area are still being developed and firmed up however for financial planning purposes there is an assumed phased implementation in line with the below:

Investment and Tranformation	2023/24		2024/25		2025/26		2026/27	
	£k	FTE	£k	FTE	£k	FTE	£k	FTE
Prevention and Protection Investment								
Phase 1 - Staff Roles	365	8	380	8	387	8	395	8
Phase 2 - Staff Roles					156	3	159	3
Phase 1 - FF Roles	235	4	245	4	250	4	255	4
Capital and non-pay costs	100		100		110		110	
On-Call Investment								
On-call Pay Budgets	300		595		850		870	
Additional SM Role to oversee on-call project	85	1	89	1	91	1	94	1
Non-Pay	60		61		41		42	
Use of ESMCP Reserve	(400)				200		200	
Totals	**745**	**13**	**1,470**	**13**	**2,085**	**16**	**2,125**	**16**

4.42 As set out within the RRM consultation and subsequent decision making all of the efficiencies from the RRM work are planned for re-investment into the Service and have not been used to balance the budget.

4.43 To ensure financial balance the implementation of all aspects of the RRM will need to align to ensure that the investments are not undertaken in advance of the delivery of the efficiencies.

4.44 Where the efficiencies can be delivered sooner than assumed this will allow for some elements of the Transformation and Investment programme to be brought forward too.

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 2022/23 £'000	Forecast Budget 2023/24 £'000	Forecasts 2024/25 £'000	Forecasts 2025/26 £'000	Forecasts 2026/27 £'000
Funding					
Total Settlement Funding	(8,272)	(8,918)	(9,364)	(9,551)	(9,742)
Rural Services Grant	(540)	(604)	(604)	(604)	(604)
Council Tax Precept 1.99%	(23,285)	(25,123)	(26,188)	(27,243)	(28,341)
Council Surplus/Deficit	(87)	(129)	(100)	(100)	(100)
NNDR Surplus/Deficit	806	56	0	0	0
Funding for the Net Budget Requirement	**(31,379)**	**(34,719)**	**(36,255)**	**(37,498)**	**(38,787)**
%age change in Net Budget Requirement		10.6%	4.4%	3.4%	3.4%
S31 NDR Grants and Specific Grants	(5,399)	(4,833)	(4,888)	(4,881)	(4,440)
General Income	(567)	(718)	(649)	(581)	(586)
TOTAL FUNDING	**(37,345)**	**(40,269)**	**(41,791)**	**(42,959)**	**(43,812)**
%age change in Total Funding		7.8%	3.8%	2.8%	2.0%
Expenditure					
Wholetime Firefighters	18,293	19,205	19,185	18,977	19,357
On Call Firefighters	3,481	4,000	4,397	4,728	4,826
Administrative & Clerical	3,830	4,426	4,319	4,461	4,570
Control Room Staff	838	891	887	881	903
Direct Staff Costs	**26,442**	**28,523**	**28,789**	**29,047**	**29,656**
Indirect Staff Costs	525	590	596	586	596
PFCC Staff Costs	76	83	87	85	87
Premises	2,106	2,395	2,441	2,488	2,535
Transport	855	1,052	1,069	1,086	1,103
Supplies and Services	3,841	3,936	3,817	3,921	3,999
Operating Leases	39	2	2	2	2
External Service Agreements	200	263	269	274	279
PFI (inc. capital element)	1,553	1,709	1,752	1,796	1,408
Total Indirect Staff and Non Staff Costs	**9,194**	**10,031**	**10,032**	**10,237**	**10,011**
PENSIONS	831	892	922	936	954
TOTAL EXPENDITURE BEFORE CAPITAL CHARGES	**36,467**	**39,446**	**39,743**	**40,221**	**40,621**
Provision for Debt Repayment	1,052	1,044	1,219	1,522	1,657
External Interest	519	675	803	1,008	1,138
Revenue Contribution to Capital	125	265	484	7	196
Total Capital Charges	**1,696**	**1,984**	**2,506**	**2,537**	**2,991**
TOTAL EXPENDITURE BUDGET	**38,163**	**41,430**	**42,249**	**42,759**	**43,612**
(Surplus)/Deficit before Reserves	**816**	**1,161**	**457**	**(200)**	**(200)**
Planned Transfers to/(from) Earmarked Reserves:					
New Developments Reserve	(239)	(334)	(288)		
Pensions Grant	(45)	(27)			
ESMCP/Local Transition Resource Reserve	(94)	(457)		200	200
Home Office Protection Uplift Grant Reserve	(417)	(321)	(148)	0	0
Collection Fund reserve	(22)	(22)	(22)	0	0
(Surplus)/Deficit After Reserves	**0**	**0**	**0**	**0**	**0**

5.2 The Service is projecting a balanced MTFP after the use of Earmarked Reserves in both 2023/24 and 2024/25, however in 2025/26 and 2026/27 the Service will **generate a surplus** to repay the ESMCP Reserve that the Home Office have given authorisation to use to accelerate the investment in the on-call service.

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

	Forecast Budget 2023/24 £'000	Forecasts 2024/25 £'000	2025/26 £'000	2026/27 £'000
Employee Numbers (Budgeted as at 1st April)	FTEs	FTEs	FTEs	FTEs
Wholetime Firefighters	299	287	276	276
On Call Firefighters	342	342	342	342
Support Staff	102	102	105	105
Control Staff	18	18	18	18
Assumptions				
Staff Pay Increase	5.0%	2.0%	2.0%	2.0%
Non Pay Inflation	Calculated	2.0%	2.0%	2.0%
Precept Increase	6.6%	3.0%	3.0%	3.0%
Council Tax Base Increase	1.2%	1.2%	1.0%	1.0%

5.4 While the budget is exceptionally tight and there are a number of risks for the future years all of the known plans that the Service has are incorporated within the financial plans and provide a stable platform from which the Service can now deliver the new Risk and Resource Model, the Transformation Programme and therefore ultimately deliver against the Fire and Rescue Plan.

6 Capital Financing and Expenditure

6.1 The funding of the capital programme continues to be one of the most significant challenges facing the Authority. The significant need for investment has been highlighted for a number of years now however the financial position has been a recurring barrier to the investment given the challenge of the affordability of the revenue consequences of the investment.

6.2 To try to better manage these conflicting needs the financing of the Capital Programme was reviewed during 2022/23 and updated along with a review of Reserves and the creation of a much larger Capital Reserve.

6.3 This reserve is forecast to be just over £2.6m at the start of 2023/24.

6.4 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 both more accessible to a more diverse workforce and the public, and funds have been set aside to address these, with the work expected to be completed in 2023/24.

6.5 <u>Estates</u>

6.6 The Estates Capital budget for 2023/24 includes £585k, slipped from 2022/23 for the completion of the work around inclusivity that is already underway. In addition to this the budget provides scope to increase this budget by £500k, **subject to additional approval**, should additional funds be required in this area.

6.7 The budget also includes £600k for the agreed investment within Ripon, along with a programme to look at the renewal of training towers and the on-going capital works required to maintain the Estates.

6.8 Aligned to this will be a refreshed Estates Conditions and Deficiency survey that is planned for 2023/24 and will help inform future plans.

6.9 It has also been mentioned that 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 expected that options to start this programme of work could begin in 2023/24, **subject to affordable business cases and approval**.

6.10 The current Capital plans include capacity for an Estates Replacement programme to begin with one station in 2023/24, with the potential for a further station to begin in 2025/26 and then another in 2026/27.

6.11 Fleet

6.12 In addition to the need and want to invest in the Estate it has also been a challenge to replace some elements of the Fire Fleet over the last couple of years primarily due to the pandemic. This is expected to change during 2023/24, or early into 2024/25, as the Service has placed orders for 16 new Fire Appliances, 12 for delivery in 2023/24 and a further 4 in 2024/25. In total these 16 new Fire Appliances will cost almost £5m.

6.13 Further details on the Fleet Capital Programme are included as Appendix A.

6.14 Logistics

6.15 Work will also continue in 2023/24 towards the replacement of the Breathing Apparatus used within the Service. This will be a significant investment by the Service with options to bring this vital piece of equipment fully up to date. £1.6m has been estimated for the costs of this investment however this will be firmed up through a procurement exercise.

6.16 ICT

6.17 A detailed assessment of the IT requirement for the Service have been undertaken which set out plans to invest around £2.7m over the next 5 years maintaining, replacing and investing in the IT for the Service.

6.18 All of these Capital plans will be refreshed, refined, prioritised and kept under close review to ensure that they are both affordable and necessary as the Service develops.

6.19 The Capital Programme included within this MTFP and summarised below, is based on a programme of expenditure of just over £37m across the next 5 years if all of the schemes, including the Estates replacement programme are approved/delivered. This is being predominantly funded through borrowing which could total almost £33m.

	Forecast 2022/23 £000	Estimated 2023/24 £000	Estimated 2024/25 £000	Estimated 2025/26 £000	Estimated 2026/27 £000	Estimated 2027/28 £000
FUNDING	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Reserve Brought Forward	**3,146**	**2,632**	**1,605**	**1,565**	**852**	**870**
Revenue Contribution to Capital into reserve	554	265	484	7	196	400
Capital Receipts		52	221	236	242	196
Borrowing	1,160	7,024	6,151	3,349	3,075	1,949
Estates Replacement Borrowing		2,113	1,572	1,096	3,340	3,221
TOTAL FUNDING	**1,714**	**9,454**	**8,428**	**4,688**	**6,853**	**5,766**
EXPENDITURE:						
TRANSPORT excluding Cars	518	5,137	3,851	2,649	2,375	1,249
TRANSPORT - Cars	70	725		285	187	570
ESTATES RENEWAL	714	1,887	700	700	700	700
INFORMATION TECHNOLOGY	926	619	745	671	233	468
LOGISTICS			1,600			
TOTAL APPROVED CAPITAL PROGRAMME	**2,228**	**8,368**	**6,896**	**4,305**	**3,494**	**2,987**
ESTATES REPLACEMENT PROGRAMME		**2,113**	**1,572**	**1,096**	**3,340**	**3,221**
Reserve Carried Forward	**2,632**	**1,605**	**1,565**	**852**	**870**	**428**

6.20 It is important to recognise that borrowing at this level is unsustainable and therefore when considering future service delivery options there needs to be a recognition that one of the outcomes from this will be to deliver and sustainably support the capital investments/needs of the Service.

6.21 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.

6.22 The CIPFA Prudential Code of Practice is a key element in the system of capital finance. Under this system individual PFCCFRA's are responsible for deciding the level of their affordable borrowing having regard to the prudential code. The associated paper 'Treasury Mgmt Strategy 23-24' 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 has been recognised that there is a need for greater transparency around reserves. This is being achieved through the publication of a Reserves Strategy which for North Yorkshire is attached at Appendix B.

7.2 The Strategy includes a summary of the use of Reserves including within this MTFP with some further context provided below.

7.3 It was agreed that the **New Development Reserve** would fund the Transformation Team to the end of 2024/25. It was then expected that these roles would cease unless savings/efficiencies could be found to make them permanent.

7.4 The 2023/24 MTFP assumes that these resources will be permanently funded from 2025/26 and given the balanced MTFP these are expected to be affordable on a recurring basis.

7.5 The Home Office have written to the Service to provide authorisation to use £400k of the funding that is currently sat within Earmarked Reserves, for **ESMCP**, to accelerate the investment in the On-Call Service. This funding is therefore being released in line with this agreement. The Home Office provided the ESMCP funding in part to fund a **Local Transition Resource** also and therefore these reserves are being used to meet the costs of this specifically funded work.

7.6 The release of the £400k is subject to repayment and there are plans in place to ensure this happens in the final 2 years of this MTFP.

7.7 The Home Office have previously provided funding to enable the Service to invest in **Protection services** and uplift the resources in that area. This funding has specific terms that mean it can only be used for certain areas of work. The Grant is being released from Reserves to meet the costs of undertaking this specific work.

7.8 It was previously expected that if the grant funding stopped that these roles would also come to an end and therefore the use of these reserves did not support core work.

7.9 The proposed investment in the Prevention and Protection area, aligned with the continued delivery of savings and efficiencies means that it is now forecast that these roles will be incorporated into the permanent structures of the service when/if the additional funding from the Home Office comes to an end.

7.10 The use of Reserves is therefore not a concern for the Service, the Reserves are funding additionality that could be removed if financially necessary however the current financial plans forecast that this won’t be needed.

7.11 Based on current projections **overall** reserves are forecast as follows:

- End of 2022/23 - £7.1m (22.5% of Net Budget Requirement)
- End of 2023/24 - £4.8m (13.9% of Net Budget Requirement)
- End of 2024/25 - £4.3m (11.9% of Net Budget Requirement)
- End of 2025/26 - £3.8m (10.1% of Net Budget Requirement)

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.

- 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 2023/24 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2023/24 to deliver the proposed budget. The likely risk from a financial perspective, however, in terms of revenue spending in 2023/24 is likely to be in relation to the levels of pay awards agreed during the year as well as significant levels of non-pay inflation that are clearly feeding through into the costs for the Service.

9.3 It will be vital to continue to closely monitor the financial position throughout 2023/24 to ensure that the efficiency and savings plans, that are required to provide the capacity for the transformation work, are delivered in a timely manner.

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 2022/23 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

10 Conclusion

10.1 The impact of the financial settlement, the agreed precept, and the savings and efficiency plans, has enabled the Service to meet the significant financial pressures from both pay and non-pay inflation. As well as this the Service has incorporated into its balanced MTFP its plans for investing and transforming the Service and has also set out a recurring balanced MTFP that is projected to show a surplus in years 3 and 4 of the plan, to replace an Earmarked Reserve that is being used in 2023/24.

10.2 The financial plan is aligned to the newly agreed Risk and Resource Model, it incorporates a phased delivery of the Transformation Programme and the investment into Prevention and Protection as well as the on-call service.

10.3 From a Capital perspective, the proposals from all areas of the business are incorporated into the 2023/24 proposals allowing for significant investment in both Fleet and Estates, with plans for future investment into Breathing Apparatus.

10.4 The Service should therefore have everything that it needs from a financial perspective to deliver against the Fire and Rescue Plan during 2023/24.

APPENDIX A

CAPITAL PROGRAMME 2022/23 - 2027/28	Forecast 2022/23 £000	Estimated 2023/24 £000	Estimated 2024/25 £000	Estimated 2025/26 £000	Estimated 2026/27 £000	Estimated 2027/28 £000
FUNDING	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Reserve Brought Forward	**3,146**	**2,632**	**1,545**	**1,505**	**792**	**810**
Revenue Contribution to Capital into reserve	554	265	484	7	196	400
Capital Receipts		52	221	236	242	196
Borrowing	1,160	6,964	6,151	3,349	3,075	1,949
Estates Replacement Borrowing		2,113	1,572	1,096	3,340	3,221
TOTAL FUNDING	**1,714**	**9,394**	**8,428**	**4,688**	**6,853**	**5,766**
EXPENDITURE:						
TRANSPORT excluding Cars	518	5,077	3,851	2,649	2,375	1,249
TRANSPORT - Cars	70	785		285	187	570
ESTATES RENEWAL	714	1,887	700	700	700	700
INFORMATION TECHNOLOGY	926	619	745	671	233	468
LOGISTICS			1,600			
TOTAL APPROVED CAPITAL PROGRAMME	**2,228**	**8,368**	**6,896**	**4,305**	**3,494**	**2,987**
ESTATES REPLACEMENT PROGRAMME		**2,113**	**1,572**	**1,096**	**3,340**	**3,221**
Reserve Carried Forward	**2,632**	**1,545**	**1,505**	**792**	**810**	**368**

Detailed Capital Programme - 2022/23 to 2027/28	*Forecast* 2022/23 *£000*	2023/24 Proposed Budget *£000*	2024/25 *£000*	2025/26 *£000*	2026/27 *£000*	2027/28 *£000*
Rescue Pumps	11	3,696	1,232	1,899	1,232	1,249
Vans and Support Vehicles	467	536	71	-	123	-
4x4 Vehicles (Landrover or equivalent)	-	771				-
Aerial Appliances	9	-	-	750	750	-
Off Road (Agrocat)	-	45	-	-	-	-
Pool Cars	-	-	-	-	187	-
Response Cars	70	570	-	285	-	570
Emergency First Responder Cars	31					
Prevention and Protection investment		215				
Trailers	-	-	76	-	-	-
Water Rescue Boats	-	-	62	-	-	-
Water Tankers/Bowsers	-	-	1,000	-	-	-
Welfare Vehicle	-	-	55	-	-	-
ISU x1 / HRU x2 / IRU x1	-		1,355		270	-
Telematics	-	30				
TOTAL TRANSPORT	**588**	**5,862**	**3,851**	**2,934**	**2,562**	**1,819**
Breathing Aparatus (new sets EOL replacement)	-		1,600			
TOTAL LOGISTICS	**-**	**-**	**1,600**	**-**	**-**	**-**
Capital Works (Based on SCS Information)	400	352	500	500	500	500
Training Towers Renewal Programme	-	240	200	200	200	200
Ripon Alterations	-	600				
Inclusivity Programme	314	585				
Lofthouse Refurbishment *	-	110				
TOTAL ESTATES RENEWAL	**714**	**1,887**	**700**	**700**	**700**	**700**
Malton	-	1,613	1,512			
Inclusivity Programme		500				
Scarborough	-		60	1,066	1,440	1,709
Northallerton	-			30	1,900	1,512
TOTAL ESTATES REPLACEMENT	**-**	**2,113**	**1,572**	**1,096**	**3,340**	**3,221**
Network Replacement and Upgrade Programme	324	29	-	76	84	*142*
Telephony Equipment Replacements and Upgrades		-	163	-	-	-
Station End Equipment Replacements and Upgrades		155	-	-	-	*208*
ESN Transition		-	-	-	50	-
Session Initiated Protocol (SIP) Trunking		60	-	-	-	-
Azure Refresh	145	-	-	150	-	-
CFRMIS Replacement		-	120	120	-	-
HR System		100	100	-	-	-
Website Redevelopment		-	-	40	-	-
Teams Conferencing		-	-	28	-	-
Meeting Room Technology		31				
MDT Replacement		-	165	165	-	-
Incident Command Training ICT Replacement		-	11	11	-	-
PC replacement / expansion programme (⅕ per year over 5 years)	457	108	75	81	98	*118*
Server replacement / expansion programme (⅕ per year over 5 years)		136	111	-	-	-
TOTAL IT	**926**	**619**	**745**	**671**	**233**	**468**
OVERALL TOTAL	**2,228**	**10,481**	**8,468**	**5,401**	**6,834**	**6,208**

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 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 levels of funding continue to be constrained, the need for annual reductions in spending is likely. 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 those 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.

<u>General Reserve</u>

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 medium 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 2022 £000	Transfers In 2022/23 £000	Transfers Out 2022/23 £000	Balance at 31 March 2023 £000	Transfers In/Out 2023/24 £000	Balance at 31 March 2024 £000	Transfers In/Out 2024/25 £000	Balance at 31 March 2025 £000	Transfers In/Out 2025/26 £000	Balance at 31 March 2026 £000	Transfers In/Out 2026/27 £000	Balance at 31 March 2027 £000
Pay & Price Reserve	337		-337	0		0		0		0		0
Pay, Price and Pensions Reserve	1,066		-45	1,021		1,021		1,021		1,021		1,021
New Developments Reserve	1,108		-319	789	-361	428	-288	140		140		140
Insurance Reserve	80			80		80		80		80		80
Recruitment Reserve	175			175		175		175		175		175
Hydrants Reserve	100			100		100		100		100		100
Collection Fund Reserve	66		-22	44	-22	22	-22	0		0		0
HO Grant - Protection Funding Reserve	502		3	505	-321	184	-148	36		36		36
HO Grant - ESMCP Reserve	661		-18	643	-457	186		186	200	386	200	586
Total Earmarked Reserves	**4,095**	**0**	**-738**	**3,357**	**-1,161**	**2,196**	**-458**	**1,738**	**200**	**1,938**	**200**	**2,138**
Earmarked Capital Reserve	**3,146**	**891**	**-1,405**	**2,632**	**-1,087**	**1,545**	**-40**	**1,505**	**-713**	**792**	**18**	**810**
General Reserves	**1,075**			**1,075**		**1,075**		**1,075**		**1,075**	**0**	**1,075**
% of Net Budget Requirement	3.4%			3.1%		3.0%			2.9%		2.8%	
Total Usable Reserves	**8,316**			**7,064**	**-2,248**	**4,816**	**-498**	**4,318**	**-513**	**3,805**	**218**	**4,023**

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

General Contingency Reserves:

Pay & Price Reserve
This reserve will be added to the Capital Reserve.

Pay, Price and Pensions Reserve
This reserve had previously just been a Pensions Reserve and had 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 was 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.

As the risk of losing this grant seems to have mitigated the overall level of the reserve has been reduced and combined with the Pay Reserve.

The reserve is forecast to have just over £1m in at the start of 2023/24, which provides scope to fund, in the short term, pay award in excess of those included within the budget. Each 1% equates to circa £285k. In addition to this the reserves provides some allowance for injury/medical pensions that are over and above the budgeted position and also mitigates the risk during the current period of higher inflation that some prices may be higher than estimated.

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 operates 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:

New Developments/Revenue Initiatives Reserve
This reserve has been predominantly committed to deliver the Fire Transformation Programme to the end of March 2025. In addition there is capacity to fund the additional resources within the Programme Management Office.

Collection Fund Reserve
£22k per year, for the next 2 years, will be released to support the Road Safety Partnership.

Home Office Grant Funding – Protection
This specific funding reserves will be spent in line with the Grant terms and conditions from the Home Office. Should funds remain at the end then it is likely they would need to be returned to the Home Office.

Home Office Grant Funding – ESMCP
The Home Office have written to the Service to provide authorisation to use £400k of the funding that is currently sat within this Earmarked Reserves to accelerate the investment in the On-Call Service. This funding is therefore being released in line with this agreement. The Home Office provided the ESMCP funding in part to fund a Local Transition Resource also and therefore these reserves are being used to meet the costs of this specifically funded work.

The release of the £400k is subject to repayment and there are plans in place to ensure this happens in the final 2 years of this MTFP

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.