



NORTHAMPTONSHIRE COMMISSIONER FIRE AND RESCUE AUTHORITY RESERVES STRATEGY – UPDATED JANUARY 2021

1. Reserves Strategy

- 1.1. Reserves are a key part of medium-term financial planning – other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. Decisions on these are inter-linked. Consequently, some organisations will need to maintain reserves at higher levels than others.
- 1.2 All publicly funded organisations should have a reserves strategy to demonstrate transparency and accountability, to comply with best practice financial management and to justify the levels of reserves held.
- 1.3 The PFCC maintains reserves to provide a measure of protection against risk. Without this protection, any unforeseen expenditure would have to be met either by increases in Council Tax or immediate savings (potentially through reductions in service levels).
- 1.4 The term "reserves" has a variety of technical and every day meanings, depending on the context in which it is used. For the purposes of this Strategy it is taken to mean funds set-aside at the PFCC's discretion for general or specific future purposes.
- 1.5 Reserves are required to protect and enhance the financial viability and in particular:
 - To maintain a degree of in-year financial flexibility;
 - To enable the PFCC to deal with unforeseen circumstances and incidents;
 - To set aside monies to fund major developments in future years;
 - To enable the PFCC to invest to transform and achieve improved service effectiveness and efficiency;
 - To set aside sums for known and potential liabilities;
 - To provide an operational contingency at service level.
- 1.6 Reserves should not be held to fund ongoing revenue expenditure as this is unsustainable in the long term; however, they may be important in smoothing a major financial imbalance (revenue or capital) over a longer timescale. CIPFA guidance LAAP 99 published July 2014 states:

“Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term”

- 1.7 The Northamptonshire Commissioner Fire and Rescue Authority (NCFRA) was established on the 1 January 2019 with no transfer of reserves agreed as part of the business case.
- 1.8 Agreement was reached for any Fire Operational budget underspend achieved between 1 April 2018 and 31 December 2018 to transfer to NCFRA as part of the balance sheet disaggregation. This reserves strategy reflects the final position, which was higher than originally envisaged.
- 1.9 This strategy is the third reserves strategy for NCFRA and reflects the PFCC's continued intention to build reserves over the short term to ensure a stable financial position for NCFRA moving forwards.
- 1.10 Whilst good progress had been made in building reserves in line with the plan, the financial impact of the COVID pandemic is now forecast to be detrimental to the financial position for NCFRA for 2021/22 and future years. The main impact is from the reduction on council tax and business rate receipts, compared to previous years and the forecast.
- 1.11 Consequently, it is assumed that both savings and reserves will be required to balance the financial position in 2021/22. Funding will be transferred to reserves in 2020/21 where possible, to mitigate this position.
- 1.12 Recognising the potentially detrimental impact of COVID-19 on the financial reserves and revenue position of NCFRA, the PFCC made representation to the Home Office. As a result, the Home Office advised in January 2021 that the sum of £1m will be provided to NCFRA to help provide resilience in the reserves position. This will be transferred to the General Reserve when received and is assumed within the Strategy.
- 1.13 After 2021/22, the strategy assumes that the Medium Term Financial Plan [MTFP] is broadly balanced on a sustainable basis across the five year planning period. However, when taking into account the projected shortfalls on the MTFP, it is imperative that savings will need to be achieved to facilitate this.
- 1.14 The Capital Programme is still significantly higher than can be afforded and is placing a challenge on the revenue budget and reserves position. As at January 2021, the Chief Fire Officer is undertaking a further review of the Capital Programme to ensure all priorities and requirements are balanced with the need to ensure financial affordability. The Capital Programme will be reviewed and updated in quarter 1 2021/22 to reflect these changes and regularly thereafter.

- 1.15 Reserves should reflect the agreed financial strategy and should represent the quantified impact of risks and opportunities over the planning period, weighted for their probability.

2. National Guidance and Compliance with Home Office Guidance

- 2.1 The 2014, CIPFA guidance included the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken into account locally in making an assessment of the appropriate level of reserves and balances to be held.
- 2.2 On 31 March 2018, the Minister for Policing and the Fire Service published new guidance on the information that each PFCC must publish in terms of Police Reserves. This guidance has been adopted for the NCFRA to ensure consistency and once approved, the NCFRA reserves strategy is available on the PFCC website.
- 2.3 One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of the following three categories:
- 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.
 - As a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management.
- 2.4 This information is summarised across the Home Office headings as at 31/3/2020, together with the proposed use of the reserves held at that date as follows:

Reserve	Forecast Balance as at 31/3/2021	Planned Expenditure on Projects and Programmes over the next 3 years (21/22-23/24)	Funding for Specific projects and Programmes Beyond 2023/24	As a general contingency or resource to meet other expenditure needs
	£m	£m	£m	£m
General	2,167	-	-	2,167
Earmarked:				
Insurance	250			250
Staffing	100			100
Operational Equipment	30			30
Funding	373			373
Transformation	-			-
S106	314	(198)	(116)	-
Capital Receipts	-	-		-
Capital Grants Unapplied	-	-		-
Total Earmarked	1,067	(198)	(116)	753
Total Reserves	3,234	(198)	(116)	2,920

3. General Reserve

3.1 In order to assess the adequacy of the unallocated general reserve when setting the budget the PFCC, on the advice of the chief finance officer, should take account of the strategic, operational and financial risks facing the authority. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.

3.2 Whilst there is no prescribed level of reserves that PFCCs should hold; it is influenced by individual discretion, local circumstances, advice from external auditors, risk management arrangements and risk appetite. CIPFA guidance in LAAP Bulletin 99 (2014) specifically cautions against prescriptive national guidance for a minimum or maximum level of reserves and states:

“The many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. A considerable degree of professional judgement is required. The chief finance officer may choose to express advice on the level of balances in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority”

3.3 However, the minimum level of reserves may be set for the authority by the Ministers in England and Wales where an authority doesn't act prudently, disregards the advice of its chief finance officer or is heading for financial difficulties. LAAP Bulletin 99 (2014) specifies that minimum level of reserves can be imposed on specific circumstances:

“Minimum level of reserves will only be imposed where an authority is not following best financial practice”

3.4 CIPFA indicate a general reserve level is typically between 2% and 3% of net budget requirement and this is consistent with the results of a survey by the PACCTS Technical Support Team where the majority of PCCs (and PFCCs) across the country reporting a Strategy of holding minimum general reserves at 3% net revenue expenditure, average general reserve levels are nearer 5%.

3.5 Recent Home Office publications reflect that NCFRA have the lowest level of reserves per core spending power across all Fire and Rescue Authorities in England and Wales.

3.5 In determining the PFCC's position, Annexe A outlines how NCFRA complies with the 7 key CIPFA principles which can be used to assess the adequacy of reserves.

3.6 Given that NCFRA are required to meet the first 1% of any special grant requirement and the NCFRA was established without the transfer of any reserves, it remains prudent to continue to build reserves as considered by the Minister in the Business Case.

3.7 Furthermore, taking into account the impact of the COVID pandemic on 75% of NCFRA's funding streams, it is essential to ensure there are sufficient reserves set aside to meet such challenges in the future.

- 3.8 Given the minimal levels of earmarked reserves held; the special grant requirement; the significant potential requirements of the capital programme; the relative size of the NCFRA revenue budget, the impact of the COVID pandemic on funding receipts, together with the budget volatility experienced by NCFRA in its financial stability period, NCFRA can be disproportionately impacted by any of these changes. This would result in significant unplanned in-year changes to be required.
- 3.9 Whilst good progress has been made, the allocation of funding from the Home Office has enabled NCFRA to build and provide resilience in general reserves. As such, given this opportunity, the Chief Finance Officer advises that it would be prudent to maintain and develop general reserves as follows:
- to increase the current minimum guideline level set in 2020/21 from 4% to 5% of annual budget and;
 - to work towards and maintain a sustainable level of £2.0m or 5% (whichever is the higher).

Additionally, it is prudent to have in place earmarked reserves to better smooth the impact of replacement of essential operational equipment, to mitigate year on year funding variations and take forward transformation priorities.

- 3.10 At present, there plans to build the General Reserve during the period of the MTFP will be impacted by the need to support the revenue budget in 2021/22. However, the Home Office contribution has enabled the General Reserves to be stabilised as follows:

Therefore, the forecast level of equates to the following (at forecast MTFP budget levels):

- 31/3/2020 £1.067m (4.2% above 20/21 minimum level)
- 31/3/2021 £2.167m (8.5% sustainable level achieved)
- 31/3/2022 £2.000m (7.8% sustainable level achieved)
- 31/3/2023 £2.000m (7.7% sustainable level achieved)
- 31/3/2024 £2.000m (7.4% sustainable level achieved)
- 31/3/2025 £2.000m (7.3% sustainable level achieved)
- 31/3/2026 £2.000m (7.2% sustainable level achieved)

- 3.11 Whilst NCFRA also have significant operational pressures, it is essential to hold a sufficient level of general reserves and ensure a stable financial basis for the authority moving forwards.
- 3.12 These levels will be reviewed on a regular basis and opportunities to set aside Earmarked reserves to support targeted expenditure and investment, taken.

4. Earmarked Reserves

- 4.1 In addition to the General reserve, the PFCC will need to build a number of reserves which will be earmarked for specific purposes.
- 4.2 The predicted position for each earmarked reserve as at 31/3/2021, together with an outline of its specific purpose is attached at Annexe B.

- 4.3 At the 31/3/2021, it is estimated that the PFCC will hold £1.067m in Earmarked Reserves which are as follows:

Insurance £0.250m – this reserve needs to be established to hold funds set aside where considered prudent for Civil Claims (Public and Employer liability) in line with professional advice. This advice has identified a reserve requirement of £0.250m and will be reviewed regularly.

Staffing £0.100m - following many years of low recruitment, the PFCC created a staffing reserve from budget underspends to mitigate the impact on the revenue budget of recruiting 20 Firefighters in February 2020. The reserve was not required in 2020/21 and will be held to assist in smoothing any future short term pressures on the revenue budget as a result of recruitment plans and timing.

Operational Equipment £0.030m – an annual operational equipment reserve contribution was established in 2020/21 to smooth the impact and mitigate the costs of essential operational equipment replacement. This will continue when possible.

Funding Reserve £0.373m - the impact of the COVID pandemic on future council tax and business rates receipts has highlighted the importance of a reserve to mitigate such eventualities. As such, any underspends from the 2020/21 budget will be set aside in a funding reserve and used to mitigate the shortfalls in 2021/22. Whilst it is assumed that the reserve will be fully utilised in 2021/22, all opportunities will be taken to allocate additional funding above those budgeted in any one year to give this comfort for future years.

Transformation Reserve £0m – a transformation reserve will be established to which annual contributions will be made. This reserve would assist in meeting any one off investments, capital requirements or smoothing the implementation of transformative or investment requirements on the revenue budget.

S106 £0.314m – the sum of £0.523m was transferred from NCC following the governance transfer and funding has and will continue to be applied to meet costs as detailed within the S106 agreements.

- 4.4 The forecast balance on the reserves, taking into account a prudent estimate of timings for proposals which are currently being developed is detailed within Annexe C.

5. Provisions

- 5.1 The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). Basically, a provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits.
- 5.2 Northamptonshire have to date not established any provisions and this will be reviewed as part of the closedown process each year.

Procedures for management and control

- 5.3 Any drawdown from Reserves is subject to the approval of the PFCC, on advice from the PFCC's Chief Finance Officer (CFO, S151) or the deputy S151; or under the delegated authority of the OPFCC CFO.
- 6.2 The Local Government Act 2003 requires the S151 officer to report annually on the adequacy of the reserves and this is included within the statement on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves and considered at the Police, Fire and Crime Panel alongside the budget and precept.
- 6.3 The Strategy will be reviewed annually by the OPFCC CFO as part of the Budget and Precept process.

Northamptonshire Compliance with the 7 Key CIPFA Principles to assess the adequacy of reserves

Budget Assumptions (CIPFA Principles)	2021/22 Situation in Northamptonshire
The treatment of inflation and interest rates	<p>NCFRA makes full and appropriate provision for pay and price increases, informed by benchmarking with peers. It is recognised that any 1% variation on Pay inflation equates to £150K. Whilst there is minimal scope in the revenue budget to meet such cost, there is a pay and inflation contingency held by the PFCC to mitigate such eventualities. Furthermore, the public sector pay freeze announced for 2021/22 will further assist in mitigating this risk.</p> <p>An informed assessment is made in the Treasury Management Strategy of interest rate movements.</p> <p>All income and expenditure in the budget is prepared and published at outturn prices.</p>
Estimates of the level and timing of capital receipts	<p>NCFRA will be undertaking a review of its estates strategy as a fundamental part of the capital programme and has made assumptions of future capital receipts.</p> <p>The capital programme considerations require significant investment and until this has been concluded, only essential capital investment has been approved. The achievement of capital receipts in line with the proposed timings is essential to ensuring that prioritised capital investments can be progressed.</p>
The treatment of demand led pressures	<p>NCFRA is required to operate and manage within its annual budget allocation.</p> <p>All budgets except Firefighters are devolved and managed by trained budget holders.</p> <p>On an exceptional basis, once a stable position has been established for reserves, agreement may be sought from the PFCC to utilise carry forwards to meet one off demand led pressures. Additionally, demand led pressures are scrutinised and built into the budget set by the PFCC.</p> <p>NCFRA have historically identified savings over the years to manage within a cash limited budget provided by NCC. However, depending on funding availability, the PFCC will support investment in areas that reduce demand or which increase efficiency/capacity to deal with demand.</p> <p>General reserves are used as a last resort to manage and fund demand led pressures.</p>

The treatment of Planned Efficiency Savings/Productivity Gains	<p>NCFRA has met all financial savings and challenges required by NCC in previous years.</p> <p>Any identified savings and efficiencies from service or governance transfers will be monitored and reviewed regularly by the service and are only included as achieved in budgets when confirmed and verified.</p>
The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments.	<p>The financial consequences of partnership collaboration working, outsourcing arrangements or capital investment will be reported to the PFCC as part of the medium term planning process. Where relevant, any additional costs are incorporated into the annual revenue budget and/or capital programme.</p> <p>There is a risk that partners will withdraw funding as their own budgets are squeezed, or that the continued viability of private sector commercial partners will be exposed to risk in the face of an economic recession.</p>
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.	<p>As NCFRA will be building up appropriate reserves from a zero base to build a stable range earmarked reserves and provisions to meet specific expenditure items. Their use and forecast balances as at 31/3/2021 are detailed in the attached annexe.</p> <p>NCFRA maintain an insurance provision, the adequacy of which is reviewed and monitored in detail by the legal services insurance advisors.</p> <p>NCFRA continue to build a General Reserve to cover any major unforeseen circumstances, supported by earmarked reserves where appropriate to meet targeted investment in a planned manner which does not disproportionately impact on the revenue budget each year.</p> <p>Given the COVID pandemic, the PFCC has established a funding reserve in 2020/21 to mitigate the impact of reduced council and business rate receipts on the revenue budget.</p>
The general financial climate to which the Authority is subject	<p>It is anticipated that the financial climate will be challenging and the medium term financial plan will reflect the “best estimate” of future inflation rates and increases in government grants and contributions.</p>

**RESERVES OF THE NORTHAMPTONSHIRE COMMISSIONER FIRE AND RESCUE AUTHORITY
2021/22 to 2025/26**

	Rationale	How and when used	Level	Management and control	Risk	Review
GENERAL RESERVE	<p>To maintain a degree of in-year financial flexibility;</p> <p>To enable NCFRA to deal with unforeseen circumstances and incidents;</p> <p>To set aside sums for known and potential liabilities;</p> <p>To provide an operational contingency at service level.</p>	<p>To meet exceptional spending needs or overspends which are unable to be otherwise financed at the year end.</p> <p>To smooth the profile of revenue over a medium term financial period</p> <p>To allow higher spending without raising council tax on a one-off basis</p>	<p>To increase the current minimum guideline level from 4% to 5% of annual budget and</p> <p>To work towards and maintain a sustainable level of £2.0m of 5% (whichever is the higher)</p>	PFCC, on advice from PFCC CFO	<p>May be inadequate for major catastrophe, which could jeopardise financial status and reputation of NCFRA.</p> <p>The PFCC would have recourse to discretionary special grant if costs exceed 1% of budget or CLG Bellwin scheme for natural disasters</p>	Annual
EARMARKED - INSURANCE	To cover the potential and contingent liabilities of uninsured risks as assessed annually by our insurers based on claims outstanding.	<p>Balance will increase or reduce annually dependent on the NCFRA outstanding claims record.</p> <p>Established in 2018/19 following advice from legal service advisors.</p>	Will vary according to annual risk assessment	PCC, on advice from PCC CFO	<p>If no reserve is held the NCFRA is potentially open to significant excess and claims payments in year beyond available revenue budgets.</p> <p>Assessment by insurers needs to be realistic not unduly pessimistic.</p>	Annual
EARMARKED - STAFFING	To smooth the impact on the revenue budget of recruitment during the year and if attrition does not meet forecast levels. The reserve may also be widened to include the opportunity to smooth ill health retirement costs across years.	<p>Balance will increase or reduce annually dependent on the workforce planning requirements.</p> <p>Established in 2019/20 as part of recruitment planning.</p>	Will vary according to annual risk assessment	PFCC, on advice from PFCC CFO	If no reserve is held NCFRA are required to meet the timing and phasing or recruitment from the annual revenue budget. As new firefighters are required to attend training school, it is not appropriate for them to be phased in during the year.	Annual

	Rationale	How and when used	Level	Management and control	Risk	Review
EARMARKED – OPERATIONAL EQUIPMENT	To smooth the impact on the revenue budget of lower value, high volume essential operational equipment in conjunction with the operational equipment budget already included within the overall revenue budget.	Balance will increase or reduce annually dependent on the workforce planning requirements. Established in 2019/20 as part of recruitment planning.	Will vary according to annual risk assessment	PFCC, on advice from PFCC CFO	If no reserve is held NCFRA are required to meet the timing and phasing of replacing all essential equipment from the annual revenue budget.	Annual
EARMARKED – FUNDING	To smooth the impact of fluctuations in the funding receipts from council tax and business rates and	Balance will increase or decrease annually, dependent on council tax and business rate receipts.	Will vary according to annual risk assessment.	PFCC, on advice from CFO	If no reserve is held, NCFRA are required to balance the budget through savings and reserves. This reserve enables short term fluctuations to be managed more smoothly.	Annual
EARMARKED TRANSFORMATION INVESTMENT RESERVE	To build and maintain a reserve sufficient to support invest to save initiatives and provide initial funding to set up transformational activities.	To undertake initiatives and transformation without needing to use the annual operational budget.	Will vary according to activities.	PFCC, on advice from PCC CFO	If no reserve is held, PFCC could find it difficult to invest in transformational activities or savings would have to be made from operational budgets before any initiatives could be undertaken.	Annual
EARMARKED – S106 RESERVE	To meet the additional infrastructure and other requirements of new developments.	To implement new infrastructure required as a result of developments without needing to use the annual operational budget.	Will vary according to activities.	PFCC, on advice from PCC CFO	If no reserve is held, PFCC could find it difficult to invest in new infrastructure requirements resulting from the developments.	Annual
EARMARKED - CAPITAL RECEIPTS	From sales of equipment above the capital de-minimis level and used to support the capital programme funding requirements.	Used to support funding the capital programme to minimise the cost of external borrowing on NCFRA and the taxpayer.	Will vary according to activities.	PFCC, on advice from PCC CFO	Minimal risk – the reserve is held when equipment over a certain value is sold. If no reserve is held, external borrowing costs may be higher.	Annual

	Rationale	How and when used	Level	Management and control	Risk	Review
EARMARKED - CAPITAL GRANTS UNAPPLIED	Unapplied grants brought forward from the Governance Transfer with Northamptonshire County Council.	Used to support funding in accordance with the grant requirements to minimise the cost of external borrowing on NCFRA and the taxpayer if purchased from capital.	Will vary according to activities.	PFCC, on advice from PCC CFO	Minimal risk – the reserve is held when equipment over a certain value is sold. If no reserve is held, external borrowing costs may be higher.	Annual

Summary of Reserves 2020/21 to 2025/2026

	Balance at 31 March 2020 £'000	Balance at 31 March 2021 £'000	Balance at 31 March 2022 £'000	Balance at 31 March 2023 £'000	Balance at 31 March 2024 £'000	Balance at 31 March 2025 £'000	Balance at 31 March 2026 £'000
<u>Held to meet budgetary risks</u>							
Insurance	250	250	250	250	250	250	250
<u>Held to support the medium term budget</u>							
Staffing Reserve	100	100	100	100	100	100	100
Operational Equipment	0	30	60	90	120	150	180
Funding Reserve	0	373	331	331	331	331	331
	100	503	491	521	551	581	611
<u>Held to facilitate change programmes</u>							
Transformation Reserve	0	0	20	140	260	380	500
	0	0	20	140	260	380	500
<u>Committed to future capital programmes</u>							
S106	523	314	264	166	116	66	16
Capital Receipts	19	0	0	0	0	0	0
Capital Grants Unapplied	952	0	0	0	0	0	0
Total Earmarked Reserves	1,844	1,067	1,025	1,077	1,177	1,277	1,377
General Fund	1,067	2,167	2,000	2,000	2,000	2,000	2,000
Total Reserves	2,911	3,234	3,025	3,077	3,177	3,277	3,377