Appendix B

NORTHAMPTONSHIRE COMMISSIONER FIRE AND RESCUE AUTHORITY RESERVES STRATEGY – REVISED JANUARY 2020

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 second reserves strategy for NCFRA and reflects the PFCC’s intention to build reserves over the short term to ensure a stable financial position for NCFRA moving forwards.

1.10 The strategy assumes that the Medium Term Financial Plan [MTFP] is broadly balanced on a sustainable basis across the five year planning period, recognising that savings may be required to facilitate this.

1.11 However, the latest version of the Capital Programme reviewed for NCFRA is significantly higher than originally envisaged and this will place a further challenge on the revenue and reserves position.

1.12 Affordability will be carefully considered when finalising the Capital Programme and once agreed, this will be carefully monitored to ensure all priorities and requirements are balanced with the need to ensure financial prudence.

1.13 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 as follows:

Reserve	Forecast Balance as at 31/3/2020	Planned Expenditure on Projects and Programmes over the next 3 years (2/21-22/23)	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	**699**	**-**	**-**	**699**
Earmarked:				
Insurance	250			250
Staffing	100	(100)		-
Operational Equipment	-			-
Transformation	-			-
S106	314	(200)	(114)	-
Capital Receipts	-	-		-
Capital Grants Unapplied	741	(354)	(387)	-
Total Earmarked	**1,405**	**(654)**	**(501)**	**250**
Total Reserves	**2,104**	**(654)**	**(501)**	**949**

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, and 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 PCC's (and PFCC's) 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 In determining the PFCC's position, Appendix A outlines how NCFRA currently 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 would be prudent to build reserves as considered by the Minister in the Business Case.

3.7 Given the minimal levels of earmarked reserves held; the requirement to meet the first 1% of special grant; the significant potential requirements of the capital programme; the relative size of the NCFRA revenue budget, together with the budget uncertainty recognised in its first year, the NCFRA budget can be disproportionately impacted by any of these changes. This would result in significant unplanned in-year changes to be required.

3.8 Whilst general reserves are just above minimum levels, the Chief Finance Officer advises that it would be prudent to work towards building general reserves as follows:

- to a minimum initial guideline level of 3% (£750K) by March 2022 and
- to work towards building a maintenance level of 4%.

Additionally, it would be prudent to take the opportunity to create earmarked reserves to better smooth the impact of replacement of essential operational equipment and other priorities.

3.9 At present, there are plans to build the General Reserve during the period of the MTFP, therefore, the forecast level of equates to the following (at forecast MTFP budget levels):

- 31/3/2020 £0.699m (2.8% minimum level established)
- 31/3/2021 £0.799m (3.1% guideline level established)

- 31/3/2022 £0.920m (3.4% guideline level maintained)
- 31/3/2023 £1.020m (3.7% guideline level maintained)
- 31/3/2024 £1.070m (3.9% guideline level maintained)

3.10 Whilst these plans are challenging when balanced with the significant operational pressures, they are essential to ensure a stable financial basis for the authority moving forwards.

3.11 These levels will be reviewed on a regular basis and opportunities to increase general reserve levels further, 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 31/3/2020, together with an outline of its specific purpose is attached at Appendix B.

4.3 At the 31/3/2020, it is estimated that the PFCC will hold £1.405m 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 on transfer 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. This means that firefighters will be over establishment in the first half of 2020/21 and the reserve will be used to smooth any pressures on the revenue budget in the year.

S106 £0.314m – the sum of £0.523m transferred from NCC in 2019/20 and funding will be applied in 2019/20 and future years to meet the costs as detailed within the S106 agreements.

Capital Grants Unapplied £0.741m – the sum of £1.020m transferred from NCC and will be applied in 2019/20 and future years to control room, transformation and other capital priorities in line with grant conditions.

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 Appendix 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.

6. Procedures for management and control

6.1 Any drawdown from Reserves is subject to the approval of the PFCC, on advice from the PFCC's Chief Finance Officer (CFO); 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.

Appendix A

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

Budget Assumptions (CIPFA Principles)	2020/2021 Situation in Northamptonshire
The treatment of inflation and interest rates	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 and there is minimal scope within the revenue budget to meet such additional cost. An informed assessment is made in the Treasury Management Strategy of interest rate movements. All income and expenditure in the budget is prepared and published at outturn prices.
Estimates of the level and timing of capital receipts	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. 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.
The treatment of demand led pressures	NCFRA is required to operate and manage within its annual budget allocation. All budgets except Firefighters are devolved and managed by trained budget holders. 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. 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. General reserves are used as a last resort to manage

	and fund demand led pressures.
The treatment of Planned Efficiency Savings/Productivity Gains	NCFRA has met all financial savings and challenges required by NCC in previous years. Any identified savings and efficiencies from service or governance transfers will be monitored and reviewed regularly by the service.
The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments.	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. The budget report highlights the 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.
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.	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 31/3/2020 are detailed in the attached appendix. The strategy has been updated to reflect all usable reserves which includes S106, capital grants and capital receipts transferred as part of the governance transfer. NCFRA will maintain an insurance provision, the adequacy of which will be monitored in detail by the legal services insurance advisors. The intention is to build a general reserve for NCFRA which will provide sufficient scope 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.
The general financial climate to which the Authority is subject	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.

Appendix B

RESERVES OF THE NORTHAMPTONSHIRE COMMISSIONER FIRE AND RESCUE AUTHORITY 2020/21 to 2024/25

	Rationale	How and when used	Level	Management and control	Risk	Review
GENERAL RESERVE	To maintain a degree of in-year financial flexibility; To enable NCFRA to deal with unforeseen circumstances and incidents; To set aside sums for known and potential liabilities; To provide an operational contingency at service level.	To meet exceptional spending needs or overspends which are unable to be otherwise financed at the year end. To smooth the profile of tax revenue over a medium term financial period To allow higher spending without raising council tax on a one-off basis	To work towards building reserves to a maintenance level of 4% of net budget requirement. A minimum level of 2.5% and a guideline level of 3%.	PFCC, on advice from PFCC CFO	May be inadequate for major catastrophe, which could jeopardise financial status and reputation of NCFRA. The PFCC would have recourse to discretionary special grant if costs exceed 1% of budget or CLG Bellwin scheme for natural disasters	Annual
EARMARKED - INSURANCE	To cover the potential and contingent liabilities of uninsured risks as assessed annually by our insurers based on claims outstanding.	Balance will increase or reduce annually dependent on the NCFRA outstanding claims record. Established in 2018/19 following advice from legal service advisors.	Will vary according to annual risk assessment	PCC, on advice from PCC CFO	If no reserve is held the NCFRA is potentially open to significant excess and claims payments in year beyond available revenue budgets. Assessment by insurers needs to be realistic not unduly pessimistic.	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.	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 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 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 deminimis 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
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

Appendix C

Summary of Reserves 2019/2020 to 2024/2025

	Balance at 31 March 2019 £'000	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
Held to meet budgetary risks							
Insurance	250	250	250	250	250	250	250
Held to support the medium term budget							
Staffing Reserve	0	100	0	0	20	40	90
Operational Equipment	0	0	30	59	89	119	169
	0	0	0	0	0	0	0
	0	100	30	59	109	159	259
Held to facilitate change programmes							
Transformation Reserve	0	0	0	0	0	50	100
	0	0	0	0	0	50	100
Committed to future capital programmes							
S106	0	314	264	214	164	114	64
Capital Receipts	19	0	0	0	0	0	0
Capital Grants Unapplied	1,020	741	741	510	462	387	387
Total Earmarked Reserves	**1,289**	**1,405**	**1,285**	**1,033**	**985**	**960**	**1,060**
General Fund	**499**	**699**	**799**	**920**	**1,020**	**1,070**	**1,070**
Total Reserves	**1,788**	**2,104**	**2,084**	**1,953**	**2,005**	**2,030**	**2,130**