SOUTH YORKSHIRE FIRE & RESCUE AUTHORITY

Meeting	**SOUTH YORKSHIRE FIRE & RESCUE AUTHORITY**
Meeting Date	**20 NOVEMBER 2023**
Report of	**CLERK AND TREASURER**
Report Sponsor(s)	**CHIEF FIRE OFFICER AND CHIEF EXECUTIVE**
Subject	**MEDIUM TERM FINANCIAL PLAN 2024 – 2027**

EXECUTIVE SUMMARY

Under the National Framework and CIPFA Code of Practice the Fire and Rescue Authority (FRA) must produce an annual medium term financial plan (MTFP) covering at least 3 years aligned to the Community Risk Management Plan (CRMP). This paper presents that plan, how it has been prepared, the key risks and assumptions and an assessment of sustainability.

This MTFP reflects the refreshed **CRMP** for 2024/25 to 2026/27. A full rebasing of the CRMP and MTFP will be undertaken for the 2025/26 to 2027/28 period.

This MTFP is based on assumptions about our **funding.** As in previous years we anticipate a single year settlement. To understand the range in possible funding assumptions and related risk, we model 3 funding scenarios. Our 'most reasonable' scenario will assume (at the request of the NFCC) that a further £5 increase in Council Tax will be approved and inflation linked grants will increase by CPI (see Section B).

Pay costs are assumed to inflate by 5%, 2% and 2% in 2024/25 to 2026/27 respectively. These are subject to annual pay negotiations for both operational and non-operational colleagues. At present the pay award for corporate staff for April 2023 is still pending, this has been forecast as the current offer of £1,925 per pay grade, capped at 3.88% for the higher grades

Non-Pay costs are assumed to inflate by 6%, 3% and 3% in 2024/25 to 2026/27 respectively, unless we hold signed contracts with alternative agreed inflation mechanisms. These rates are taken from the Office of Budget Responsibility CPI inflation forecasts.

Efficiencies offered by budget holders have been captured in the 2024/25 plan. Gross efficiencies are shown, not reduced by inflation or investments. If delivered, these would represent a 16% reduction when compared to the non-pay budget. The efficiencies for the final two years of the plan have been included at 2% of non-pay, the budgets have been reduced but the specific efficiencies are yet to be identified. It is likely that future funding will be tied to increasing efficiency and productivity targets.

Revenue investments totalling £2.161m in 2024/25 are included in the MTFP (itemised at Annex B). Work is ongoing to analyse these increases. Those due to contractual inflation will be reallocated to inflation. Those which are contractual will be noted. For the remaining discretionary increases we will evidence the appropriate approval prior to commitments.

To remain sustainable the FRA would ideally achieve break-even or better each year. During this MTFP a cumulative **deficit** of £3.719m is forecast, including the potential

Government Actuarial Department (GAD) increase in the employers' pension contribution for firefighters. In section J the S151 Officer recommends deficits are funded from reserves in the short term.

In preparing the MTFP we have refreshed the capital plan, including investments required in the estates, fleet, operational equipment and information technology. The resulting **Capital Investment** totals between £8.961m and £8.510m in each year of the plan.

The MTFP assumes **loans** will be taken out to fund the capital programme at £8-9m per annum, £26.078m in total for the 3 years. This will increase the value repayable in relation to assets, cash and equity held and so increases the 'gearing' risk.

Total **reserves** is expected to reduce from £18.551m predicted at March 2024 to £15.187m by March 2027.

The most significant **risks** to this MTFP forecast are uncertainty over government funding, firefighter pension valuation and pay and non-pay inflation, further risks are outlined at section K.

The Autumn Statement (due on 22 November 2023), the financial settlement for stand-alone Fire and Rescue Authorities (FRAs) (due in December 2023), the Local Authority returns for Council Tax and National Non Domestic Rates (due in February 2024) and the GAD valuation report for Firefighter pensions (due in October 2023) will provide more certainty and may require us to revise our assumptions in this MTFP for the Annual Revenue Budget and Council Tax Setting report (based on the first year of this MTFP) which is due to be considered by the Fire and Rescue Authority on the 19 February 2024.

Until there is more certainty it is recommended that the balance on the immediate detriment reserve be moved into the emerging risk reserve (ERR) and that the ERR be maintained at the levels in Annex F and capital investments be funded through loans. If sufficient productivity and efficiency savings can be identified and there is confidence in delivery, then the ERR may be reduced and the reserves used to fund capital, which in turn will reduce the loan and financing costs over the MTFP period.

RECOMMENDATIONS

Members are recommended to:

a) Approve the updated MTFP for the financial years 2024/25 to 2025/26 noting the assumptions on which it is made and the potential implications of the different funding scenarios for the operational service and future financial position; (see Annex A)

b) Endorse the proposed approach for managing reserves as set out in Section J to this Report and the resulting reserves forecast (Annex F);

c) Note the revised profile of approved capital investments 2024/25 to 2026/27 (Annex D) and the approximate additional capital investment proposed in 2024/25 for which approval will be sought in the 2024/25 Budget and Council Tax Setting Report in February 2024; and

d) Note the known risks to the MTFP forecast and that other risks may emerge (Section K).

BACKGROUND

1. The MTFP is completed to ensure that financial resources are aligned to the CRMP, SYFR's strategies and priorities and to ensure these plans are sustainable in the medium term. The key risks are considered in producing this plan and key assumptions are reviewed.

2. The most significant risks to the MTFP and the sustainability of SYFR are listed in Section K. These risks have been anticipated in the MTFP to the extent they are known or the impact can be estimated.

3. Ideally each year the SYFRA would break even or better to ensure sustainability of the service. This break-even position must be after reflecting the costs of using and funding our capital assets, in local government accounting this includes the Minimum Revenue Position. The SYFRA may also decide to create or use reserves in a financial year. Reserves may be created to fund future investments or fund expected or unexpected costs increases in any year. These reserves should not be excessive, meaning any years are suffering undue expenditure reductions, but should be sufficient to ensure sustainability of the Authorities finances through funding changes or inflationary periods etc. Reserves can also be set aside to generate funds for investment which can be less costly than loans for funding capital.

4. The MTFP forecast may change if risks impact or emerge or if assumptions made need to be updated. To estimate the potential impact of funding risks, scenarios have been considered. We cannot model all possible scenarios and so a prudent approach must be taken to setting reserves to help mitigate the risks.

5. A long list of efficiency ideas is being developed and explored as another way to mitigate potential funding pressures and to ensure best use of resources in the medium term.

SECTION A: COMMUNITY RISK MANAGEMENT PLAN (CRMP) 2024/25

6. As the authority is aware, the CRMP is being refreshed pending a full re-write in 2025 for the 2025/6- 2027/28 period. The MTFP should include a financial representation of the CRMP for the same period. The budget from 2023/24 (which reflects the extant CRMP) has been used as a starting point for the new MTFP. We have confirmed there are no significant changes from the CRMP refresh which require financial adjustments in the MTFP. The proposed MTFP reflects the refreshed CRMP.

SECTION B: FUNDING, FUNDING SCENARIOS AND INCOME

Funding from Government

7. SYFR receives an annual Settlement Funding Assessment via the Department for Levelling Up, Housing and Communities (DLUHC). This settlement is composed of Revenue Support Grant (RSG), Business Rates Top-Up Grant, the Government's projection of the Service's 1% share of the business rates income raised in South Yorkshire and any Section 31 Grant monies. In addition, the Home Office funds the unreasonable cost element of the firefighter pension superannuation costs in the form of a direct grant.

8. The Autumn Statement, due on the 22 November 2023, will not provide clear certainty on the Authority's funding position for 2024/25 and beyond but will indicate expected levels of funding for the public sector.

8. The funding settlement for the Authority is expected to be announced in late December 2023 and is expected to confirm funding for next (2024/25) financial year only, giving uncertainty over future year figures. Within this report different funding scenarios have been assessed to demonstrate the range of uncertainty. These scenarios are outlined in the Funding scenarios section below. In this section, the 'most likely' scenario has been used for rolling forward the forecast.

9. For the period 2024-27 the 'most likely' scenario assumes the following:-

- RSG and Top Up Grant are based on 2023/24 levels with an inflationary increase of 5% for 2024/25 and 2% thereafter;
- Retained Business Rates (including the Collection Fund element) and the Council Tax Collection Fund are based on the estimates from the 4 local authorities for all years;
- S31 Grant funding for Top-up and Business Rates Relief are based on 2022/23 levels with an inflationary increase of 5% for 2024/25 and 2% thereafter.
- S31 Grant funding for Pension and Service Grant have been assumed remain the same (i.e. with no inflation increase) through the planning period 2024-27;

10. The 2024-25 estimated funding position, based on the most likely scenario and assumptions is shown in the table below.

Table 1 - Funding forecast in the most likely scenario

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Revenue Support Grant	**9.600**	**10.080**	**10.282**	**10.487**
Business Rates				
- Top Up	12.011	12.612	12.864	13.121
- Retained	4.216	4.301	4.398	4.496
- Collection Fund Surplus	0.404	0.196	0.110	0.100
	16.631	17.109	17.372	17.717
S31 Grant	**3.538**	**2.909**	**2.967**	**3.085**
Pensions Grant	**2.756**	**2.756**	**2.756**	**2.756**
One off Services Grant	**0.634**	**0.634**	**0.634**	**0.634**
OVERALL GOVT. FUNDING	**33.159**	**33.487**	**34.010**	**34.680**

Revenue Support Grant (RSG)

11. Revenue Support Grant is a share of Total England Funding for Fire Authorities calculated by the DLUHC and is still based on the baseline set in the 2013/14 Local Government Settlement. The RSG attempts to allocate funding based on local needs in regional areas through a comprehensive "start-up funding assessment" model after "top slice" deductions have been made to various bodies that are directly funded from Government allocations. The figures in the table include 5% inflation in 24/25 and 2% inflation for the final two years of the plan.

Business Rates

12. All Business rates -Non National Domestic Rates (NNDR) used to be paid directly from Central Government. Local Authorities collect all the business rates in their area due on Commercial Properties. As a way of partly devolving funding to Local Authorities, the Coalition Government decided from 2013/14 that 50% of business rates would be distributed by Central Government via a business rates pool. As part of these changes, it was assumed that 2% of business rate income related to the funding for Fire Authorities across England. Therefore, as Local Districts can keep 50% of the income, Barnsley, Doncaster, Rotherham and Sheffield pay 1% of their locally collected NNDR income directly across to the South Yorkshire Fire Authority. Whilst the current assumptions by the district councils show some growth, this is subject to considerable change and uncertainty as a result of the current economic crisis facing businesses. In addition the Valuations Office have undertaken a national re-valuation of all businesses rateable values which went live in 2023/24.

13. In addition, because the South Yorkshire area has higher spending needs than it collects in business rates, the South Yorkshire Fire Authority receives an additional Top-Up Grant. This grant has been inflated by 5%, 2% and 2% over the 3 years. However public spending and our funding is subject to change and could be less than our forecast.

Section 31 Grant

14. Section 31 income is paid by DLUHC to compensate fire and local authorities for policy changes that may reduce the level of business rate collection and top up grant. These particularly relate to rate reliefs for small businesses as well as Government decisions to ‘cap’ the level of inflation below the actual level. On the basis of this, it is estimated that Section 31 grant will reduce as reliefs are withdrawn and then increase with inflation over the 2024-27 period.

Pension Grant

15. As mentioned previously, the Home Office also fund the additional superannuation costs of Firefighters through direct grant at approximately 90% of the additional liability. The Home Office also indicated its preference to ‘roll up’ the future pension grants into overall funding when the local government finance reforms are eventually implemented. It has been assumed that SYFR will receive the same amount in 2024/25 (and future years’) as 2023/24.

16. There is a further assumption that the GAD valuation will increase the employers’ contributions by 12% to 40%. This is estimated to cost £3.5m in 2024/25, however we assume that the government will fund this increase 100% in 2024/25. For the remaining MTFP we have assumed 80% funding (see Annex A).

One-Off Services Grant

17. As part of the 2022/23 finance settlement the authority received a “services grant” of £1.1m, however this was reduced in 2023/24. It is assumed that this grant will continue at the same reduced level for the period of the MTFP

Council Tax Funding

18. As with Business Rates, the current economic issues and in particular the cost-of-living crisis is expected to have an impact on Council Tax collection. This has been reflected in the estimates provided by South Yorkshire districts, with income growth year on year being less than in previous years. This is more pertinent for SYFRA as Council Tax makes up a much bigger proportion of its overall funding levels than business rates. The change in income levels is reflected in the position outlined below.

19. In 2023/24, SYFRA set a Band D Council Tax of £82.58 which was a £5 increase per Band D household. This represented a 6% increase from the previous year which when multiplied by the council tax base of 365,953 Band D equivalent properties, resulting in Precept income of £30.6m being raised to fund services.

20. Going forward SYFR will be increasingly dependent on the income it can raise locally including council tax and this will be determined by the following factors:

21. **Annual increase in Council Tax** – for a number of years, the Government's policy has been to prescribe a percentage council tax increase that would trigger a local referendum. When the 2023/24 precept was set, it was also announced that the precept level for 2024/25 would be 3%. However, this is subject to review and changes so for planning purposes, precept flexibility of a £5 increase, on Band D properties has been forecast for 2024/25, reducing to 2% for 2025/26 and 2026/27.

22. **South Yorkshire's Tax Base –** the Tax Base is the overall number of properties that each of the four local councils can collect council tax from, a change in the base is usually the result of:

- The building and completion of new housing properties;
- Changes in council tax banding as a result of adjustment and appeals;
- Discounts, exemptions and reliefs granted, for example changes in the council tax support scheme; and
- Ending of the discount period on empty properties or their reoccupation.

23. For 2024/25, it is projected that the Tax Base for South Yorkshire will be 373,974 Band D equivalent properties, which is based on the latest information received from the South Yorkshire Districts. Whilst all South Yorkshire districts are expecting some growth in the position in future years this is less than previous growth assumptions due to the house building market slowing and the rising cost of mortgages (as a result of rising interest rates). Therefore, a tax base of 377,882 and 381,799 has been assumed for 2025/26 and 2026/27 respectively based on estimates provided by the district councils. It should also be noted that the projections are at a point in time and subject to change when the position is updated at budget setting time.

24. **Collection Fund Surplus (CF)** – In previous years South Yorkshire Councils have had a reasonably good track record in collecting council tax which has resulted in an annual Collection Fund Surplus that has been distributed to precepting authorities to support the revenue budget.

25. A Collection Fund surplus is generated when Council Tax collection is higher than expected by the districts. Again, South Yorkshire districts have been contacted to determine their CF surpluses. It is estimated that this will vary over the planning period. Again, this data is collected at a point in time and subject to change.

26. For the period 2024-27 the total estimated income expected is summarised in the table below.

Table 2 - Council Tax Income for the MTFP period compared to 2023/24.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Inc. from 23/24 £m
Council Tax Income	30.560	*32.754	*33.755	*34.783	
Collection Fund Surplus	0.370	0.592	0.530	0.530	
COUNCIL TAX INCOME	**30.330**	**33.346**	**34.285**	**35.313**	**+4.983**

NB: * Assumes a 2% increase in Council Tax per annum with the exception of 2024/25 which includes a forecasted precept flexibility of a £5.00 increase.

27. The above 'most likely' scenario includes the assumption of a precept flexibility awarded to increase the Band D property - £82.58 by £5.00 to £87.58 per annum (6.05%) If, this flexibility was allowed also in 2024/25 an additional £1.583m would be generated compared to a standard 2% uplift.

Funding Scenarios

28. As above, there is uncertainty over Fire Authority funding. So a number of funding scenarios have been developed for consideration:

- **Scenario 1 'Worst Case'** – this scenario assumes RSG, Top-up Grant, Retained Business Rates, S31 grants and the pension grants increase by a 2% uplift on 2023/24 and that one-off Service grant from 2022/23 is fully removed. Council tax increases are assumed at 3% with Council Tax Base, Business Rates and Collection Fund surplus adjusted to South Yorkshire Council projections.

- **Scenario 2 'Most Likely Case'** – this scenario assumes RSG, Top-up grant and S31 grants increase by 5%, then 2% and 2% over the planning period. Retained Business Rates and the NNDR collection fund are forecast in line with Council projections, and the one-off Service grant and pension grant grants remain at the same cash value as in 2023/24. Council tax increase for 2023/24 of a precept flexibility of an additional £5.00 (6.05%), reducing to 2% for following years and with Council Tax Base and Collection Fund surplus adjusted to Council projections.

- **Scenario 3 'Reasonable Best Case'** – this scenario assumes the RSG, Top up, Section 31 and Pension grants are all uplifted by 6.8% inflation in year 1 and then by 4% in the two subsequent years, the one-off Service grant from is assumed to continue but at 2023/24 values. Council tax increase for 2024/25 with the precept flexibility of £5.00 (6.05%), reducing to 4% for following years and with Council Tax Base, Business Rates and Collection Fund surplus adjusted to South Yorkshire Council projections.

29. Annex E shows the funding available to the Authority under each scenario. The table below summarises the total funding in the Most Likely Case and the variation under the other two scenarios.

Table 3 - showing the total funding under the most likely scenario and the variation under the other two scenarios.

	2024/25 £m	2025/26 £m	2026/27 £m	Total
Scenario 1 – Worst Case				
Funding reduction compared to Most Likely Scenario	**-3.097**	**-2.992**	**-3.086**	**-9.175**
Scenario 2 – Most Likely Case				
TOTAL FUNDING	**66.833**	**68.295**	**69.993**	
Scenario 3 – Reasonable Best Case				
Funding increase compared to Most Likely Scenario	**+0.439**	**+0.968**	**+1.470**	**+2.877**

30. For the MTFP the **'most likely'** funding scenario is used. The Government is expected to announce the 2024/25 funding allocation for each Fire Authority in December 2023. The Annual Budget and Council Tax Setting report for Member approval in February 2023 will be updated according to latest information and economic forecasts.

31. The potential impact of these scenarios on the Authority's General Reserves position is considered in Section J.

Income (see Annex A)

32. Income includes government grants and other contributions, rental income, seconded officer income, catering sales, apprentice levy, income from fees and charges and investment income arising from invested cash balances in line with the approved Investment Strategy.

33. A reduction in Government Grants is expected over the MTFP period as the Firelink Grant is phased out 20% per year (£0.044m). Customer and Client receipts and Interest receivable have been forecast to be consistent over the MTFP term.

SECTION C: PAY EXPENDITURE

34. Employee related costs are estimated to be £58.066m by 2026/27 accounting for 81% of the total expenditure. Key assumptions are shown in the table below.

Table 4 key assumptions for Pay Expenditure

MTFP Key Pay Assumptions	2023/24 Forecast	2024/25	2025/26	2026/27
Firefighter Pay Award	5%	5%	2%	2%
Corporate Staff Pay Award	5.72%	5%	2%	2%
Establishment – whole time	608	608	608	608
Establishment – on call	151	151	151	151
Establishment - control	31	31	31	31

Establishment – corporate staff	282	282	282	282
Wholetime vacancy factor	4%	4%	-	-
Overtime £m	1.300	1.653	1.686	1,720
FF Pension contributions	28%	40%	40%	40%

35. Pay costs are forecast to increase by £5.515m (10.5%) from 2023/24 to 2026/27 before Fire Fighter Pension (GAD) estimates. Including the GAD estimate pension estimates they may increase by £9.239m (18%) from 2023/24 to 2026/27.

SECTION D: NON- PAY EXPENDITURE

36. The table below sets out the key assumptions included in the MTFP Non- Pay Expenditure

Table 5 - Key assumptions for Non-Pay Expenditure

MTFP Key Non- Pay Assumptions	2023/24 Actual	2024/25	2025/26	2026/27
Non-pay inflation except	**Up to 11.1%**	**6%**	**2%**	**2%**
Key contracts inflation/ assumption:				
Airwaves		**up £0.044m**		
Systel		**up £0.167m**		
Energy		**down £0.560m**		
Cleaning		**up £0.060m**		
Net cost saving on HQ rental to NHS £		**down £0.140m**		
Total efficiency savings	**TBC**	**16%**	**2%**	**2%**

37. Annex A shows the total Non-Pay spend rise to £13.581m in 2026/27 from £12.852m in 2023/24. A 5.7% or £0.729m rise due to investments and inflation exceeding efficiencies.

38. Note that the capital financing costs and MRP charges have not been updated to reflect the revised capital profile. It is expected the costs included will reduce slightly as a result of this re-profile at budget setting.

SECTION E: EFFICIENCY

39. A summary of efficiency savings included in the MTFP is shown in the table below. Annex C shows a breakdown of efficiencies planned by project. Individual saving

opportunities have been identified in 2024/25. In the subsequent 2 years a general efficiency of 2% has been planned but individual savings are yet to be identified. Any efficiencies which have service impact will be subject to Quality and Equality Impact assessments prior to being implemented.

Table 6 – summary of efficiency savings in the MTFP

Efficiencies	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Income	-	0.255	-	-
Pay *	0.140	0.963	-	-
Non-Pay	0.841	0.937	-0.202	-0.204
Total	**0.981**	**-2.155**	**-0.202**	**-0.204**
% of non-pay budget	8%	16%	2%	2%

* as per Annex C the pay efficiency as a proportion of pay budget is 1.7% vs a 9% non-pay budget saving.

40. The National Framework requires us to be as efficient as possible. A review of efficiency opportunities has been undertaken by the Executive Team and with input from middle managers. These opportunities need to be reviewed and assessed before they can be forecast. Our funders may insist on increased efficiency targets as a condition of future settlements. We will continue to explore all identified efficiency opportunities and plan to deliver them wherever safety and equality are not impacted.

SECTION F: REVENUE INVESTMENTS

41. The total investments (and pressures) are broken down into material components at Annex B which also shows any approval obtained. All have been built into the MTFP. Any non-contractual increases will be subject to appropriate approval prior to proceeding.

SECTION G: OVERALL REVENUE POSITION

42. Based on the Most Likely Funding Scenario and including an estimated 12% increase in Fire Fighter Pension Contributions the MTFP cumulative deficit is £3.719m. See the table below and Annex A.

Table 7: showing the planned deficit by year and in total.

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
PLANNED SURPLUS (-) / DEFICIT (+)	**0.497**	**1.812**	**1.410**	**3.719**

43. Under the worst case funding scenario this cumulative deficit could increase by £9.177m or under the best it could reduce by £2.877m. In the worst case scenario the Service would need to expedite efficiency savings to avoid reserves being depleted.

44. In the previously approved MTFP 2023-26 the 2024/25 had a forecast deficit of £4.266m (compared to £0.497m above), with most likely funding £61.625m (£66.833m above) and net expenditure of £65.891m (£67.330m Annex A). The funding increase is driven by £5 precept increase and higher inflation increases on grants. The net expenditure increase is driven by higher inflation and investments offset in part by more efficiencies.

SECTION H: CAPITAL PLAN

45. The capital programme has been refreshed as part of the MTFP process. These plans take into account the equipment, ICT and fleet investment plans, the property condition survey, forward estate planning and the green plan. No additional inflation has been built into estimates. The detailed plans are at Annex D. A summary is in the table below.

46. Note the forecast budgets for 2024/25 and 2025/26 includes £2.533m and £1.400m respectively, of approved programmes that have been re-profiled. A summary of the capital plan by spend category is in the table below. A detailed breakdown is at Annex D.

Table 8 – Summary of the Forecast Capital Programme 2023-2027

	LATEST CAPITAL PROJECTION 2023/24 £m	FORECAST CAPITAL PROJECTION 2024/25 £m	FORECAST CAPITAL PROJECTION 2025/26 £m	FORECAST CAPITAL PROJECTION 2026/27 £m
Premises	3.035	5.500	5.300	6.000
Transport	3.940	1.530	3.322	1.910
ICT and Comms	1.000	1.715	0.200	0.200
Operational Equipment	0.956	0.217	0.117	0.400
TOTAL	**8.931**	**8.962**	**8.939**	**8.510**

47. The majority of the capital investment will be financed through new borrowing. The impacts of the re-profiled borrowing has not yet been factored in to treasury management and capital financing forecasts. Where possible minor elements of spend will be financed through capital receipts, capital grants, specific reserves or planned direct revenue financing.

48. The capital plan has been developed to reflect the CRMP, the Annual Service Plan, an Estate Condition Survey, the sustainability property plan, the fleet replacement plan, the ICT digital transformation plan and the equipment replacement plan. Further work is needed on utilisation of assets in the coming year.

SECTION I: CAPITAL FUNDING STRATEGY

49. The capital plan will mainly be funded through loans (see Annex F). A potential capital grant of £5m has been applied to for green funding as part of the Sustainability Plan. The capital programme will be updated if this is successful.

SECTION J: RESERVES STRATEGY

50. The Authority holds both earmarked and general reserves:

- Earmarked reserves are set aside for a specific purpose and can only be used for that purpose once set aside, although this can be reviewed at any time by the Fire Authority; and

- General reserves are required to cover known financial risks and unforeseen costs and must not fall below a minimum recommended level (referred to as the

Minimum Working Balance) except under exceptional circumstances. If this occurs, a plan should be put in place to bring that back up to minimum levels as soon as possible.

51. Annex F shows the forecast reserves balances over the MTFP period compared to the anticipated balance at March 2024. Reserves are expected to decrease by £3.364m over the MTFP period with the main driver being the cumulative deficits over the period and an assumption that the carry forward reserves will be used up.

Future Reserves Strategy – 'Reaffirming' the Commitment

52. In 'reaffirming' its planned approach to managing reserves, it is both sensible and prudent for the Section 151 Officer in formulating the updated MTFP to consider and reaffirm the level and adequacy of reserves after taking into account a number of considerations as outlined below:

- Excessive balances can be an opportunity cost to the tax payer leading to additional spending on services not taking place or Council Tax precept increases being higher than they would otherwise be;
- Retained balances earn income and can provide internal funding e.g. for capital spend rather than borrowing; and
- Too low a level of reserves may put the Authority at risk if unexpected demands and risks/events occur at relatively short notice (as witnessed through the Covid-19 pandemic) and would likely lead to an adverse audit opinion.

53. Having assessed the potential financial risks the Section 151 Officer proposes the following approach to managing reserves, during the period 2024-2027. This aligns to the current reserves strategy:

Proposed Approach –

Step 1 Review the purpose and classification of each reserve held at 31 March 2023 to determine whether it still needs to be held or can be reduced/closed;

Step 2 Any available reserves that are identified from the review (or additional balances generated in the interim) be 'ring-fenced' in General Reserves/Emerging Risk Reserve until greater certainty is derived on the funding position – this is unlikely to be realised until the Government produces its longer term plans*;* and

Step 3 The Section 151 officer to review the level of minimum General Reserves required when greater certainty is acquired on the funding position for SYFRA.

54. Over the period of this new MTFP 2024-2027, the Reserves profile is expected to reduce in line with commitments made and the uncertainty relating to future funding and significant increases in unavoidable cost pressures. This report has considered a number of funding scenarios and the potential impacts on reserve levels.

55. The impact on useable reserves of the 'most likely' scenario, over the MTFP period is set out in the attached Annex F. This shows that the level of General Reserves is likely to decrease from 7.8% to around c7% of the Net Revenue Expenditure at the end of March 2027.

56. As above, under the different funding scenarios the cumulative deficit (which would need to be funded from reserves) could increase by £9.177m or reduce by £2.877m. In the 'worst case' scenario, the minimum working balance would reduce to an unacceptable level for the Section 151 Officer and efficiencies would be essential to ensure the minimum working balance is at least £3m by the end of the MTFP period.

57. The Section 151 Officer recommends that the balances set out in Annex F are retained to mitigate the risks to funding, the potential pension increase and all other risks detailed in section K.

SECTION K: FINANCIAL RISKS

58. The main financial risks to the MTFP forecasts are set out in the Table 9 below. There may be further risks which emerge through the planning period.

Table 9- Long Term risks to MTFP and sustainability

Risks	**Potential Financial impact**
Industrial Action/ Pay disputes/ pay negotiations	Could lead to additional contracted resource being required (Non-Pay) and Pay costs could increase.
Pension contributions	Employer's contributions for the Firefighters pension are expected to increase significantly from April 2024 following a GAD valuation. LGPS contributions are known.
Non- Pay Inflation	Non pay may continue to increase or be volatile
Interest Rates	Funding the capital programme through loans may cost more and returns on investments may improve.
Funding	One-year funding settlement and future settlements not expected to cover all costs. Business rates local retention rates and the funding formulas may also be reviewed in the medium term. Council tax and Business Rates bases of collection rates could differ.
Economic and Political uncertainty	Current climate could potentially affect the level of funding from both government and local authorities. The pending general election could impact on funding settlements and precept levels.
Employment Law – pay and pensions	McCloud and Matthews pension case remedy is now being processed – costs are expected to be funded. Immediate Detriment paid to date have cost less than anticipated but it is unclear if cost can be recouped.
Capital Investment requirements	Investment is required to ensure the service has the assets it needs and to meet net zero requirements. Opportunities for funding are being explored but much of this may need to be financed from reserves or loans. Costs of the capital investment may increase from forecasts.
Responding to HMICFRS, Inquiries and other national changes	May increase the costs of operation in need to comply but national targets to increase productivity may reduce some budgets.

CRMP/ Service improvement and the Annual Service Plans	Changes in the operational risk profile or how SYFRS manage that risk has been reflected to the extent we can anticipate the CRMP 2024 update to include. The full CRMP refresh planned for 2025 to 2028 CRMP may significantly change the last 2 years of this MTFP as it is concluded and a zero based budgeting exercise is undertaken. Other plans may require investment but should lead to medium term cost reductions.
Changes to workforce and pay assumptions	Assumptions on workforce planning profiles for wholetime firefighter retirements, sickness and other absences / modified duties and unplanned leavers may be wrong and create financial variances and pressures

SECTION L: FUTURE STRATEGY/ NEXT STEPS

59. This MTFP is based on assumptions made and risks understood at the point of preparation. Given the level of uncertainty a level of prudence is recommended in the reserves position. The financial position will be kept under review and assumptions will be updated for the 2024/25 budget and council tax setting proposals in February 2024. The FRA will be updated on any significant changes.

CONTRIBUTION TO OUR ASPIRATIONS (tick all that apply)

☒ **Be a great place to work-** we will create the right culture, values and behaviours to make this a brilliant place to work that is inclusive for all

☒ **Put people first-** we will spend money carefully, use our resources wisely and collaborate with others to provide the best deal to the communities we serve

☒ **Strive to be the best in everything we do-** we will work with others, make the most of technology and develop leaders to become the very best at what we can be

CONTRIBUTION TO SERVICE IMPROVEMENT
(tick all that apply to your report and add supporting information for each in the box below)

☒ HMICFRS Inspection Framework e.g. Diagnostic area and/ or diagnostic questions

☒ SYFR Inspection report Areas for Improvement (AFIs)

☒ Fit for the Future Improvement Objectives

☒ Professional Standards for Fire & Rescue Services in England

☒ SYFR Service Plan 2023-24 Priorities

☒ SYFR Community Risk Management Plan 2021-24

Contribution to managing resources effectively and efficiently.

OPPORTUNITIES FOR COLLABORATION (tick relevant box)

☐ Yes

☒ No

If you have ticked 'Yes' please provide brief details in the box below and include the third party/parties it would involve:

CORPORATE RISK ASSESSMENT AND BUSINESS CONTINUITY IMPLICATIONS
Delivering the MFTP and annual budget is a strategic risk that is proactively managed by the Executive and the Authority as is the delivery of the capital programme.

EQUALITY ANALYSIS COMPLETED (tick relevant box)

☐ Yes

If you have ticked 'Yes' please complete the below comment boxes providing details as follows:

Summary of any Adverse Impacts Identified:	Key Mitigating Actions Proposed and Agreed:

☐ No
☒ N/A

If you have ticked 'No' or 'N/A' please complete the comments box below providing details of why an EA is not required/is outstanding:

There are no Equality issues arising from this report

HEALTH AND SAFETY RISK ASSESSMENT COMPLETED (tick relevant box)

☐ Yes
☐ No
☒ N/A

If you have ticked 'No' or 'N/A' please complete the comments box below providing details of why a Health and Safety Risk Assessment is not required/is outstanding:

There are no risks in relation to Health and Safety

SCHEME OF DELEGATION

1. Under the South Yorkshire Fire and Rescue Authority Scheme of Delegation a decision *is required / *has been approved at Service level.

   Delegated Power ☒ Yes
   ☐ No

If yes, please complete the comments box indicating under which delegated power.

Financial regulations: The provision of budgets and funding and reserves management.

IMPLICATIONS

2. Consider whether this report has any of the following implications and if so, address them below:, Diversity, Financial, Asset Management, Environmental and Sustainability, Fleet, Communications, ICT, Health and Safety, Data Protection, Collaboration, Legal and Industrial Relations implications have been considered in compiling this report.

List of background documents		
Medium Term Financial Plan – 2023-2026 – November 2022 2022/23 Outturn Financial Performance report – July 2023 2023/24 Annual Revenue Budget and Council Tax Setting report – February 2023 Efficiency and Productivity Pan – March 2023 2023/24 Financial Performance Report Quarter 1 and Quarter 2		
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