

RESERVES STRATEGY 2022 TO 2027

Background

1. The requirement for a local authority to maintain financial reserves is acknowledged in legislation: the Local Government Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. In addition to holding financial reserves, there are a number of safeguards in place that mitigate against the risk of local authorities over committing themselves financially:
 - There is a legal requirement to set a balanced budget;
 - In accordance with the 1988 Local Government Finance Act, the Chief Finance Officer (Section 151 Officer) must report if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that expenditure will exceed resources;
 - The external auditor's responsibility to review and report on financial standing.
3. While it is primarily the responsibility of Members and the Section 151 Officer to maintain a sound financial position, external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. The work undertaken by external auditors will include a review of the level of reserves and the advice given to Members by the Chief Finance Officer.
4. The Fire and Rescue National Framework (May 2018) includes the requirement that fire authorities "should establish a policy on reserves and provisions in consultation with their Chief Finance Officer". It also requires that "fire authorities should publish their Reserves Strategy, including details of the current and future planned levels, the purpose for which each reserve is held and how each reserve supports the Medium Term Financial Plan".

Determining the level of reserves

5. In accordance with Financial Regulations, the Authority holds reserves which fall into two distinct categories:
 - General Reserves: these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies, and
 - Earmarked Reserves: these are created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. Such reserves are intended to smooth the expenditure profile and avoid liabilities being met from Council Tax or the need to make offsetting savings in the year that the expenditure is incurred

6. There is no statutory guidance on the “right” level of reserves. Guidance from The Chartered Institute of Public Finance and Accountancy (CIPFA) confirms that each authority should make, on the advice of the S151 Officer, their own judgement based on relevant local circumstances and the potential issues/risks that may occur across the medium term.
7. In determining an appropriate level of reserves for the Authority the range of risks and issues that should be taken into account will include the following:
 - The possibility of additional savings being required in the future and the potential difficulty in delivering such savings. Future funding levels are unclear with only the 2022/23 funding known with any degree of certainty. If increased demands or commitments outstrip funding, savings will be required;
 - The provision of cover for extraordinary or unforeseen events occurring: given that 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 level of self-insurance that is carried to minimise insurance premiums: potential insurance liabilities can vary significantly across financial years. The levels of liabilities are difficult to forecast accurately and it would not be appropriate to budget for peak levels of expenditure.
 - The commitments falling on future years because of capital plans and proposals to improve/develop the assets held by the Authority. Having reserves would mitigate the impact on the revenue budget of borrowing and/or the need to make further revenue contributions to capital and would support projects/programmes that will improve the assets held by the Authority.
 - Following the McCloud pension case, there is the potential for significant additional costs in the future. The actual funding of the remedy and compensation remains unknown but it could have a significant impact on the Authority.

General Reserve

8. In recent years, there has been considerable debate about the level of general reserves held by local authorities. There is not a statutory figure that defines the minimum general reserve level.
9. In practice, it has become an accepted principal that an appropriate and prudent level of general reserve is one that is equivalent to 5% of the net revenue budget. This aligns to recommendations from past Audit reports and comments by Government Ministers as being an accepted “reasonable level” of general reserve.
10. The Fire and Rescue National Framework requires that a Reserves Strategy should explain how the “level of general reserve has been set” and should include “justification for holding a general reserve larger than 5% of budget”. This therefore adds weight to the adoption of 5% of budget as an appropriate calculation of the required level of general reserve.

11. For the Authority, the level of General Reserve at 31 March 2021 stood at £2.2m, which is approximately 5% of the budget. The strategy adopted by the Authority has been to maintain the General Reserve at this level. As part of this strategy, unless there is a forecast for the General Reserve to fall significantly or permanently below the 5% level, any surplus funds should be directed to the capital reserve to minimise borrowing and its impact on the revenue budget.
12. The table set out in Annex A summarises the General Reserves position to 2027. This Strategy will be kept under review as capital spending is incurred and the level of reserves is adjusted to reflect the actual position at the end of each financial year.

Earmarked Reserves

13. The Authority has a number of earmarked reserves. These have been set aside to support capital and revenue expenditure in future years. An annual review led by the Chief Fire Officer and Chief Executive and Service Management Team is undertaken to ensure all earmarked reserves carried forward into the following financial year are still justified with clear plans for their usage. Details of the forecast levels of earmarked reserves are set out in Annex A. The forecast levels reflect the planned usage of reserves to meet anticipated expenditure. The main earmarked reserves are explained below.

Integrated Risk Management Plan (IRMP) Reserve

The purpose of this reserve is to meet the needs placed upon the Authority in meeting delivery programmes arising from each IRMP. As the majority of the programmes involve capital expenditure, the balance of this reserve has been transferred to the Capital Reserve to reduce the level of borrowing required.

Capital Reserve

The Government stopped providing capital grants to local authorities in 2014, although occasionally, there are national initiatives announced that involve authorities bidding for grants in support of specific projects. The capital programme, including new fire stations and the refurbishment of existing premises, is sizeable.

To keep borrowing to a minimum and avoid incurring the associated revenue expenditure, the strategy is to use contributions from reserves to fund the capital programme where possible.

Resource Centre Reserve

This represents an earmarked reserve that has funds set aside to meet future identified commitments and potential liabilities within the respective Resource Managers' areas. Holding resources in a reserve avoids one off increases in budgets that may otherwise be required. The amounts are attributable to the following issues/risks:

Employee related: there are a number of staff related issues that could result in additional costs. A significant cost is likely to arise as a result of the triennial review of the local government pension scheme: a sum has been set aside to meet potential costs of £0.3m in 2023/24. There are also funds to meet potential future costs associated with recruitment and medical appeals. The balance on this element of the reserve is expected to be around £0.69m by 2027;

Legal and insurance: a balance of around £0.5m is being maintained to meet any future prosecution and enforcement costs associated with the work of the Protection team and to meet the cost of any successful claims against the Authority which are self-insured;

ICT and systems development: approximately £0.27m is set aside to support ICT development work including any major system upgrades/replacements that may be required;

Training: approximately £0.2m is earmarked for talent management and corporate training expenditure;

Equipment and uniforms: the balance on this reserve is reducing each year as it is used to meet the costs of new uniforms and new equipment, particularly protective equipment. By 2027 the balance on this element of the reserve is forecast to be £0.7m;

Collaborations and partnerships: this reserve was created to support collaborations and partnerships implementation etc. As the collaborations and partnerships contemplated when this reserve was established are now in a steady state, this reserve has been closed and the balance transferred to capital to help limit the need to borrow;

Property related: a balance of £0.44m is being maintained to support property maintenance expenditure and to meet the costs of property related projects including environmental projects;

Prevention: there is a balance of £0.2m to support any future safety central marketing costs and a further £0.3m to incentivise the installation of sprinklers by social landlords.

Funding Support – Covid

This reserve holds funds received from the Government towards losses to council tax and local business rates funding due to Covid. It will be used to help mitigate any deficits declared by the local authorities in relation to the relevant collection funds.

Community Risk Reduction

Amounts have been set aside to support the cost of the Authority's Safe and Well Programme and other community safety activities. There is approximately £0.3m in this reserve and until further commitments are identified, this will be the balance to March 2027.

Unitary Performance Group (UPG)

Amounts have been set aside for facilitating partner engagement in community safety activities, including funding for the sprinkler campaign. It is forecast that by the end of 2022-23 there will be approximately £0.14m in this reserve and, until further commitments are identified, this will be the balance to March 2027.

Overall Position

14. One of the key elements of the Reserves Strategy will be to use the earmarked Capital and IRMP Reserves to support capital expenditure. The 2022-2027 Capital Strategy indicates that expenditure of over £30.4m is planned to take place between 2022 and 2027 with approximately £17.5m of this being financed from reserves. The resulting balances on reserves are set out in Annex A below.

FORECAST LEVEL OF RESERVES TO MARCH 2027

	Actual 31 March 21 £'000	Forecast 31 March 22 £'000	Forecast 31 March 23 £'000	Forecast 31 March 24 £'000	Forecast 31 March 25 £'000	Forecast 31 March 26 £'000	Forecast 31 March 27 £'000
General Reserve	2,210	2,210	2,210	2,210	2,210	2,210	2,210
Earmarked Reserves							
IRMP	8,276	0	0	0	0	0	0
Capital	1,584	11,786	7,934	5,473	2,752	2,671	2,606
Resource Centre	7,859	4,857	4,975	4,318	3,974	3,720	3,720
Funding Support - Covid	2,255	2,255	2,238	1,488	988	988	988
Community Risk	333	328	328	328	328	328	328
UPG	162	162	146	146	146	146	146
Total Reserves	22,679	21,598	17,831	13,963	10,398	10,063	9,998