

**RESERVES STRATEGY 2023 TO 2028****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 the above requirement, Section 25 of the Local Government Act 2003 also requires the Treasurer to present a report assessing the adequacy of the unallocated reserves in the context of threats and demands together with corporate and financial risks facing the organisation. The Authority needs to balance the necessity for reserves against the cost to council taxpayers and arrive at a level that is both prudent and adequate for the current climate, but not excessive.
3. The Reserves Strategy sets out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level. Reserves are held for three main purposes:
  - To cover unforeseen risks and expenditure that may be incurred outside of planned budgets – known as a general reserve
  - To set-aside funds for specific purposes, known or predicted pressures, or future liabilities – known as earmarked reserves
  - To hold capital receipts from sale of assets, the use of which is restricted under legislation to the purchase of new assets, or the repayment of debt.
4. 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/Treasurer) 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.
5. While it is primarily the responsibility of Members and the Treasurer to maintain a sound financial position, the 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 Treasurer.

6. 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

7. 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 Treasurer, their own judgement based on relevant local circumstances and the potential issues/risks that may occur across the medium term.
8. 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 2023-24 funding known. 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 on self-insured liabilities.
  - 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 and 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.

#### PURPOSE OF EACH RESERVE

9. General Reserve
  - 9.1. It is 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.

- 9.2. 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”. As such, this adds weight to the adoption of 5% of budget as an appropriate level of General Reserve.
- 9.3. For the Authority, the level of General Reserve on 31 March 2022, 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.
- 9.4. The table set out in Annex A summarises the overall reserves position to 2028. 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.

## 10. Earmarked Reserves

10.1. 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 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.

### 10.2. **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 modernisation of existing premises, is sizeable. To keep borrowing to a minimum and only be used where possible on longer term assets, and avoid incurring the associated revenue expenditure, the strategy is to use contributions from reserves to fund the capital programme. It is also the intention to support this reserve each year with a contribution from the revenue budget to help mitigate the loss of capital grant.

### 10.3. **Resource Centre Reserve**

This encompasses earmarked reserves with funds set aside to meet future identified commitments and potential liabilities within the respective resource centres. These include:

- Staff Related – a collection of individual reserves covering pension costs, apprentice programme; Performance and Planning Team together with a small reserve for Democratic Services.
- Legal & Insurance – two reserves set aside to support the Fire Safety Order prosecutions alongside self-insurance funding.
- ICT and Systems – all ICT systems and equipment require development, up-grading and replacement and reserves are held to facilitate this work.

- Training – there are two reserves linked to training, covering Talent Management and general training development
- Equipment & Uniform – the timing of any purchase of both equipment and uniform can be sporadic dependent on need. As such reserves are held to smooth out the costs and provide funding, when necessary, without the need to impact the revenue budget in any one year with a high one-off cost
- Collaborations and Partnerships - a relatively small reserve is held to support and develop links with partners.
- Property Related – as with equipment and uniform, the timing of spend on property can be irregular and therefore, reserves are maintained to allow funding to be available as and when the need arises
- Specific Projects – projects covered include the upskilling of resources to provide resilience and a small reserve in relation to the Choir.
- Prevention – there are a number of reserves held under the Prevention heading including Protection Grants provided for specific purposes; Sprinklers to support the installation of sprinklers in social housing etc.; and Safety Central’s maintenance funds for refreshing its installations. Alongside these are a small number of reserves supporting the young people of Cheshire through the Prince’s Trust, Cadets and TYST. Finally, there is funding in support of Community Fire Protection and Road Safety.

#### 10.4. **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.

#### 10.5. **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.

#### 10.6. **Unitary Performance Group (UPG)**

Amounts have been set aside for facilitating partner engagement in community safety activities.

### USE OF RESERVES

11. Each of the reserves has a set manager who is responsible for that reserve. Movement to and from reserves is in the first instance is approved by the Authority as part of the annual budget.
12. Reporting of the level of reserves and forecast outturn will be provided as part of the quarterly budget updates submitted to Performance and Overview Committee.

## OVERALL POSITION

13. The forecast balances on reserves is set out in Annex A, below. One of the key elements of the Reserves Strategy will be to use the earmarked Capital Reserves to support the Capital Strategy. The 2023-2028 Capital Strategy indicates that expenditure of £25m is planned to take place between 2023 and 2028 with approximately £20m of this being financed from reserves.

## FORECAST LEVEL OF RESERVES TO MARCH 2028

	Actual 31 Mar 22 £000	Forecast 31 Mar 23 £000	Forecast 31 Mar 24 £000	Forecast 31 Mar 25 £000	Forecast 31 Mar 26 £000	Forecast 31 Mar 27 £000	Forecast 31 Mar 28 £000
General Reserve	2,210	2,210	2,210	2,210	2,210	2,210	2,210
<b>Earmarked Reserves</b>							
Capital receipts	0	0	0	0	0	0	0
Capital Reserves	12,649	12,863	10,392	6,624	3,049	2,944	2,839
<u>Resource Centre Managers:</u>							
- Staff related	1,137	1,458	854	597	597	597	597
- Legal and insurance costs	593	593	593	593	593	593	593
- ICT and systems development	371	403	403	403	403	403	403
- Training	261	261	261	261	261	261	261
- Equipment & Uniform	1,954	1,891	1,791	831	831	831	831
- Collaborations and Partnership	74	15	15	15	15	15	15
- Property related	595	586	586	586	586	586	586
- Specific projects	221	176	176	176	176	176	176
- Prevention	1,001	1,001	891	891	891	891	891
Funding Support - Covid	2,269	1,252	1,252	1,252	1,252	1,252	1,252
Community Risk Reduction	371	371	371	371	371	371	371
UPG	226	210	210	210	210	210	210
<b>Total Reserves</b>	<b>23,932</b>	<b>23,290</b>	<b>20,005</b>	<b>15,020</b>	<b>11,445</b>	<b>11,340</b>	<b>11,235</b>