

RESERVES STRATEGY 2024 TO 2029

BACKGROUND

1. 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, Section 25 of the Local Government Act 2003 requires the Treasurer to present a report assessing the adequacy of the unallocated reserves in the context of the 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, but not excessive.
3. The Reserves Strategy describes the reserves held, their intended usage and the strategy for ensuring that they 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 the 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 2024-25 funding reasonably certain. 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 mitigates the impact on the revenue budget of borrowing and/or the need to make further revenue contributions to capital and supports projects and programmes that will improve the assets held by the Authority.
 - The impact of the McCloud and Matthews pension cases means there is the potential for significant additional costs in the future. Whilst it appears likely that the funding of the remedy and compensation will fall to government, uncertainties remain which could have a significant impact on the Authority. In addition, there are uncertainties about the funding of employer contribution increases in future years.

PURPOSE OF EACH RESERVE

9. **General Reserve**
 - 9.1. It is an accepted principle that an appropriate and prudent level of General Reserve is one that does not exceed 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”.
- 9.3. For the Authority, the level of General Reserve on 31 March 2023, stood at £1.9m which is approximately 3.7% of the net revenue budget. The level of the general reserve has fallen slightly from 2023-24 as a result of the growth in the revenue budget and the use of the general reserve to cover the deficit on the revenue budget in 2022/23 (£282k). However, some of the strategic risks which the Authority faces and which are described above are in part mitigated by earmarked reserves, particularly those in relation to pensions and funding. It is therefore considered that the level of general reserves is prudent and reasonable. The position will continue to be closely monitored during 2024-25.
- 9.4. The table set out in Annex A summarises the overall anticipated reserves position to 2029. This Strategy will be kept under review as spending which affects the level of reserves is incurred.

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 Table 1. The forecast levels reflect the planned usage of reserves to meet anticipated expenditure. The main earmarked reserves are explained below.

10.2. Capital Receipts

As mentioned above, receipts from the sale of assets may generally only be used to fund capital expenditure or repay debt. As part of the CRMP, assets will be freed and will then be sold to help fund the future capital programme. Estimates included in Table 1 for Capital Receipts are at this stage indicative.

10.3. 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 draft capital programme, including new fire stations and the modernisation of existing premises, is significant. To minimise borrowing and the associated revenue expenditure, the capital funding strategy is to use contributions from reserves to help fund the capital programme wherever possible. A contribution from the revenue budget is made each year to replenish the reserve.

Other revenue reserves

The remaining earmarked reserves are set aside to meet future identified commitments and potential liabilities. These include:

- Staff related – reserves to support pension costs, apprentice programme, and recruitment costs.
- Legal & insurance – reserves to support the Fire Safety Order prosecutions and potential insurance liabilities.
- ICT and systems – reserves to support the development, up-grading and replacement of ICT equipment and software.
- Training – a reserve to support future training needs.
- Equipment & uniform – reserves to avoid impacting the revenue budget in any one year with a high one-off equipment cost
- Collaborations and partnerships - a reserve held to support the cost of collaborative arrangements.
- Property related – reserves to avoid impacting the revenue budget in any one year with a high one-off property maintenance cost
- Operational Policy and Assurance – reserves mainly to support the costs of the Training Centre and fleet costs.
- Prevention – reserves to support the installation of sprinklers in social housing, supporting Prince's Trust, Cadets, Community Fire Protection and Road Safety and refreshing Safety Central
- Protection – grant received but not yet spent to support enhanced Protection activity
- Funding – a reserve to offset the potential impact of local authority deficits and other funding shortfalls
- UPG – a reserve to facilitate partner engagement in community safety activities.
- Specific projects – reserves for use on the completion of small projects

USE OF RESERVES

11. Each of the reserves is managed by an identified officer. Movement to and from reserves is in the first instance 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 are set out in Table 1, below. One of the key elements of the Reserves Strategy will be to use the earmarked Capital Reserves to support the Capital Strategy. The 2024-2029 Capital Strategy indicates that expenditure of £30m is planned between 2023 and 2028 with approximately £18m of this being financed from reserves.

TABLE 1

FORECAST LEVEL OF RESERVES TO MARCH 2029

	Actual 31 March 23 £000	Forecast 31 March 24 £000	Forecast 31 March 25 £000	Forecast 31 March 26 £000	Forecast 31 March 27 £000	Forecast 31 March 28 £000	Forecast 31 March 29 £000
General Reserve	1,928	1,928	1,928	1,928	1,928	1,928	1,928
Earmarked Reserves							
Capital receipts	0	0	0	3,000	1,500	0	0
Capital reserve	14,233	13,584	9,003	6,832	4,815	2,704	2,593
Staff related	1,309	581	486	391	391	391	391
Legal and insurance costs	517	479	379	379	379	379	379
ICT and systems development	433	461	495	495	495	495	495
Training	141	225	201	201	201	201	201
Equipment & uniform	1,724	1,668	1,587	662	662	662	662
Collaborations and partnerships	125	125	917	521	125	125	125
Property related	697	462	441	471	500	530	559
Operational Policy and Assurance - resilience	269	193	166	166	166	166	166
Prevention	1,077	699	650	650	650	650	650
Protection	299	340	249	0	0	0	0
Funding	1,488	1,488	1,454	1,454	1,454	1,454	1,454
UPG	286	318	318	318	318	318	318
Specific projects	64	0	0	0	0	0	0
Total Reserves	24,590	22,551	18,274	17,468	13,490	9,909	9,827

