

RESERVES STRATEGY 2021 TO 2026

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 have been 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 expenditure is incurred.
6. There is no statutory guidance on the “right” level of reserves. Guidance from CIPFA confirms that each authority should, on the advice of the S151 Officer, make their own judgement based on relevant local circumstances and the potential issues/risks that may occur across the medium term. In determining an appropriate level of reserves for Cheshire Fire 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 2021/22 funding known with any degree of certainty. If annual spending reductions were to continue or increase this may lead to the identification of savings proposals that may not prove to be deliverable;
 - To provide 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 we provide to minimise our insurance premiums: potential insurance liabilities can vary significantly across financial years. The levels of liabilities are difficult to accurately forecast and it would not be appropriate to budget for peak levels of expenditure.
 - The commitments falling on future years as a result 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 making further revenue contributions to capital and would support projects/programmes that will improve the capital stock of 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 result in a significant impact on the Authority.
 - The Coronavirus pandemic is likely to require further additional expenditure in 2021/22. Provision for additional expenditure has been included in the draft budget and should even greater expenditure be incurred, requests will be made to Government for Special Grant funding. Having reserves will help to cushion the impact on the revenue budget should additional Grant not be forthcoming.

General Reserve

7. In recent years there has been considerable debate about the level of general reserves that are being held by local authorities. There is not a statutory figure that defines the minimum general reserve level. Guidance from CIPFA suggests that this should be for each authority to decide, based on the advice of the S151 Officer, taking into account relevant local circumstances and an assessment of risk.
8. In practice it has become a broad rule of thumb that an appropriate and prudent level of general reserve is one that is equivalent to 5% of the net revenue budget. This has been recommended in the past in Audit reports and has been included in past comments by Government Ministers as being an accepted “reasonable level” of general reserve.
9. 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.
10. For Cheshire Fire Authority, the level of General Reserve at 31 March 2020 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, the approach has been that should further unutilised resources become available these be taken to Earmarked Capital Reserves to support the capital programme rather than be added to the General Reserve. This Strategy assumes a continuation of this approach.
11. The table set out in Annex A summarises the position to 2026. 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

12. The Fire 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.

IRMP Reserve

13. The purpose of this reserve is to meet the needs placed upon the Authority in meeting delivery programmes arising from each IRMP. The reserve is being used to support the capital programme and to supplement the Capital Reserve. The present Capital Strategy suggests that this reserve will be virtually exhausted by March 2024.

Capital Reserve

14. 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.
15. 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.
16. As part of this strategy other earmarked reserves have been reviewed and where appropriate, taken to the capital reserve to support capital expenditure and to ensure that the capital reserve is not depleted entirely. However, it is recognised that the capital programme will cost more than the current reserves and it has already been agreed that borrowing will be required. The Capital Reserve will be fully utilised by March 2022 and will be supplemented by the IRMP Reserve. In addition, the Medium Term Financial Plan includes an annual contribution to the Capital Reserve to maintain funding for the capital programme.

Resource Centre Reserve

17. 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 potential 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 £0.312m in 2023/24. There are also funds to meet potential future costs associated with recruitment and medical appeals. The balance on the reserve is expected to be around £0.3m by 2026;

Legal and insurance: a balance of £0.7m is being maintained to meet any future prosecution and enforcement costs associated with the work of the protection team and to fund any successful claims against the Authority which are self-insured;

ICT and systems development: approximately £0.5m is set aside to support ICT development work including any major system upgrades/replacements that may be required;

Training: approximately £0.3m 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 2026 the balance on this reserve is forecast to be £0.5m;

Collaborations and partnerships: approximately £0.13m has been set aside to support the statutory duty to collaborate. The Authority has a number of collaboration initiatives including the North West Fire Control and Blue Light Collaboration with Cheshire Police;

Property related: a balance of £0.7m 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 £0.4m to incentivise the installation of sprinklers by social landlords.

Community Risk Reduction

18. 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 2026.

Unitary Performance Group (UPG)

19. Amounts have been set aside for facilitating partner engagement in community safety activities. This includes funding for the sprinkler campaign. It is forecast that by the end of 2020/21 there will be approximately £0.1m in this reserve and, until further commitments are identified, this will be the balance to March 2026.

Business Rates

20. The business rate income and associated collection funds are calculated by the four local authorities' based on data to the end of December 2020 and as such, are estimates and subject to change. Due to the on-going impact of the pandemic and associated lockdowns, there is a high risk that the estimated amounts included in this budget will significantly change. To mitigate this risk, it is proposed to set aside funding in a reserve to be used as and when the position become clearer

Overall Position

21. One of the key elements of the Reserves Strategy will be to use the earmarked Capital and IRMP Reserves to support capital expenditure. The Capital Strategy for 2021 to 2026 indicates that expenditure of over £29m is planned to take place between 2021 and 2026 with approximately £14m of this being financed from reserves. The resulting balances on reserves are set out in Annex A below.

ANNEX A
FORECAST LEVEL OF RESERVES TO MARCH 2026

| | Actual 31 Mar 20 £000 | Forecast 31 Mar 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 |
|---------------------------|-----------------------------|-------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| General Reserve | 2,210 | 2,210 | 2,210 | 2,210 | 2,210 | 2,210 | 2,210 |
| Earmarked Reserves | | | | | | | |
| IRMP | 8,296 | 6,169 | 4,039 | 535 | 7 | 7 | 0 |
| Capital | 4,266 | 1,522 | 0 | 0 | 0 | 90 | 0 |
| Resource Centre | 6,227 | 4,761 | 5,035 | 4,971 | 4,314 | 4,120 | 3,926 |
| Community Risk | 344 | 344 | 344 | 344 | 344 | 344 | 344 |
| UPG | 120 | 120 | 120 | 120 | 120 | 120 | 120 |
| Business Rates | 1,151 | 228 | 0 | 0 | 0 | 0 | 0 |
| Total Reserves | 22,614 | 15,354 | 11,748 | 8,180 | 6,995 | 6,891 | 6,600 |