

## Appendix 5

### Reserves Strategy – Budget 2024/25 to 2027/28

#### 1 Introduction and Background

- 1.1 Reserves are an essential part of good financial management. They help the Authority to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Authority to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.
- 1.2 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The relevant paragraphs are detailed in Annex 1 attached.

- 1.3 In setting the budget, the Authority decides what it will spend and how much income it needs from limited fees/charges and the council tax to supplement government funding. The Authority may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.

Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.

- 1.4 Authorities are free to determine the reserves they hold. Members are responsible for ensuring that the Authority's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.

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1.5 Fire and Rescue Authorities face significant challenges. The reduction in government funding since 2010/11, rising costs and growing demand for many services are all testing the Authority's financial management and resilience. The recent inflationary pressures have considerably added to the pressures, including pay awards. The position is potentially to become tougher with again only a one-year settlement for 2024/25 with a new Comprehensive Spending Review due for the years commencing 2025/26, and potential Funding Formula and Business Rates Retention reviews to take place.

1.6 Current and future financial challenges pose significant, and increasing, risks for the Authority. The Authority may consider using reserves to balance competing pressures, for example:

- Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource – and/or invest in making changes that reduce the cost of providing services in the longer term.
- Increasing reserves to strengthen resilience against future, uncertain cost pressures. A feature of the previous budget strategy and MTFS, was that reserves were built up to be used to support the budget and fund investment in delivering savings through transformation and improving services. The Transformational Budget Reserve is now being utilised to offset the budget gap as strategically planned and importantly invest in service transformation and environmental initiatives.

## 2. The approach to setting the Reserves Strategy

2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. This strategy includes:

- Information showing the current level of reserves
- Consideration of the forward strategy for reserves needed to support the Authority's MTFS
- A summary of the financial risks facing the Authority in conjunction with
- An explanation of the purpose and level of any earmarked reserves
- Details of the plans for reserves within the published budget

2.2 Reserves will be monitored throughout the year and the level of reserves reported as part of the year end accounting processes. They are also covered annually with FRA Members as part of the budget workshops.

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### 3 Why the Authority holds reserves

3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:

- *General* – the main balance that the Authority wishes to set aside. This is the £2.4m and is compared annually to other Combined Fire Authorities. This has reduced, as planned, from the previous £2.6m, with a planned reduction to £2.1m over the medium term plan.
- Available *earmarked reserves* – funds we hold set aside to meet known or predicted future spending or ring-fenced by previous Authority decisions (such as the Collaboration Reserve, pay reserve)
- *Other reserves* the Authority holds but which are not available to fund their general spending; some reserves with statutory restrictions on how they can be spent, such as capital receipts or specific revenue grants
- Total reserves – the sum of earmarked, other and General

3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example property or vehicle damage, or reserves to cover shortfalls in investment income, pay award projections and so on.

3.3 Reserves are distinct from provisions. Provisions are funds set aside for probable future liabilities where the timing and amounts are uncertain

### Delivering a balanced budget

3.4 There are a number of reasons why a Fire and Rescue Authority or Local Authority might hold reserves, these include to:-

- (a) Mitigate potential future risks such as increased demand and costs;
- (b) Help absorb the costs of future liabilities;
- (c) Temporarily plug a funding gap should resources be reduced suddenly;
- (d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
- (e) Spread the cost of large scale projects which span a number of years.

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Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing reductions in grant/council tax funding over the medium term (for example the £5 Band D increase was a one off for 2023/24 with a referendum cap of 3% for 2024/25). Due to the fact that some funding for future Estates Capital Projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as the Capital programme progresses.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

- 3.5 The Local Government Finance Act 1992 requires the Authority to calculate its expected outgoings and income for the year – including any additions to or use of reserves. Where expected outgoings exceed expected income, the difference is the Authority's tax requirement for that year.
- 3.6 If unplanned costs are incurred during the year that are not funded externally – for example, by a grant from government or an insurance policy – or the Authority experiences a shortfall in expected income/funding, there will be few options if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore the Authority may want to consider using reserves to balance spending and income.
- 3.7 The 2024/25 to 2027/28 MTFS assumes that there will be utilisation of the Transformation Reserve for budgeting and transformation/innovation/environmental purposes. It forecasts that this reserve will be usable to balance future years budgets. The MTRP details the potential reduction of General Reserve from £2.4m to £2.1m.

### **4 Reserves and the management of risks – Annual Review**

- 4.1 With regard to the Authority's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: insurance/protection, ill health and early retirement, HR matters, Health and Safety matters, grant loss, Pensions/Pay uncertainties, budget pressures and one that was new for 2021/22 a

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Collection Fund deficit reserve. These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process.

- 4.2 The Authority also manages unforeseen financial shocks by maintaining a General Fund/Working Balance. The Authority's agreed policy is to maintain working balance at £2.4m. Some Authorities set a minimum desired percentage and although the Authority has not done this, the policy would maintain general balances at approximately 6% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process. A reduction over the medium term to £2.1m is currently planned, but subject to a further review when setting next year's budget.

### **Increasing Financial Risks/Pressures**

- 4.3 The risk environment for local government has significantly increased over recent years. This strategy identifies the following issues that have increased risk:
- Ongoing inflationary pressures to supplies, services and pay awards, albeit forecast to reduce quite rapidly.
  - Continued limited Government funding with now five years of only annual settlements, although there was a three year CSR for 2022/23, only the police sector had indicative high level funding figures given for 2024/25 too.
  - Potential changes in the grant funding methodology over the medium term – Formula Funding Review, Business Rates review/reset and Spending Reviews
  - Significant movement and growth in resident population numbers brings pressures to a range of services and requires more investment in infrastructure – could have impacts on hydrant and operational provision
  - A key uncertainty is the outcome of the Remedy for the age discrimination case (McCloud) and the impact that this may have financially on Fire and Rescue Services. An earmarked reserve has been set up to cover this and the unknown cost of employer contributions and Administrator payments (as well as pay awards and associated potential industrial action). There is also the uncertainty of the costs to the Service regarding Matthews (retained FF pensions)
  - Collection Fund deficits and the volatility of the taxbase during and post the pandemic and also Business Rates valuations/appeals.

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- Should FRA Members support proposals, the outcome of the Emergency Cover Review (ECR) work could have significant financial implications associated with estates work (relocation, rebuilds etc).

### On-going risks in the current strategy

4.4 In addition to the new risks there are still the risks that are usually managed within the MTFS and the Corporate Risk Register.

### 5 Budgeted Reserves – Risk Assessment

5.1 The forecast Earmarked Reserves usage assumed as part of the budget strategy are included in the Medium Term Revenue Plan.

5.2 The forecast value of General Fund Reserves as at 1<sup>st</sup> April 2024 is £2.4m as detailed in Table 1 below.

Table 1: Risk Assessed General Reserves

Description	Likelihood	Impact	£'000
Large scale failure of Personal Protective Equipment or other safety critical equipment	Possible	Significant	300
Major incident within the County/Region	Likely	Significant	650
Failure of operational vehicle prior to planned replacement in Capital Programme/unforeseen inability to provide service requirements	Possible	Significant	300
Failure of a major supplier	Likely	Significant	300
Failure/corruption/security breach of ICT System	Possible	Significant	200

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Non-specific General Reserves to meet any other unforeseen service requirements			650
<b>Total General Reserves</b>			<b>2,400</b>

- 5.4 The reserves below have been set aside for foreseen circumstances that may necessitate usage. They are annually reviewed and if not deemed necessary, released to support the revenue budget. Some have been set up as a result of base revenue budget scrutiny, where budgets in the past were held for just in case events necessitated their use. Where this was so, these have been removed from base revenue budget and an earmarked reserve created. The large items, such as ESMCP, Hydrants and the Replacement mobilising system, are where the spend is unknown so these amounts have indicatively been set aside to avoid budget pressure in the medium term and to assist with the Medium Term budget setting. The items listed below are not contractually or legally committed, at this point in time. All are clearly linked to supporting the Authority's service delivery plans. In accordance with discussions held at the second Members 2023/24 budget workshop in January 2023 and subsequently approved at the FRA meeting in February 2023, a newly identifiable earmarked reserve has been allocated to Contaminants at £200k
- 5.5 The earmarked reserves are detailed in Table 2 below.

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Table 2: Earmarked Reserves

Description	£'000
Emergency Services Mobile Communications Programme (ESMCP) reserve – Emergency Services Network (ESN)	180
Replacement Mobilising Project	100
Contingency for doubtful debts	10
Hydrant installation (taken out of revenue budget due to uncertainty)	225
Goods and services, contractual inflation in excess of assumptions (1%)	80
Potential liability as a result of legal/disciplinary action in relation to Personnel	100
Health & Safety and/or Contaminants work	200
Sudden absenteeism of a large number of personnel across the whole of the Service due to pandemic or similar	125
Ill-health retirements in excess of budget provision/injury pension	125
Unplanned urgent property works (eg roof repairs)	100
Contingency for insufficient Insurance cover (additional contribution)	25
Interruption to Business Continuity (including Industrial Action, Cyber, adverse weather conditions resulting in higher than average numbers of emergency incidents – excludes Bellwin incident))	150
Unplanned urgent maintenance/replacement of particular item of equipment (eg engine or gearbox wearing out/failing earlier than anticipated)	50
Invest to Save/Innovation Fund (these have been taken out of annual revenue budgets)	60
ICT Innovation/Application Development	75
<b>Total Requirement</b>	<b>1,605</b>

The use of the previously held £1m for pay and pensions was included for utilisation as part of the 2023/24 budget setting. However, a contribution back to this reserve has been agreed with the FRA splitting the forecast 2023/24 underspend, mainly as a result of investment income above budget and unplanned business rates income, to be split 50/50 between the Transformation Reserve and the Pay/Pensions reserve.



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### 5.5 Other Reserves for noting:

- Collaboration Reserve £2.378m (includes 2017/18 year end additional contribution of £498k from Home Office Pensions refund)

There is also a Capital Reserve that holds the approved funding where schemes run over the financial year end, this includes vehicles, property works and ICT projects.

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### Annex 1 – Extract from National Framework reference reserves

#### Reserves

##### 1.1

Sections 31A, 32, 42A and 43 of the Local Government Finance 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.

##### 1.2

Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.

##### 1.3

Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

##### 1.4

Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget; and
- details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

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1.5

The information on each reserve should make clear how much of the funding falls into the following three categories:

- a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- b. Funding for specific projects and programmes beyond the current planning period.
- c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)