

## Reserves Strategy

### 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 to the above requirement, Section 25 of the Local Government Act 2003 also requires the Treasurer (the Director of Corporate Services (DoCS) for the Authority) to present a report assessing the adequacy of the unallocated reserves (referred to as the General Reserve) 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 several 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 (DoCS for the Authority) 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 DoCS 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 DoCS.
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 Strategy (MTFS).

### **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 considered 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 clearer for the next three years following the spending review but the Fire Minister has committed to review the funding formula at the next spending review which adds increased uncertainty. Also, 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.

### **Purpose and Use of each Reserve**

9. The General Reserve and each Earmarked Reserve and its purpose is set out in Appendix 1; together these are known as the Usable Reserves. Each earmarked reserve has a set manager who is responsible for that reserve. Movement to and from reserves is in the first instance approved by the Authority as part of the annual budget.
10. Reporting of the level of reserves and forecast outturn will be provided as part of the quarterly budget updates submitted to the Resources Committee.

11. The Authority holds a Public Finance Initiative (PFI) reserve for each of its PFI accommodation schemes. Annual PFI Grants exceed the annual unitary charge in the earlier years of the contract and are set aside to part fund the unitary charge in the later years of the contract when the unitary charge exceeds the PFI grants.
12. It is good practice for an Authority to review its reserves on a regular basis to consider each reserve. This is to ensure that the level that is both prudent and adequate for the current climate, but not excessive. A review has been undertaken based on historical analysis and the current environment and future forecasts; this review has not resulted in any material change.

### **Overall Position**

13. The forecast balances on usable reserves are set out in Appendix 1. One of the key elements of the Reserves Strategy will be to use the earmarked Capital Reserves to support the Capital Strategy. The Capital Strategy anticipates utilising the capital reserve over the next two years.

## Usable Reserves

	Forecast	Estimated	Estimated	Estimated	Estimated	Estimated
Reserve - Purpose	2025/26 £ million	2026/27 £ million	2027/28 £ million	2028/29 £ million	2029/30 £ million	2030/31 £ million
General Reserve - minimum level £4 million	6.018	6.018	5.824	5.789	6.025	5.930
<b>Earmarked Reserves</b>						
Capital Reserve - to fund capital expenditure	14.106	8.365	7.453	7.680	6.199	5.055
PFI Reserves - PFI Grants set aside to offset future charges	5.276	5.086	4.853	4.575	4.251	3.876
Budget Holders Reserves - enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits.	3.879	2.379	0.879	0.000	0.000	0.000
Insurance - The maximum insurance costs to the Authority are £0.7 million - together with the provision this reserve will meet 1 year's maximum claims.	0.442	0.442	0.442	0.442	0.442	0.442
Kings Trust - to manage funding timing differences and mitigate the risk of loss of funding in the short term.	0.823	0.623	0.423	0.323	0.223	0.223
Innovation Fund - to meet the costs of new initiatives / developments which improve service delivery of fire fighter safety subject to approval of the Executive Board.	0.806	0.506	0.206	0.106	0.006	0.000
Emerging pressures and future funding deficits – set aside from collection fund surplus / deficits and one off grants to offset future funding collection fund deficits and potentially emerging pressures.	0.595	0.000	0.000	0.000	0.000	0.000
<b>Total Usable Reserves</b>	<b>31.945</b>	<b>23.419</b>	<b>20.080</b>	<b>18.915</b>	<b>17.146</b>	<b>15.526</b>