

















Appendix 1

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2023-2027 Reserves Strategy

a) Background

Reserves are an essential part of a Fire Authority's Planning and Governance processes. It is important for a Fire Authority to ensure the organisation is holding sufficient reserves to ensure long-term financial stability whilst attaining its strategic priorities. Reserves are particularly important when the Fire Authority is facing increasing cost pressures and funding challenges over the medium-term.

There are several reasons the Fire Authority holds reserves which are explained within this strategy. It is important to note there is no statutory minimum or maximum level of reserves, but the Fire Authority, supported by the Statutory Finance Officer, must review to ensure reserves are set at a realistic level.

b) Reasons for a Fire Authority to hold Reserves:

Reserves are important to Fire Authorities as they cannot borrow money over the medium term, other than for investment in capital assets. Reserves are therefore an essential tool to ensure the financial health of the organisation and to manage risks. Fire Authorities generally hold reserves for the following key purposes:

- Building up funds to meet known or predicted requirements, such as capital reserves to fund an approved capital strategy, which are referred to as Earmarked Reserves.
- Working Balance reserves (referred to as a General Reserve) which is needed to help cushion the impact of uneven cash flows and to ensure the Fire Authority has sufficient working balances to pay its debts in a timely manner.
- Future investment needs, for example to support a major Transformation Programme.
- Contingency reserves which help cushion the impact of unexpected events or emergencies.

c) Statutory Requirement

The following statutory requirements apply to Fire Authority reserves:

- Section 42A of the Local Government Finance Act 1992 requires precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

- Under section 25 of the Local Government Act 2003 the chief finance officer has a duty to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement.

- Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for the Fire Authority. However, the government has undertaken to apply this only where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.

In addition, Fire Authorities are expected to provide for any deficit on the revenue account for an earlier financial year which has not already been provided for.

Fire and Rescue National Framework

Under section 21 of the Fire and Rescue Services Act 2004 ("the 2004 Act"), the Secretary of State must prepare a Fire and Rescue National Framework. The Framework:

a) must set out priorities and objectives for fire and rescue authorities in connection with the discharge of their functions;
b) may contain guidance to fire and rescue authorities in connection with the discharge of any of their functions; and
c) may contain any other matter relating to fire and rescue authorities or their functions that the Secretary of State considers appropriate.

The latest framework was issued in May 2018 and can be viewed at: https://www.gov.uk/government/publications/fire-and-rescue-national-framework-for-england--2

Specific reference to reserves is made under section 5 in relation to achieving value for money. In addition to the statutory requirements outlined above, the framework includes the following requirements:

1. 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.

2. 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).

3. 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.

4. 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 general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g., insurance).

d) Professional Guidance

Best practice guidance on the use and management of reserves and balances is provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances' issued in July 2014.

e) Role of the External Auditor

As part of their role the external auditor is required to satisfy themselves that the Fire Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources. They are also required to obtain sufficient and appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fire Authority's ability to continue as a going concern. It is not their responsibility to prescribe the optimum or minimum level of reserves for the Fire Authority.

f) The Fire Authority's Strategy on reserves

As part of the annual budget setting process and medium-term financial planning the Fire Authority will consider the establishment, maintenance and use of reserves. The nature and level of reserves will be agreed by the Fire Authority, informed by the judgement and advice of the Statutory Finance Officer. This will be based on an assessment of what is appropriate and necessary in the light of the risks and circumstances facing the Authority.

In accordance with the approved 2023-2026 Capital Programme Strategy, the Fire Authority will review the utilisation of all internal funds, including reserves to support its Capital Programme, prior to seeking additional external borrowings. This will ensure Value for Money is attained and reduce the pressure on the Revenue budget and the 4-year Financial Plan.

The Statutory Finance Officer will review the reserves on an annual basis with the Senior Leadership Board to review the adequacy and need for reserves being held. Any reserves no longer required for their original earmarked purpose will be released to fund the approved Capital Strategy, aid in delivering on the required efficiency savings and other approved strategic priorities. In-year movements from the approved Reserve summary, will require the approval of the Chief Fire Officer and the Statutory Finance Officer, through the approved Budget Adjustment process.

g) Categories of reserves

The reserves held by the Fire Authority are categorised into two separate categories as follows:

- **Usable reserves** – these are cash backed reserves that can be utilised by the Fire Authority to support future service provision.

- **Unusable reserves** – these cannot be used to support services and arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be detailed in the annual Statement of Accounts.

The Fire Authority maintains the following types of useable reserves:

- **general reserve (working balance):** to manage the impact of uneven cash flows and unexpected events or emergencies.

- **earmarked reserves**

  – **cash backed:** sums set aside to meet known or predicted specific requirements:
  – **non-cash backed:** sums set aside to meet known or predicted specific requirements where the sums are not held by the Fire Authority

h) Principles to assess the adequacy of reserves.

The Statutory Finance Officer will advise the Authority on the adequacy of reserves as follows:

1. Reserves support delivery of approved Service Plan priorities.
2. Contingency reserve available for unforeseen events
3. Sufficient reserves in place to finance working balances to help finance uneven cash flow and avoid unnecessary temporary borrowing.
4. Specific reserves are provided for approved projects.

General Reserve (working balance) – In considering the General Reserve the Statutory Finance Officer will have regard to:

- the strategic, legislative, operational and financial risk contexts within which the Authority will be operating through the medium-term.
- the overall effectiveness of governance arrangements and the system of internal control.
- the robustness of the financial planning and budget-setting process.
- the effectiveness of the budget monitoring and management process

Having had regard to these matters, the Statutory Finance Officer will advise the Authority on the monetary value of the required general reserve.

Earmarked Reserves - In considering earmarked reserves the Statutory Finance Officer will have regard to matters relevant in respect of each reserve and will advise the Authority accordingly.

Risk assessment to determine the adequacy of the General Reserve

Reserves are an integral part of the financial risk assessment for the Fire Authority over the medium-term. The Fire Authority needs a General Reserve (working balance) to provide protection against unforeseen events that impact on resources, without disrupting service delivery.

It is for individual Authority's to determine the required level of its General Reserve based on local conditions but taking into account national factors. Although advice can be sought from the external auditors, it is not their responsibility to prescribe the appropriate level.

As part of the annual budget setting and medium-term financial planning process and in accordance with section 25 of the Local Government Act 2003, the Statutory Finance Officer will report to the Fire Authority on the adequacy of the proposed financial reserves. The Fire Authority is required to have regard to this report when making decisions about the necessary calculations.

The Fire Authority has agreed that the level of General Reserve (Working Balance) should be £1.5m, representing just under 3% of Revenue Income Budget.

If the Fire Authority decides to utilise the General Reserve (Working Balance), then it would be necessary to replace this in the budget for the following financial year, to ensure this minimum level of General Reserve is maintained.

Determination and use of earmarked reserves:

The process for the determination of earmarked reserves will be based upon the principles of effective operational and financial risk management.

As part of the Annual Budget Setting process, Members will agree the use of earmarked reserves on the advice of the Statutory Finance Officer. The Statutory Finance Officer will monitor the use of earmarked reserves and keep Members advised through normal financial monitoring processes.

Annual review of earmarked reserves:

A full review of existing earmarked reserves will be undertaken annually to ensure continuing relevance and adequacy. This review will be undertaken by the Service Leadership Board in conjunction with the Statutory Finance Officer as part of the Final Accounts process.

Any movement in earmarked reserves will be required to be endorsed annually by Members on the advice of the Statutory Finance Officer.

The details of earmarked reserves held at 31 May 2023 are shown in Appendix 2.

Provisions

In accordance with proper accounting practices, provisions will be created where an event has taken place that gives the Fire Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Fire Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions will be charged as an expense in the year that the Fire Authority becomes aware of the obligation and will be measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they will be charged to the provision carried in the Balance Sheet. Provisions will be reviewed at the end of each financial year to ensure continuing relevance and adequacy. Where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision will be reversed and credited back to the revenue account.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g., from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Fire Authority settles the obligation.

Provisions will be analysed between short term provisions, amounts expected to be paid within twelve months of the balance sheet date, and long-term provisions, amounts expected to be paid after twelve months of the balance sheet date.