

Adequacy of Reserves and Robustness of Budget

Report of the Treasurer

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1 Purpose of Report

This report undertakes a full analysis of reserves, provides an assurance on the adequacy of reserves, and gives an assurance on the robustness of the budget.

2 Recommendations

The Committee is asked to recommend to the Fire Authority:

- i) The reserves as set out in the appendix to the report; and
- ii) The Treasurer's assurances covering the robustness of the 2024/25 budget and adequacy of its reserves.

3 Background

The Chief Finance Officer is required, under section 25 of the Local Government Act 2003, to report on the robustness of estimates and adequacy of reserves.

This is also linked to the requirement of the Prudential Code that authorities should have full regard to affordability, when making recommendations about future capital programmes.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Guidance Note on Local Authority reserves and balances (LAAP Bulletin 99), which is reflected in this report. The Bulletin states that it is

contrary to the freedoms of local authorities for an external body to impose general minimum or maximum levels of reserves, as there is a broad range, within which authorities might reasonably operate.

Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where as part of their wider role auditors have to report on an authority's financial position, it is not their responsibility to prescribe an optimum or minimum level of reserves for individual authorities, or authorities in general.

4 Overview of the Reserves Strategy

The Fire Authority has set out its financial strategy to 2026/27 in its Medium Term Financial Plan, and its reserves policy is an integral part of this Plan.

CIPFA state that when reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events and emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

5 Reserves held by the Authority

A schedule of the reserves currently held by the Authority is attached as an appendix to this report. This schedule states the purpose of each reserve, and also demonstrates possible uses of the funds over the planning period, reflecting the risks and uncertainties identified by the Authority.

6 Adequacy of Reserves

The reserves have reduced from last year, when an assurance was given of their adequacy;

- (£3.739m) was released for use during the year – capital expenditure, slipped revenue spend, one off revenue expenditure and staff costs
- £1.723m was held in the General Fund at the end of the year – underspend on revenue budget 2022/23. Of this, £415,000 was rolled forward into 22/23 revenue budgets and £1.308m was redistributed to earmarked reserves.
- £0.182m was added to the Unearmarked Capital Reserve as a budgeted contribution – surplus on revenue budget 2022/23.

Officers continue to give due consideration to existing risks to the Authority, when reviewing levels of reserves, and a continued assurance can be given that every effort has been made to ensure that reserves are adequate.

The reasons for holding reserves as outlined in the appendix are still valid in terms of risk areas for the Authority; a review of the levels of individual reserves was carried out as the accounts were closed for 2017/18, and some movements made between individual reserves. Given the anticipated spend on the Telford site as well as the future capital programme, it was felt more prudent to make further funds available for these projects and avoid future borrowing costs in the revenue account. Therefore, it was agreed that the vast majority of reductions identified in the Authority's reserves were diverted to the Major Project Reserve.

The Authority was informed in February 2022 that a suite of seven projects that would begin during 2022/23

This programme of projects will require significant capacity as well as technological resources to enable successful completion and outcomes, and eventual investment. The Authority approved a one-off increase of £200,000 in the revenue budget for 2022/23 to enable these projects. It is agreed by the Authority that the balance on the General Fund was also earmarked for transformation by a transfer to the Strategic Transformation Board Staff Reserve.

This suite of projects was reviewed in January 2023 and three were identified as priority for the Service:

- Command and control system replacement
- On call sustainability review
- Resources review

As the accounts were closed for 2022/23, further contributions were made into reserves from the balance on the General Fund. These contributions enable introduction of improved technology and capacity building, and also support the revenue budget with unanticipated expenditure.

Consideration must be given to the likelihood of deficits in the revenue budgets in future years, and the availability of reserves to fund this deficit. The Income Volatility Reserve is best placed to deal with this issue, should it arise. As well as using this reserve to cover future deficits, areas of expenditure such as capital charges can be reviewed.

Officers will ensure that the Authority still has sufficient funds available to deal with planned activities which require reserve contributions, and also unanticipated events in the future. The main use of reserves over the last few years has been capital expenditure, particular the major development at Telford, and capacity building through the use of the STP Staff Reserve.

As reserves become depleted, following completion of schemes and projects, the remaining reserve levels will be reviewed against the principles laid out in the Reserves Strategy to ensure that they remain adequate for the Authority's requirements.

7 Robustness of Estimates

Given that reserves are adequate, The Authority's Treasurer believes that the budget is robust for 2024/25 in respect of the process to minimise errors and omissions, the level set aside for future pay and price increases, and other budgetary pressures.

Future Years

Although the assurances required under statute are for the coming year only, officers continue to review levels of reserves to 2027, in line with the Authority's strategic planning.

8 Financial Implications

The financial implications are outlined within this report.

9 Legal Comment

The Treasurer is obliged, under the Local Government Act 2003, to give the assurances set out in this report.

10 Initial Impact Assessment

An Initial Impact Assessment form has been completed.

11 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Human Resources 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment is not, therefore, required.

12 Appendix

Analysis of Reserves

13 Background Papers

There are no background papers associated with this report.

		22/23	23/24	24/25	2025/26	
	Reserves Analysis 22/23 to 25/26	£000	£000	£000	£000	Narrative
A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing	Pension Liabilities Reserve					Set up as a result of the introduction of the new Firefighters Pension Scheme on 1 April 2006, the original reserve was required to pay for unexpected sickness retirements and other payments, which remain the responsibility of the Authority's revenue account. In 2008/09, the reserve was expanded to cover other staff matters, including the costs following the Retained Firefighters & Part Time Regulations Tribunal
	Apr	687	687	687	687	
	Ill health pension charge					
	Mar	687	687	687	687	
	ICT Reserve					This reserve was established using unspent balances from 2010/11 and approved budgets for ICT projects. It is intended that this reserve will be used to manage information technology and communications issues as they arise, and ensure a consistent and managed approach to ICT investment.
	Apr	1,104	854	604	354	
	Capital Schemes	-250	-250	-250	-250	
Mar	854	604	354	104		
Operational Equipment Reserve					This reserve was established to help provide some stability in this area of the revenue budget. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established.	
Apr	213	163	113	63		
To revenue for spend	-50	-50	-50	-50		
Mar	163	113	63	13		
Service Delivery Reserve					This reserve was set up to fund initiatives in service delivery and prevention.	
Apr	125	105	85	65		
Contribution to revenue	-20	-20	-20	-20		
Mar	105	85	65	45		
Training Reserve					This reserve is used to fund one off additional training and developments where permanent increases in the revenue budget are not required.	
Apr	51	21	0	0		
Contribution to revenue for training	-30	-21				
Mar	21	0	0	0		
Buildings Maintenance Reserve					The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. This reserve was created to deal with exceptional, unexpected repairs that do not require a regular revenue budget.	
Apr	312	262	212	162		
Contribution to reserve	-50	-50	-50	-50		
Mar	262	212	162	112		
A means of building up funds to meet known or predicted requirements	Earmarked Capital Reserve					This reserve is used to fund smaller capital projects, therefore reducing the need to borrow.
	Apr	0	0	0	0	
	Prior year schemes spend					
Contribution to reserve						
Mar	0	0	0	0		
Major Projects Capital Reserve					This reserve is made up of budgeted contributions and unspent balances from previous years. It was used to part fund the Authority's refurbishment of the headquarters, workshop and fire station at Shrewsbury, with the balance remaining to be used against future major building projects, notably the Stafford Park site in Telford.	
Apr	9,147	6,613	0	0		
Telford scheme spend	-3,000	-6,613				
Contribution from reserve	466					
Mar	6,613	0	0	0		
Service Transformation Programme -					The STP is a high level programme of activities, which will be completed to ensure that the Service is best placed to meet the challenges it is likely to face over the coming years. Funding for projects identified as part of the programme have been taken into account in the revenue budget and the capital programme. This reserve was set up to cover the staff elements of the projects.	
Apr	887	787	487	187		
Used for STP staff costs	-300	-300	-300	-187		
Contribution from reserve	200					
Mar	787	487	187	0		
A contingency to cushion the impact of unexpected events or emergencies	Income Volatility Reserve					This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Service Plan.
	Apr	687	687	687	687	
	Mar	687	687	687	687	
	Extreme Incidents Reserve					Costs for incidents attended by retained firefighters have now been budgeted for at average levels in the revenue account; this reserve will cover the costs of increased activity incurred as a result of adverse weather conditions.
	Apr	219	219	219	219	
Mar	219	219	219	219		
General Reserve					The current balance on this reserve represents unearmarked risks, and has been used in 2023/24 to fund back pay for holiday pay on overtime.	
Apr	577	577	577	577		
Mar	577	577	577	577		
Grand Total		10,975	3,671	3,001	2,444	
Revenue budget		23,473	24,146	24,753	24,754	
% of revenue budget		47%	15%	12%	10%	