

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 2025/26 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 2027/28 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 increased from last year, when an assurance was given of their adequacy.

- (£2.008m) was released for use during the year – capital expenditure, slipped revenue spend, one off revenue expenditure and staff costs
- £2.433m was held in the General Fund at the end of the year – underspend on revenue budget 2023/24. Of this, £57,000 was rolled forward into 2024/25 revenue budgets and £2.376m was redistributed to earmarked reserves.

Underspends were reported in debt charges during the year as no borrowing had been undertaken to fund the capital programme; this was transferred to the Major Projects Reserve to reduce loan charges going forward.

A number of senior officers have left or resigned from the Service during this financial year, and there are potential further changes likely during 2024/25. It is recommended that the balance of the General Fund is transferred to the Pensions and Other Staff Issues Reserve, to mitigate the impact of any future employment liabilities.

- £0.247m was added to the Major Projects Reserve as a budgeted contribution – surplus on revenue budget 2023/24.

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. 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. These were reviewed in January 2023 and three were identified as priority for the Service:

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

Contributions have been made into reserves to provide capacity and resources 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 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.

Growth and Investment

Future growth and investment within the Service will focus on several priority areas aimed at reducing risk and vulnerability in the community and ensuring all staff are competent to perform their roles effectively.

The main areas are:

- Key areas within the Fire Authority's Community Risk Management Plan (CRMP) to mitigate and manage risk
- Areas for improvement and the cause of concern within His Majesty's Inspector of Constabulary and Fire and Rescue Service (HMICFRS) inspection report
- The development of the Strategic Priorities for 2025/26
- Findings from the Service's Structural Review

Whilst on going investment is required to achieve these priorities, reserves will be used to provide fixed term capacity and resources.

7 Robustness of Estimates

Given that reserves are adequate, The Authority's Treasurer believes that the budget is robust for 2025/26 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 2028, 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.

	Reserves Analysis 23/24 to 26/27	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Narrative
<i>A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing</i>	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. In 2024/25, £1.3m was added to cover potential staff costs following the resignation of staff.
	Apr	687	677	1,939	1,939	
	Ill health pension charge	-10				
	Contribution from general fund		1,262			
	Mar	677	1,939	1,939	1,939	
	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	834	547	315	65	
	Capital Schemes	-287	-232	-250	-250	
	Mar	547	315	65	-185	
	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	116	275	265	255	
	To revenue for spend	-31	-50	-50	-50	
	Contribution	190	40	40	40	
	Mar	275	265	255	245	
	Service Delivery Reserve					This reserve was set up to fund initiatives in service delivery and prevention.
	Apr	118	9	-11	-31	
	Contribution to revenue	-109	-20	-20	-20	
	Mar	9	-11	-31	-51	
	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	13	127	106	76	
	Contribution to revenue for training	-36	-21	-30	-30	
	Contribution	150				
	Mar	127	106	76	46	
	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	300	450	400	350	
	Contribution to reserve	150	-50	-50	-50	
	Mar	450	400	350	300	
	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					

		23/24 £000	24/25 £000	25/26 £000	26/27 £000	Narrative
	Reserves Analysis 23/24 to 26/27					
<i>A means of building up funds to meet known or predicted requirements</i>	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	6,634	6,813	5,858	456	
	Capital projects	-975	-2,157	-5,402		
	Contribution from reserve and general fund	1,154	1,202			
	Mar	6,813	5,858	456	456	
	Service Transformation Programme - Staff Reserve					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	869	809	509	259	
	Used for STP staff costs	-310	-300	-250	-187	
	Contribution from reserve	250				
	Mar	809	509	259	72	
<i>A contingency to cushion the impact of unexpected events or emergencies</i>	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	456	577	577	
	Contribution revenue - holiday pay	-121	121			
	Mar	456	577	577	577	
Grand Total		11,069	10,864	4,852	4,305	
Revenue budget		23,473	24,146	24,753	24,754	
% of revenue budget		47%	45%	20%	17%	