



Item No. _____ on Agenda

Report to the Police Fire and Crime Panel

12th February 2024

Reserve Strategy Update

Report of the Staffordshire Commissioner

Introduction

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure. The S151 Officer and Treasurer for the Staffordshire Commissioner Fire and Rescue Authority has a duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its annual budget requirement.

This paper gives due consideration to the overall level of reserves held by the Authority as at 31 March 2023, and the Police Fire and Panel are asked to comment and review the overall position as scheduled within **Appendix 1** and **2** and the overall impact on Reserves as incorporated within the approved Medium Term Financial Strategy (MFTS).

The Reserves Strategy was last approved in February 2023 by the Commissioner following presentation to the Police Fire and Crime Panel has now been updated to incorporate and reflect:

- The revised MFTS for 2024/25 to 2028/29
- The actual Reserves position as per the Audited Statement of Accounts for 2022/23
- The forecast revenue and capital spend position for 2023/24
- The impact of approved reserve utilisation and agreed capital programme utilisation requirements

A number of different reserves are held by the Staffordshire Commissioner Fire and Rescue Authority (both usable and unusable) in line with the CIPFA guidance, however this paper focuses on the two key areas of reserves that impact on the future financial strategy.

- A **General Reserve**, to allow for unexpected / emergency events – balance as at 31 March 2023, £1.9m (see **Appendix 1**), this position is retained and no changes are proposed.
- A **Earmarked (Specific) Reserve** – to meet future known or predicted requirements – balance as at 31 March 2023, £7.5m (see **Appendix 2**), forecast 31 March 2024, £7.6m

RECOMMENDATIONS

The Police, Fire and Crime Panel is asked to:

- a) Note the overall reserves position for both General and Earmarked Reserves as contained within this report,
- b) consider the adequacy and categorisation of the Earmarked Reserve that will be incorporated into the Revenue Budget and MTFS for 2024/25, and utilisation of reserves as incorporated within the approved MTFS
- c) Note the updated Reserves Strategy

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BACKGROUND AND ADDITIONAL INFORMATION

Prudential Code and Capital Spend

1. CIPFA's (The Chartered Institute of Public Finance and Accountancy) Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Staffordshire Commissioner is required to consider all of the resources available, together with the totality of its capital plans and revenue forecasts for the forthcoming year and into the medium term.
2. The statutory reporting regime discussed within this paper and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and CIPFA recommend that there should be clear protocol setting out the following:
 - the reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control; and
 - a process and timescale for review of the reserve to ensure continuing relevance and adequacy.
3. Whilst it is primarily the responsibility of the Staffordshire Commissioner and its S151 Officer and Treasurer to maintain a sound financial position, our external auditor Azets will annually review for any material uncertainties and test to ensure that the Authority remains a going concern as part of the Value for Money judgement. Even where as part of their wider role Azets will report on the Authority's financial position, it is not however, their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

Types of Reserve

4. When considering the Medium Term Financial Strategy and preparing annual budgets the Staffordshire Commissioner should consider the establishment and maintenance of reserves. Reserves 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 or emergencies – this also forms part of general reserves (see **Appendix 1**);
 - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements. This is also referred to as the Specific Reserves/Earmarked Reserves (See **Appendix 2**)

Reporting of Reserves

5. The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of

the Authority analysed into **usable** reserves, (e.g. General and earmarked reserves) and unusable reserves. The Movement in Usable Reserves Statement can be found within the Statutory Accounts for 2022/23, and is shown below:

| 31-Mar-22 | | 31-Mar-23 | |
|---------------|--------------------------------|---------------|--|
| £,000 | | £,000 | |
| 1,906 | General Fund (1) | 1,906 | |
| 1 | Capital grants unapplied | 1 | |
| 1,540 | Earmarked reserves - grants | 1,728 | |
| 5,498 | Earmarked reserves - PFI grant | 5,788 | |
| 731 | CCU Reserve | 808 | |
| 8,342 | Other Reserves (2) | 7,518 | |
| 16,111 | Earmarked Reserves | 15,634 | |
| 18,018 | Total Usable Reserves | 17,541 | |

6. The total Usable Reserves as per the statement of accounts is £18 million, however only the General Fund £1.9m and Other Reserves £7.5m are considered within this report. The other grant areas are not for general use as they have already been identified for a particular use or business area. For example, the £5.8m Earmarked PFI Grant will unwind at the end of the two PFI concessionary periods, however the cash can be used to avoid borrowing during this time.
7. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements (i.e. reconciliation of reporting standards to statutory requirements).
8. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.
9. Whilst it remains the responsibility of the Director of Finance/S151 Officer for the Staffordshire Commissioner Fire and Rescue Authority to advise on the overall level of reserves that are held; the Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.

Reserves Strategy and Future Outlook

10. This paper gives due consideration to the overall level of reserves held as at 31 March 2023, and the Panel are asked to comment and review the overall position as scheduled within **Appendices 1 and 2**.
 - The Financial Strategy when considering the overall level of reserves held, should importantly take into account:
 - That there are no future capital grants proposed by the Government, which means that all capital spend will increase debt and borrowing unless internally funded by either ongoing savings or the use of reserves

- The future investment required to fund further changes to the Service currently being considered as part of the current Service Transformation work
- The use of Reserves to support Revenue and Capital spend into the medium term, and whilst reserves can be effectively utilised in the short term to secure a balanced financial position this must be temporary whilst savings and transformation plan are being developed into the medium term

General Reserve

11. The General Reserve scheduled within **Appendix 1** has remained unchanged for a number of years and at £1.9m represents around 3.8% of the 2024/25 annual revenue budget. It is recommended by the Home Office that General Reserves held by Fire Authorities do not exceed 5% of overall funding level. The National Framework Document requests that the Reserves Strategy should clearly justify the reasons for holding a general reserve above five percent of budget.

Earmarked / Specific Reserve

12. The forecast balance on this reserve as at 31 March 2023 was £6.4m, is scheduled below and is based upon the categorisation approved by the Staffordshire Commissioner in February 2023:

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|--|-------------|------------|------------|------------|------------|------------|------------|
| | Actual | Est. | Est. | Est. | Est. | Est. | Est. |
| | £m | £m | £m | £m | £m | £m | £m |
| General Fund | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Earmarked Reserves | | | | | | | |
| PFI Reserve (Project Reserve Deductions) | 0.8 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Operational Budget Holder Reserves | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Budget and MTFs Support Reserve | 0.8 | 0.8 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 |
| Refurbishment Reserve Abbots Bromley | 0.5 | | | | | | |
| Capital Reserves | 1.9 | 0.8 | | | | | |
| Pension Reserve | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Collaboration Reserve | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Future Funding Reserve | 1.7 | 1.7 | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 |
| Total Earmarked Reserve | 8.2 | 6.4 | 5.0 | 4.5 | 4.5 | 4.4 | 4.4 |
| Total Reserves Available | 10.1 | 8.3 | 6.9 | 6.4 | 6.4 | 6.3 | 6.3 |
| Percentage of Revenue Budget | | | | | | | |
| General Reserve | 4.5% | 4.5% | 4.1% | 4.0% | 3.9% | 3.8% | 3.7% |
| Earmarked Reserve | 19.5% | 15.1% | 10.8% | 9.4% | 9.1% | 8.7% | 8.5% |

13. The Earmarked Reserve provision is required not only to fund future projects and investments but also to provide funding, as follows:

- to support the recurring revenue budget up to 2026 as incorporated within the medium term financial strategy,
- to provide a provision for future capital investment to avoid additional long term borrowing need,
- to provide for costs that may be required to support future change and business transformation

- to provide for any funding uncertainty as discussed within this paper (e.g. pay awards and Pensions)
- to provide for future contingent liabilities that have been identified within the statutory accounts

14. **Appendix 2** incorporates and update of the assumptions for each of the above reserve provisions for discussion by the Panel; including:

- a. The approved revenue budget set for 2023/24
- b. The revised use of reserves incorporated with the approved MTFS
- c. Planning for future transformation workstreams
- d. Any contingent liabilities that needs to be provided for as incorporated within the Statutory Accounts
- e. Any amounts where budget holders have been authorised to earmark a specific expenditure item
- f. Any upward pressures that are anticipated to be placed upon budgets e.g. higher than expected pay awards or pension costs

15. In the instance where a particular reserve needs to be accessed that has not be previously formally approved, approval from The Staffordshire Commissioner would be sought in advance to ensure that plans can be adequately challenged and full transparency exists within the Authority.

16. Whilst it remains the responsibility of the S151 Officer and Treasurer for the Staffordshire Commissioner to advise the Authority about the overall level of reserves that is held; the Service and Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.

General Reserves Balance for 2024/25

CIPFA guidance indicates that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that chief financial officers should take account of the strategic, operational and financial risks facing the authority.

A risk assessment for general reserves was undertaken as part of the budget setting process for 2024/25 and the overall provision of £1.9m has remained unchanged for a number of years and represents 3.8% of the revenue budget set for the year.

Whilst not a complete list of all the financial risks, the assessment focused on those most likely (High and Medium risks) to have a significant impact on the budget year.

| Area of Expenditure | Level of Risk * | Explanation of risk/justification of reserves | 2024/25 Provision £000 |
|---|-----------------|---|------------------------|
| Loss of Employees / additional pay costs | High | Spate conditions caused by for example; prolonged severe weather conditions (e.g. hot weather or flooding), unexpected loss of staff through COVID-19, Avian Flu / Ebola etc. | 650 |
| Insurance loss / impact of data breach | Medium | Risk of incurring uninsured losses Risk of breach due to inappropriate information sharing / failure to implement EU GDPR | 550 |
| Ill health retirement costs | Medium | Risk of the number of ill health retirements being greater than anticipated due to ageing workforce | 300 |
| Other unforeseen costs | Medium | Risk of unforeseen event: emergency incident, waste fires / tipping | 300 |
| Other costs | Medium | Risk of failure of strategic partnership / collaboration initiatives | 100 |
| TOTAL | | | 1,900 |

**Total Reserves including
Earmarked Reserves Balance for 2024/25**

In addition to general reserve balances, usable earmarked reserves that are created for specific purposes. Usable earmarked reserves should be held to meet future liabilities and the following table incorporates an updated categorisation of the balance held for this reserve to be considered by the Staffordshire Commissioner.

Below is a suggested categorisation only based upon the forecast reserves position, but importantly this must remain flexible based upon future funding settlements, delivery of agreed savings and certainty around MFTS assumptions.

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Actual | Est. | Est. | Est. | Est. | Est. | Est. |
| | £m | £m | £m | £m | £m | £m | £m |
| General Fund | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| <u>Earmarked Reserves</u> | | | | | | | |
| PFI Reserve (Project Reserve Deductions) | 0.6 | 0.7 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 |
| Reserve - Brewood Refurbishment | 0.5 | 0.5 | | | | | |
| Operational Budget Holder Reserves | 0.5 | 0.7 | 0.9 | 0.8 | 0.6 | 0.4 | 0.2 |
| Insurance Reserve | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Budget and MTFS Support Reserve | 0.9 | 1.0 | 0.8 | 0.4 | 0.4 | 0.5 | 0.7 |
| Capital Reserves | 0.8 | 0.3 | 0.3 | 0.3 | 0.3 | | |
| Pension Reserve | 1.8 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Collaboration Reserve | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Future Funding and Investment Reserve | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Total Earmarked Reserve | 7.5 | 7.1 | 6.6 | 5.6 | 5.4 | 5.0 | 5.0 |
| Total Reserves Available (Useable) | 9.4 | 9.0 | 8.5 | 7.5 | 7.3 | 6.9 | 6.9 |
| Percentage of Revenue Budget | | | | | | | |
| General Reserve | 4.5% | 4.0% | 3.8% | 3.7% | 3.6% | 3.5% | 3.4% |
| Earmarked Reserve | 17.7% | 14.7% | 13.2% | 10.7% | 10.1% | 9.1% | 8.8% |
| Total | 22.1% | 18.7% | 17.0% | 14.4% | 13.7% | 12.6% | 12.2% |

The following earmarked reserves have been established (or aggregated as shown above) for the following purposes:

PFI Reserve – This reserve has been established over a number of years and arises from any performance or availability contract deductions from the two PFI contracts. It is intended that this reserve is utilised and invested back into the fire estate. £0.5m has been allocated to support the refurbishment of Tutbury Fire station.

Refurbishment Reserve Brewood – The refurbishment work Brewood will commence in 2024. The feasibility work has been completed and the refurbishment will be financed from reserves.

Insurance Reserve – This reserve has been established to cover any one off or additional unforeseen insurance costs.

Operational Budget Holder Reserves – this includes a number of specific earmarked reserves identified by budget holders for specific reasons.

Budget and MTFS Reserve – this reserve was included within the previous MTFS and additional balances are forecast to be allocated in year.

Service Investment reserve – The Commissioner has considered a number of investment areas presented by the Service, this reserve will support any additional spend approval during the year.

Capital Reserve – to fund future capital projects on identified assets. This reserve has generally been used to support the vehicle replacement reserve with included part funding for the two Aerial Ladder Platforms.

Pension Reserve – provides provision around the additional employer pension contribution required into the Firefighters' Pension Scheme. A government grant will be received in 2024 to cover the additional £1.5m in 2024/25 but it is only guaranteed for a single year. This reserve provides funding for an additional year should this be required. The previous grant of £1.7m has been consolidated into the revenue support grant.

Collaboration Reserve – to support the one-off costs associated with local public sector collaboration. This reserve is used to either support projects aimed at generating a financial return on the one-off investment or improving partnership working and outcomes.

Future Funding and Investment Reserve – held to support the Authority should settlement funding see unexpected reductions in future years. For example, if the funding guarantee for 2024/25 is removed in future settlements. This reserve will also support any key investment areas approved by the Commissioner outside of the approved MTFS.